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# **The condition of smallness; how being small deters firms from getting bigger**

## **Abstract**

We consider why most small firms remain small. Employing an inductive analysis of responses from a survey of 2,521 small business owners about employment regulation, we examine the nature and effects of smallness. We found that owners' choice making combines with perceptions about their resources to produce a condition of smallness. The condition of smallness is conceptualised as the circularity perceptions, attitudes and consequent practices that reflect lack of knowledge, time and capability. We argue that this condition of smallness inhibits growth to create a wicked problem that explains why most small firms don't grow.

## **Introduction**

Small firms are the quintessential form of business. Internationally, between 90 to 99% of all businesses are SMEs, the majority of which are very small firms (Mir and Feitelson, 2007). Indeed, small firms represent 99% of all businesses in developed economies, providing around half of all employment and turnover (Bennett, 2008). Nonetheless, whilst the individual contribution each firm makes is small, substantial beneficial impact arises because of the very large number of small businesses. Of the 4.8 million UK SMEs, 95% employ less than 5 people. Thus, in aggregate their contribution for creating jobs is considerable; employing about 60% of the private sector workforce, but the number employed by each individual firm remains low.

This situation presents our research problematic, why don't more small firms become bigger? We propose that the interdependencies of the nature of small business and how (and why) small businesses are run, "the condition of smallness", presents a wicked problem (Ackoff, 1974) for small business growth.

To develop our argument we review the literature identifying the nature and characteristics of small firms and their owners, and what has been established about small firm growth. Although high growth firms are exceptional (McKelvie and Wiklund, 2010) and rare (Levie and Lichtenstein, 2010), there is an extensive literature theorising growth (Wiklund et al., 2009) in atypical growing firms (Andersson and Tell, 2009; Dobbs and Hamilton, 2007). Paradoxically there is little literature about the much more representative, typical low growth small firm, those "born to stay small" (Kolvereid, 1992).

Small firms are different from large firms (Flamholtz, 1986; Hanks, Watson, Janson and Chandler, 1993; Kazanjian and Dranzin, 1990). Liao et al (2003) explain, SMEs are unfettered by bureaucracy, hierarchical thinking and expensive information systems. A small firm's characteristics such as short chains of command, closeness to customers and few delays between problem recognition and action enable successful coping tactics (Bumgardner et al., 2011). For You (1995), small firm flexibility emanates from such factors as hands-on management, efficient information flow, quick decision-making and closeness to customers (Nooteboom, 1994). A practice based management structure makes decision making easier with fewer principal agent problems associated with layers of staff (Sadorsky, 2008; Aiginger and Tichy, 1991) and a close bond between the owner and firm is apparent (Cardon et al.,

2012). Small firm practices result in flexibility (Zimmerman, 1995; Wilson and Anderson, 2004) and adaptability (Mills and Schumann, 1985). Skills extend beyond merely managing (Pyysiäinen et al., 2006) where firms are controlled by informal mechanisms (Moroz and Hindle, 2011) such as trust (Goffee and Scase, 1996). Yet practices are built on personal relationships (Batjargal, 2010) with a mistrust of bureaucracy (Williams and Nadin 2011). In combination, these create the idiosyncrasies of small firms such that they are radically different in nature, as well as in size, from their larger counterparts (Holliday, 1995).

Small firms may not have economies of scale, but they enjoy pragmatic economies of scope as a dynamic combination of the self and circumstances (Anderson, 2000). Firms do what they can do, rather than what they ought to do (Sarasvathy, 2008) and responsiveness may be enabled by closeness of control. Ahl (2006) describes how a high level of internal locus of control shapes motives and actions. Yet, firm's practices are largely determined by their owners (Preisendörfer, 1990) and their behaviours may optimise non-financial aspirations (Wiklund et al., 2003) seeking fulfilment of personal goals (Douglas and Shepherd 2000; Wiklund et al., 2009). They may lack what Santos et al (2012) describe as an entrepreneurial quality, or absorptive capacity (Hurmelinna-Laukkanen, 2012). Moreover, as Sexton suggests, (1989) small firm growth is in accordance with the owner's propensity for growth and their abilities to manage it - the desirability of an action (Cardon et al., 2012). This "human factor" (Morrison, Breen and Shameen, 2003) is a convergence of ambition, intention and competence and how they view the world.

This disposition is about choice and decisions, so that many small firms don't grow simply because the owner chooses to remain small (Delmar and Wiklund, 2008) and avoid the headaches associated with growth (Robson and Bennett, 2000), the growing pains (Flamholz, 1986). Small firm growth is an area where volitional control is important (Wiklund and Shepherd, 2003). Accordingly, attitudes shape what Davidsson calls their growth motivation (1991), or their reluctance to grow (Davidsson, 1989) and provide a general explanation. We contend it will be useful to establish why this choice is made; what elements contribute, and how they contribute to decisions not to grow.

In addition to attitudinal and behavioural factors, a key characteristic is limited resources. Tocher and Rutherford (2009) describe how time constraints, lack of planning intensity, and lack of power *vis-à-vis* the environment contrive to make small firms a reactive entity. Limited finance and managerial expertise combine with restricted knowledge to limit capacity and capability, but also to shape how they see their small business world. We can see how decisions may be heuristic (Alvarez and Buzenitz, 2001), extending the owner's persona, but also limit absorptive capacity to grow. Nonetheless, the informality of management styles coupled with a strong sense of autonomy also provide the reason why so many small firms survive (Zimmerman, 1995; Bumgardner et al., 2011). However, we argue that whilst these characteristics produce the uniqueness of small firms and help explain the success and endurance of many firms, they also create a condition of smallness. Moreover, we contend that this condition of smallness influences entrepreneurial behaviour because attitudes themselves are shaped by being small. Attitudes are learned but

influence intention (Douglas and Shepherd, 2000), so that experience forms attitudes. Owners may enjoy smallness and its perquisites. They choose, for good, sound and pragmatic reasons, not to grow because they recognise benefits and limitations in being small and are concerned about problems associated with getting bigger. We propose that this condition of smallness works to inhibit small firm growth and causes many firms to remain small.

This dynamic of the resources, understandings and the attitudes that lead to behaviour is proposed as conceptualising the *condition of smallness*. We hope to contribute by extending theory about growth beyond a resource based view and behaviouralist modelling to show the circularity that inheres in the condition of smallness. Moreover, our concept is parsimonious but seems to hold explanatory scope. To consider the extent of the explanatory power of our proposition, we inductively examine small firm owners' responses to employment regulations. These data were collected in a survey of 2,521 Federation of Small Businesses members and include respondents' views of, and practices about, employment regulations. These data were particularly useful for us because we were able to categorise the responses in terms of the conditions of smallness. Our inductive analysis shows how a need for flexibility and a desire for autonomy combine with a lack of time and knowledge to create formidable barriers in the respondents' perceptions about employing more staff. Accordingly, we are able to argue that being small deters firms from getting bigger by employing more staff. To paraphrase Penrose (1959), being a caterpillar actually stops most firms from becoming butterflies.

### **The issue of small firm growth**

Korsgaard and Anderson (2011) show how growth dominates the small firm agenda (McKelvie and Wiklund, 2010) and translates into the growth ideology (Stanworth and Curran, 1976) an economic goal becomes an assumption that all entrepreneurs should grow their firm (Wiklund, Davidsson and Delmar, 2003; Sadler-Smith, Hampson, Chaston and Badger, 2003). Indeed, Davidsson et al., (2006) suggest the very concept of entrepreneurship is actually growth. This reflects how entrepreneurship has become eulogised (Low and MacMillan, 1988; Jones and Spicer, 2005) because of its role in furthering economic growth (Anderson and Smith, 2007). Even in broader perceptions of entrepreneurial growth, a picture emerges of entrepreneurship as the engine of the economy (Anderson et al., 2009) and entrepreneurs as economic folk heroes (Nicholson and Anderson, 2005, Anderson and Warren, 2012). Yet this appealing entrepreneurial growth has been challenged; for Liao and Welsch (2003) a common weakness is that growth is presented as a desired objective for entrepreneurs. Moreover, there may be a gap between modelling in growth studies and entrepreneurial praxis (Dutta and Thornhill, 2008). “Few studies reflect on the practical relevance of the measures, how close they get to entrepreneurial practice, or how entrepreneurs perceive growth”, Achtenhagen et al., (2010; 290).

Moreover, whilst small firms and entrepreneurship often conceptually overlap, (Anderson and Atkins, 2001; Carland, Hoy, Boulton and Carland, 1984) growth is found only in a minority of small firms (Storey, 1994). Most firms never grow beyond very small (McKelvie and Wiklund, 2010) and few are interested in growth (Gray, 1998; Keeble, 1998). Hence, despite the pervasion of the dominant policy growth

paradigm, small firm practices differ. Indeed, Curran and Blackburn (2000) suggest it is fallacious to assume that many small business owners strive for growth.

This view is supported by the pattern of small firm size which remains consistent across sectors. A recent report (IBDR, 2010) shows that 73% of all UK firms have 0-4 employees; 13% employ 5-9 staff, but only 7% employ 10-19. Indeed, of all firms, only 5% employ 20 or more. Furthermore, growth is indeed limited; fewer than five per cent of a cohort of new firms provided over fifty per cent of all jobs in those firms 10 years later (Storey et al., 1987). Similarly in the USA, Kirchoff (1994) found that the four per cent of the highest growth firms formed in 1977-78 created 74 per cent of employment growth six years later. So the evidence is strong that most small firms don't seem to grow very much.

### **The nature and application of small business resources and growth**

Resources are deployed for competitive advantage and growth (Barney, 1991), but McKelvie and Davidsson (2009) distinguish between resource possession and use (Wilkund and Shepherd, 2003). Used well, they can create capability (Teece, Pisano and Shuen, 1997). But in the resource based view of small firm growth, the emphasis is upon the lack of resources such as finance, time availability, knowledge and managerial capacity. For evidence of resource leanness, we only have to consider the substantial literature on how networking is employed to extend resources (Jack et al., 2008; Jack et al., 2004; Anderson et al., 2010). As Penrose (1959) explains, a firm's resources provide both an inducement to expand and a limit to expansion.



But resources are not deterministic, but contingent and enacted (Sarasvathy, 2008). Weick (1969) observed how firms enact environments through attention and belief, based on the manager's perception; as notions rather than objective facts (Covin and Slevin, 1989), the subjective meanings and interpretations of actors impute to their worlds (Van de Ven and Joyce, 1983). Thus it seems that an owners' perception of resources influences growth. Indeed, Baker and Nelson (2005) challenge assumptions that resources and their deployment are entirely objective, but exist as social constructions. In essence, how owners understand them can be as influential as objective limitations in determining behaviours (Garnsey, 1998; Penrose, 1959). Penrose had persuasively argued that the firm should be seen as an organisation in the real world; this captures rather well our underpinning argument that small firm owners decide about growth, and do so based on their understanding of their capabilities about available resources (Westhead et al., 2001). McKelvie and Wiklund (2010) similarly argue that growth is limited by what managers see and are willing to act upon. So beliefs play an important role in understanding why entrepreneurs act as they do (Wiklund et al., 2003) and beliefs about resources shape decisions and practices.

### **The culture of choice in small firms**

Small firm owners, despite much contrary rhetoric (Dodd and Anderson, 2001), are rarely independent. In running a business they become highly dependent on customers, bankers and suppliers (Díez-Vial, 2009). But they do have autonomy of choice, a decisional freedom (Degeorge and Fayolle, 2011). This often overlooked difference between autonomy and independence is probably created in the context

whereby small business owners decide their working arrangements; when they will work, with whom they will work and what they choose to do. Hence, autonomy of choice may be understood, or masquerade, as independence. Nonetheless, Cowling and Westhead (1996) note the reluctance of smaller firms to involve outsiders in their businesses, even if this inhibits growth. Indeed, Gibb and Davies (1990) suggest that many keep their businesses small due to their reluctance to lose control. But this “independence” choice may itself be influenced by an owner’s pragmatic recognition of their interdependence (Tocher and Rutherford, 2009) and limited ability to negotiate, for example with banks or investors over terms and conditions. Hence, even autonomy in decision making is hedged about by the limits of small business conditions. Accordingly, we argue that this combination of small firm context and the beliefs and consequent behaviours create this condition of smallness that deters growth.

Entrepreneurs choose to start their business, and presumably decide to grow or not, for a number of reasons (Wiklund and Shepherd, 2003). These include social and psychological reasons such as being one’s own boss, freedom and control, popularity, respect, flexibility and informality (Anderson and Jack, 2000; Holland and Shepherd, 2011). For example for gender, Rosa, Carter and Hamilton (1996) report that few women enter business for financial gain, but to pursue intrinsic goals such as independence and flexibility to interface family and work commitments (Moult and Anderson, 2005). Yet, these choices may also restrict growth options. Nichter and Goldmark (2009) identified how the informal culture of small business reduces the possibilities of growth, but also creates disincentives to expand beyond a certain size

(Harris, 2002). Moreover, some management tasks are more attractive than others (Wiklund et al., 2003). Since growth is said to create crisis (Greiner, 1972) such change may be antithetic to informal small firm management styles and consequently unappealing. For example, small firms have close interaction among staff and with customers (Zontanos and Anderson, 2004), characterised in strong personal links, short lines of communication and a sense of identity. While these features promote communication and the generation of shared understanding (Kogut and Zander, 1996), they may also create problems for growth because of the greater intensity of personal interactions (Connon et al., 2012). Thus small firm advantages of close control, informal management and involvement may not be scalable.

In the small firm, perceptions of effectiveness, as heuristically understood, may determine practices. Alvarez and Busenitz (2001) see this approach as a simplifying decision making, but also as an extension of the small business owner's personality. Moreover, small firms' limited resources are often stretched by multi-tasking, limited cash flows and 'fire fighting' (Spence, 1999). Consequently, the personal, social and economic (Gupta and Fernandez, 2009) motivations of entrepreneurs are central in understanding the nature of growth in small firms.

### **The idiosyncratic nature of small firm's decisions**

To sum up, our review has identified how dominant perspectives on small firm growth emphasise their lack of resources (e.g. D'Amboise and Muldowney, 1988; Eden et al., 1997). Thus time constraints associated with multitasking (Anderson and Jack, 2008), finance (Nichter and Goldmark, 2009; Liedholm and Mead, 1993) and

knowledge are all seen as resource constraints for growth. However, resources alone do not determine growth. We argued that choice is important in choosing to grow or not, but also for informing choices based on perceptions about available resources and capability. We have seen how flexibility, choice and notions about independence characterise the small firm. These factors are not merely the liability of smallness. On the contrary, they may ensure the survival of the small firm yet also provide good reasons not to grow. Nonetheless, we claim these are the operating conditions of many small businesses, the condition of smallness.

We assert that the condition of smallness constrains growth. To address the usefulness and the explanatory power of the theory, we examine some empirical data. We are not testing theory, but are assessing how well our concept describes the nature of being small and if it captures the qualities and subsequent actions of small business owners.

## **Methods**

Our research objective was to extend theory about small firm growth. To that end, our review of the literature allowed us to propose the novel concept of the condition of smallness. We argued for the circularity of attitudes and resource limitations in the context of striving for autonomy of choice, shaping decisions about growth.

### Research Design

We see our contribution as theoretical, but want to go beyond merely theorising. To this end we examine empirical data for evidence that the condition of smallness

exists, and if so, how it might affect growth decisions. Leitch et al., (2010) call for interpretivist research on growth that investigates social reality. Achtenhagen et al., (2010) suggest more qualitative research is needed to better understand neglected aspects of growth especially practitioners' perspectives. We thus use qualitative analysis to help understand and to theorise our understanding to help explain why most small firms don't grow.

We have a rich data set of small firm informants' observations. We did not collect these data, although we influenced the questions. Anonymity in the collection method prevents us from carrying out useful statistical hypotheses testing, but it does allow us to use these data as an informative or revelatory case (Patton, 1990). The data set becomes a "case" in that it is a bounded context with multiple observations. This means that we do not "analyse the data", but perform an interpretative analysis of the content, we treat the data set as a case which is a representation of informants' views, rather than as objective facts. Such an interpretative perspective calls into play an ontology that accepts that meanings, and consequent actions, are formed by the understanding that informants attribute to their experiences (Fuller and Moran, 2001). The ontological level is comprised of the mental models, individual capabilities and attitudes of the owners (Wiklund et al., 2010). Philosophically, our approach is underpinned by the notion that an informant's reality is socially constructed (Berger and Luckman, 1996; Aldrich and Martinez, 2003; Anderson and Starnawska, 2008; Downing, 2005; Fletcher, 2006) and that small firm growth itself is also socially constructed (Leitch et al., 2010).

Without engaging in further detail of the arguments, we propose that small firm owners' practices are shaped by how they see the world, reflecting different beliefs, values, assumptions as perceptions of the world (Gibb, 2000). We follow Granovetter's (1992:4) thesis of "three classic sociological assumptions: (1) the pursuit of economic goals is normally accompanied by that of such non-economic ones as sociability, approval, status and power; (2) economic action (like all action) is socially situated, and cannot be explained by individual motives alone; (3) institutions do not arise automatically in some form made inevitable by external circumstances, but are 'socially constructed'.

We provide a descriptive account of the data set to establish its validity, or usefulness, for our research purpose. But we are more interested in the form of responses and their relationships to each other. Thus our interpretative focus is "what is going on here" and "how can we explain it" in terms of our notions of the condition of smallness. Our inductive analysis may yield insights that are not amenable to quantitative analysis (Pratt, 2009).

Technically, this is a purposeful sample of informants' views which prevents us generalising to the universe of all small firms, but our objective is to generalise at a conceptual level. Consequently, the fact that this sample is biased, because members of a trade association responding to an open call are more likely to articulate strong views, works to our advantage. The 600 plus open responses were volunteered, rather than simply box ticking; representing freely offered expressions of the informants' attitudes and experiences.

Concepts hold a central explanatory position in all forms of research. A concept, such as the condition of smallness, is an abstraction of the bundle of characteristics or attributes that may produce certain effects. For example, entrepreneurship is a socially constructed concept. But concepts are treated quite differently in deductive and inductive approaches. For most positivistic, deductive work the concept is the starting point. Had we adopted a deductive approach, we would have had to begin by operationalising our theoretical idea - the condition of smallness, first as a concept to define the nature, then move to develop the components that would elicit the idea as constructs. In turn, we would then have sought measures of these components of the construct. From these components we might derive hypotheses about the effect of the components. The survey would be a measuring instrument for gauging the presence and extent of these components and the analysis would examine any relationships between the counts of the elements. This would enable us to either test our hypotheses or model of our theory.

But our approach and purpose is different, post positivistic if you like, in that we will inductively analyse the data for themes and patterns that may help to explain, justify and illustrate the concept of smallness. These themes become the constructs of the concept. We try to show how responses can be understood in terms of the condition of smallness and thus infer how the condition of smallness inhibits growth. Accordingly our emphasis is on interpreting the meanings that lie in the responses. We use counts to illustrate that we are not only selecting quotes that confirm our points and try to use “deviant” examples to challenge and clarify the concept.

Our proposition is that the condition of smallness inhibits growth. But the condition is an abstract concept and not amenable to direct measurement. However, if our proposition is accurate there should be evidence for the condition of smallness in the behaviour and attitudes of small firm owners. Consequently, we employ the empirical data from a recent Federation of Small Business survey of 2,521 owners' responses to employment regulations to establish if smallness appears to influence growth. We now describe the sample.

Please place Table 1 about here

### **The characteristics of the sampled small firms**

Table 1 shows that for our sample a high turnover is exceptional. Some 21.3% of firms have a turnover exceeding £500k, but the largest group at 33% are those with a very modest turnover between £50k and £200k. Similarly, Table 2 indicates that few firms employ more than 11 employees and the largest group (84%) employ ten or less. These data mirror our expectations about firm size from the literature.

Please place Table 2 about here

Table 3 describes the age of the firms. Most are well established; almost half (45.3%) are ten years or older, with a further 20.5% over six years old. Only 13.4% could be described as new firms. It seems then that our "case" provides a purposeful sample of small firms, many of whom have remained small. Thus our data is well suited to our purpose.

Please place Table 3 about here please



## Analysis- Overview of responses to employment legislation

We begin our analysis with an overview of the informants' responses to specific questions about employment regulations. We saw some forceful, passionate responses, *"nothing would induce me to employ anyone"* and *"allow businesses to concentrate on adding value and therefore make expansion worthwhile"* and *"I do not want staff!"* demonstrating polemic attitudes towards employment growth. This was not just speculative but, for some, based on experiences, *"eventually we just gave up employing anyone except ourselves and it was the best thing we ever did."* This viewpoint was summed up by one respondent, *"I found employees to be mainly a PITA<sup>1</sup>. It is easier to do the work myself. My business is more profitable without employees than it was with them. Simpler too"* Clearly, for some informants being small is beautiful and they have little wish to grow by employing others. But for others, not growing was related to difficulties associated with their ability to follow employment regulation; a resource perspective based on the respondent's limited capabilities.

Figure 1 reports on the ease or difficulty in following particular types of legislation. Responses were on five point Likert Scale which we condensed. The most obvious point is that the majority of respondents, some three times the number who found legislation easy to follow, found all employment legislation difficult! Several informants commented on the time commitment needed to understand, *"I would need a lot of training into all aspects of employment laws if I had to recruit an employee"*; and to comply, yet *"leaving sufficient time to make money"*. As Harris

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<sup>1</sup> we take this to mean a pain in the "arm"

(2002) noted, owner managers perceive that legislation reduces their competitiveness by placing costly and time-consuming demands. This then is evidence of constraints of time and expertise in small firms, and generally supports the notion that resources are a growth limiting factor. However, an interesting point emerges when we examine patterning in the responses.

Please place Fig. 1 about here

We note major differences between the types of regulation. Those that deal with technical aspects of regulation, from leave entitlement to dismissal, present the greatest difficulties. In contrast, those that are about discrimination, or how “fairness” is interpreted, appear much less problematic. This leads us to look a bit closer at why this is the case. We see two possible explanations for this difference; the most apparent is that their limited technical knowledge affects how well they can deal with complicated legislation, but an alternative explanation lies in how they see the issue. Both are facets of smallness; the first is resource scarcity, but the second relates to the application of resources (McKelvie and Davidsson, 2009).

Moreover, the legislation that presents higher levels of difficulty are those that impact most on the owner’s ability to make staff changes; redundancy, disciplinary action and dismissal. We interpret this to indicate that these legislations affect the flexibility of the small business owner’s control. Most obviously in how they run the business; *“Leave us alone!”* but also *“happiest as captain of my own boat”*. The need to follow legislative rules impacts on the perceived autonomy of the business owner. We were told, *“Let us do our own thing, we have to pay the bills and therefore we should be able to run our employees as we want”*. In terms of our arguments about

choice, this legislation controls what they can do and importantly, how they can do it. Perceived independence of action is curtailed by this legislation. Indeed one respondent told us that she *“ignored them all and just get on with running my business in a fair way”*. Ram et al., (2001) noted how increasing proceduralisation is thought to be detrimental to the informality and flexibility considered central to the effectiveness and working relationship among small firms. In this interpretation, small firm owners want to make their own choices and jealously guard their right to do so. Indeed, *“allow businesses to manage more themselves rather than so much government control”*.

The analysis also supports our argument that being small, the condition of smallness, combines resource limitations with perceptions, *“In most cases it is not worth the hassle to employ staff”* or *“do not feel sufficiently secure to offer employment”*. Here we see resource limitation, capability, being perceived as constraint and affecting what they prefer to do. Moreover, flexibility in the small firm is inhibited by constraints in the application of their human resources. For example, *“Not being able to employ who we want, not who the government says we should”*.

Yet from a resource based view, the legislation about discrimination ought to be equally challenging. Clearly it is not perceived this way, as the trend lines of easy and difficult converge. This signals that the perception is different. The first type of legislation is procedural, but the second is much more open to interpretation, so that fairness in avoiding discrimination, choices and understanding prevails. Again this conforms to our argument about how perceptions influence choices and may reflect what it means to be small.

The simpler explanation for difficulties is a resource based account. The extent of detailed knowledge required to comply with regulation is difficult, expensive and time consuming to acquire. We were told, *“The sheer bloody scale of the thing - it’s a massive subject and for a small business to know all it is next to impossible”*.

Table 4 highlights how resource constraint is manifest. Whilst lack of expertise is evident, time constraints also figure strongly. We also note the extent of anxieties about understanding legislation, keeping up to date and in applying it correctly. They clearly know what they don’t know; and it troubles them, *“employment law frightens me”*. Another respondent told us, *“I, together with many of my peers, feel employment legislation is a minefield”*. This minefield metaphor was used by 12 respondents and suggests that employing staff is seen as something the small businesses should avoid. Constrained resources seem to be experienced as part of the condition of smallness.

Please place Table 4 about here

Of course, perceptions are not the same as practices. Nonetheless we were told, *“I now need to take on more help, but the amount of red tape involved in employing a stranger is causing me to hesitate”*. Broadly there is an awareness of how being small limits what they can do, *“I would love to take on staff, it’s what my business needs to grow and develop. Watching my husband spend lots of time filling in paperwork ....prevents me from doing so”*. Figure 2 is about what respondents do when considering growth, yet it also mirrors the points we made about types of legislation. It appears that the form of concern, about impacting on their autonomy in choosing how to run their businesses, is again contrasted with how they can practice fairness.

It seems that how they think about their resources and capabilities may also shape their actions. It is interesting to note how flexible working becomes easier for some but relatively harder for others. We speculate that this may relate to flexibility in running the firm. We were told, *"I have found if I am flexible with them, they are more than happy to be flexible for me"*.

Please place Figure 2 about here please

Thus far our overview has provided some evidence that a condition of smallness exists. It supports the ideas about informal styles of management, the importance of choice and flexibility, and confirms how the lack of resources, knowledge and time act to shape employment growth decisions. Indeed, the informants themselves were very aware of this, *"My business is growing and there are many people out there desperate for a job - it seems crazy that employing staff is such a minefield that I am reluctant to move forward."*

### **Qualitative analysis of details**

Thus far the broad sweep of our analysis that has shown that perceptions and resources combine to form the condition of smallness. But now we would like to offer a more nuanced interpretation of the responses to try to explain why smallness constrains growth. Our objective is to try to capture what it means to be a small business owner and how this affects what they do. In table 5, we offer a thematic analysis that juxtaposes informants' observations. We categorised these data as cognitive responses *I believe* in the left hand of the table and behavioural responses, *I do*, in the right. We try to show how perspectives about being small configure

actions in remaining small. The left side of Table 5 offers accounts of the theme that small businesses are unique, but this is not understood by government legislators. The right hand column shows how owners feel about the effects of regulation.

Please place Table 5 about here

What we see depicted is that informants feel that small business is a special case, but that not being treated as exceptional deters growth. In the right hand column we see protests about how they believe that they are affected. A strong sense of injustice prevails. We argue that owners understand, and certainly feel, small firms are unique, but their special circumstances are not recognised. Owners recognise their condition of smallness, but government does not!

This notion that small firms are different is noticeable in the thematic account, Table 6, about perceptions. Here we see the condition of smallness is indirectly presented as a justification for special treatment. Note how the elements of risk and hard work are all presented as a justification for being allowed to get on with running the business. But there is a mismatch between the sense of purpose in small businesses and wider understanding of what small businesses have to do. An undertone of injustice resonates - we do the hard work and take the risks but it is society that benefits. Curran and Blackburn (1994) had described this as a “fortress mentality”. We argue that these perceptions about purpose and processes, their world view of the nature of small business, are also an expression of the condition of smallness and again affect what small business owners do.

Place Table 6 about here please

Not all respondents emphasised this disaffection. A few dissenting voices explained, *“many businesses treat employees very badly”*; *“its a shame that there are some unethical companies that deliberately ignore the rules”*; even, *“from what I've seen they are really needed.”*

Table 7 presents a contrasting interpretation and different dimension of what it means to be small. Here the theme is vulnerability, a distinctive aspect of the condition of smallness. Compare the bombast about the special privileges due to small business; instead of bravado about risk taking and hard work, we hear fear about risk taking and avoiding risk (Welpe et al., 2012); even how the work ethic in small business ownership becomes an impossible burden. A lack of capability looms, not just as a curb to growth ambitions, but as a palpable threat. There seems to be no slack in resources or capacity (Norhiah and Gulati, 1996). Fragility and vulnerability replaces the ethos and delight of being in control, of being the boss; whilst notions of rights and responsibilities pervade the comments. It is as if small firms dread shouldering responsibility for things outside their direct control. For example, employing only family is a safe strategy. This is much more than worry about entitlement and authority to choose how to manage, it is about the fragility of small business, how it feels to be small. Practices are often to hide from or ignore menacing regulations. We note a typical response to this perceived intimidation is an appeal to “common sense”, but the sense they allude to is probably their unique small business common sense, what it means to them to be a small business owner. Moreover, the choice that many make is to avoid additional responsibility by not growing. Awareness of this vulnerability is potent and present in the condition of

smallness. The usefulness of experience (Alvarez and Busenitz, 2001), human capital, is often cited as a growth factor (Rauch and Rijsdijk, 2011) but here we see it applied to limit growth. Such is the nature of being small.

Please place Table 7 somewhere around here



## Findings and Discussion

It seems evident these small firm owners see themselves as distinctive and this surfaces in their insular views that shape attitudes and behaviour. Consequently, practices seem to be influenced by what it means to be small. We saw how some regulations were perceived as more burdensome, especially where choices about running the business were affected. The importance of choice, in being the boss, in the sense of operational freedom to decide how to run their business, job control (Hahn, Frese, Binnewies and Schmitt, 2012) seems central to their perceptions. Nonetheless, insularity is evident in the comments, but also a sense of self and purpose. Table 6 demonstrates recognition of the importance of small business to the extent that they demand privileged treatment, an entitlement. But paradoxically, ask to be left to get on with running their business- but in their own way. The distinctiveness of how they experience the small business world is evident.

We saw how resources, but especially time, were husbanded, largely because running the business leaves little slack. This suggests that learning, increasing their absorptive capacity, would be problematic. Moreover, many seem convinced that their existing knowledge, their know-how, is sufficient. But standing back, we can see their confidence on managing themselves, but hesitation in managing others. So capability might be limited in this way. It seems that the economies of scope in running the business may not lend themselves to economies of scale, a liability of smallness. Moreover, whilst choice has been prioritised, it also seems that choice is from a limited range of options, and growth is not highly ranked in the alternatives. Our analysis illustrates Davidsson's argument about growth (1991:423), "The core of

the matter is the subjectivity of the perceived situation". Our respondents' subjective interpretations curtailed what they do and want to do.

The respondents conserve routines that have worked, a path dependency, such that change is troubling (Holland and Shepherd, 2011). They do, as Sarasvathy (2008) puts it, what they can do, but appear reluctant to change their practices or ability to extend their competences. This is a belief based logic, but logically founded on their experience and subsequent perceptions. Rather than a dynamic capability, we see a circularity in retaining known competences and resources to maintain their capacity to run the business, rather than change. Confidence in self, but not always in others, may be necessary for multiple tasks in running a small firm. Managing a small business seems inscribed as a zone of comfort, a zone in which they can maintain control by husbanding resources. Concern, in some cases fear, shapes how they perceive the uncertainty of change towards conserving what they have, and what they do.

In the narrow view of our respondents, we see an endogenous pattern of circularity and path dependency (McKelvie and Davidsson, 2009). In enacting and valuing existing practices, the opportunity cost of growth is deemed high. The sunk costs of experience have created reluctance to risk change. Moreover, the advantages of close control and involvement, perceived as essential for survival, may not be scalable. Tried and tested approaches have worked; the older firms have proved viable. There is logic in this belief, but a logic that deters growth. So we see an innate inertia in what it means to be small. Figure 3 attempts to show the processes of the condition of smallness.

Please place Figure 3 about here

## **Conclusions**

It is clear from our review and analysis that there are unique features about small firms and their owners. We argued that this could be conceptualised as the condition of smallness and proposed that this condition of smallness would deter firms from getting bigger. Whilst the characteristics of small firms are often beneficial for survival, paradoxically they also seem to inhibit growth. To establish if there was any explanatory power in our proposition, we examined the responses to questions about employment regulation and its impact. We found clear evidence of how much small firms value choice, but also how perceptions about resources limit choice. Thus small firm attitudes combine with resource constraints to deter growth. Accordingly, what we have conceptualised as the condition of smallness works to restrain growth in the number of employees. The concept of the condition of smallness demonstrates the instrumentality of smallness.

The strengths in being small are recognised, but how they see the world and how they act upon these perceptions creates circularity in what they see and do. We noted how the structural qualities that characterise small firms, lack of expertise, lack of time and lack of resources all help explain what it *is* to be a small firm. But our analysis of the informants' responses highlighted what it *means* to be a small firm owner. These meanings and feelings clearly shape attitudes and actions, a reluctance to grow from a comfort zone of control and sustainability. This circularity forges the condition of smallness. This contrasts the resource based view where the application

of resources brings advantage. We see that perceptions of utility (Douglas, 2006) are a disincentive to employ more staff and may even create competitive disadvantage; such is the condition of smallness.

We may be criticised for presenting observations that may not be typical of all small firms. Certainly clearly some of the small business owners' views are not always accurate, some display intolerance and few recognise any benefits of regulation. But intensity and passion shine through in a wish to be allowed to do things their way. The sheer power of this influence contributes strongly to the condition of smallness.

The paper contributes by avoiding the reification of small firm structures and resources by incorporating the role played by small firm owners' interpretations. In this way, we argue, it offers a practical synthesis that reflects the experiences and expectations of small business owners. The condition of smallness is congruent with both structural context and perceptual contingencies. Smallness is a condition and a quality associated with being small. Obviously it is not a static state, but a dynamic in the processes of small firms as contexts shift and opportunities form. But as an operating condition, it seems to work to deter, rather than encourage, growth. Smallness is a sticky condition from which it is difficult to break free. But we must also recognise that in respondents' perceptions, as well as in Schumacher's (1973) small is sometimes beautiful.

We offer a novel explanatory concept, the condition of smallness, which goes some way to help explain why most firms remain small. The concept has been inductively developed from a critical view of the literature and the experientially informed

responses of informants. We drew out from the literature aspects of what smallness means and combined this with the views of informants of what it feels like to be small. The concept is inductively constructed, but like all knowledge, has to be provisional until a better account is developed. Nonetheless, we believe it offers a reasonable explanation of why most small firms don't grow. Of course our concept is not deterministic, the circuit of causality applies best to our ideal typification. In practice, views, opinions and even resources are always fluid and contingent. Some small firms will see opportunity, reorder resources and seize possibilities to use positive shocks in the environment and consequently grow. Some firms will break out by seeing and acting differently, but most won't.

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Table 1 Annual turnover of respondent firms

Turnover	Percentage	No of firms
Less than £25,000	9.00%	227
£25,001 - £50,000	13.40%	337
£50,001 - £100,000	16.20%	408
£100,001 - £200,000	16.80%	424
£200,001 - £300,000	11.10%	279
£300,001 - £500,000	12.20%	308
£500,001 - £1,000,000	10.70%	271
£1,000,001 +	10.60%	267
<b>Total</b>	<b>100.00</b>	<b>2521</b>

Table 2 Number of employees

No. of employees	Percent	No of Firms
0	24.30%	614
1 – 5	45.40%	1146
6 - 10	14.30%	362
11 – 20	9.80%	247
21 – 50	4.70%	118
51 – 249	1.50%	37
<b>Total</b>	<b>100.00</b>	<b>2524</b>

Table 3 Age of business

Firms' age	Percent	No of Firms
Less than 1 year	4.70%	88
1 – 2 years	8.70%	163
2 – 5 years	20.80%	390
6 – 10 years	20.50%	385
10 years +	45.30%	849
<b>Total</b>	<b>100.00</b>	<b>1875</b>

Table 4 Which aspects of employment law do you find difficult?

Aspects of employment	Percent	No of responses
The number of regulations and requirements	79.70%	1527
Keeping up with changes	76.60%	1469
Knowing where to find information	40.70%	780
Making the law applicable to your business	53.10%	1018
Time taken to fill in relevant forms	56.70%	1087
Understanding what is required of you	64.30%	1233
Uncertainty that you have got it right	69.60%	1334
Other (please specify)	6.50%	125
	(multiple responses)	8773

Table 5 Theme, small business is different, but not understood

<b>They don't understand small business</b>	<b>Effects as the condition of smallness</b>
<p><i>Most legislation appears to be made by those you would never employ in the first place and remain far removed from the reality of running a small business.</i></p> <p><i>I wish that those who make these rules would understand that "one size" legislation does not fit all.</i></p> <p><i>The government are out of touch with the small business</i></p> <p><i>We provide jobs and have businesses to run.</i></p> <p><i>Government departments clearly have no commercial experience</i></p> <p><i>The main difficulty is that the people who make the laws and the people who issue and regulate the laws, have no idea of how a business is run.</i></p> <p><i>I feel that companies seem to be the brunt of every aspect of legislation and yet they are the backbone of the economy.</i></p> <p><i>I feel that companies seem to be the brunt of every aspect of legislation and yet they are the backbone of the economy.</i></p> <p><i>Employment law should be made by people who have experience of actually being an employer.</i></p>	<p>Most legislation has a negative effect on a small business</p> <p>What works in Sainsburys does not necessarily work for me</p> <p>The effects of legislation are disproportionate for small businesses.</p> <p>We the employer are the second rate citizen and it is about time we are treated as the important entity</p> <p>Time that our wishes are heard and maybe acted upon.</p> <p>Government seem unaware what effect some of these things has on a small business.</p> <p>We are small business and most regulations are set up for large business.</p> <p>It feels to me as if they'd rather not have small businesses.</p>

Table 6 Theme, views and perceptions

<b>Their view of our world</b>	<b>Our view of small business</b>
<p><i>I feel our needs, and our contribution to the economy in creating jobs, are simply not appreciated by government, who seem intent on punishing us rather than rewarding us for the risks we take.</i></p> <p><i>It sometimes feels the employees run our business not us because of restrictions.</i></p> <p><i>People think they have a right to a job, when small business owners work all the hours to pay their wages.</i></p> <p><i>The whole business of equality leaves a business unequal, the balance of power in these issues is unequal</i></p> <p><i>'Hard work' is still not something understood, even by those seeking work.</i></p> <p><i>Giving the employer more rights - all the current legislation protects employees but hinders employers</i></p> <p><i>Here we are, employing people, providing a service, seeing our own standards of living go down as we cope with more and more controls</i></p>	<p>I take all the risks and put all the hours in and have all the stress. I should be allowed to dismiss someone easily for example being lazy and not fulfilling their contract</p> <p>If we did go through all the rules etc we would never do any work and then there would be no business left and more people out of work</p> <p>Get their tanks off my lawn!</p> <p>A good employer needs none of this stuff, nor does an employee who is well looked after.</p> <p>We do not work solely in order to pay taxes and to employ others</p> <p>Employers need protecting as well - we provide jobs and have businesses to run.</p> <p>I ignore most of it, if I spent time worrying about pointless regulations I wouldn't have time to do any work!</p>

Table 7 Vulnerability and its consequences

Vulnerability	Smallness and restricted options for growing
Regular threats of financial penalties if you do not meet tight deadlines	<i>Let's have some common sense on these issues; Common sense and balance has been lost.</i>
Unhelpful threats of fines	<i>In a small local business, many of the employment rules simply cannot be applied, it is common sense that prevails.</i>
Bullying by the incompetent.	<i>It is also focused entirely in the employees' favour without taking into account the fact that a business must be profitable to survive.</i>
We are scared about the power of employment law and this will definitely put a brake on our ability to grow our business	<i>Difficult for me to consider employing people in the future.</i>
Fear that you will inadvertently get it wrong and be penalised	<i>I only employ my daughter on a part time basis. I would not dare to employ anyone else; I will not employ anyone other than spouse; Don't employ other than family; We are reluctant to employ people other than family members in future.</i>
The cost of making an honest mistake - the employee is always given the benefit of any doubt	<i>I have made a decision not to expand my business to the point that I need to employ someone.</i>
Being held to ransom by an ignorant workforce and officialdom.	<i>Taking on our first employee would be a major risk with too many disadvantages and legal implications. I would rather soldier on alone than take that risk.</i>
People have rights but forget their responsibilities: members of ethnic groups have twisted the application of the law now	<i>There is no way we can comply with everything and stay in business.</i>
The sheer weight of legislation	<i>Why should be people risk everything to be treated like this</i>
The whole business of equality, leaves a business unequal	<i>The biggest mistake I made in setting up my business was employing people</i>
Employers are always afraid of tribunals and paperwork and harassment from staff that are perturbed.	
It is a nightmare when running a small business which has to be 'hands on'	
Long ago I used to employ people when I was young and stupid.	
I am stuck. I can't afford to employ somebody with all legislation done right and I won't have somebody off the books.	
I am afraid to employ complete strangers, in case something happens and they sue for something ridiculous	

Figure 1 How easy is it to follow types of employment legislation?

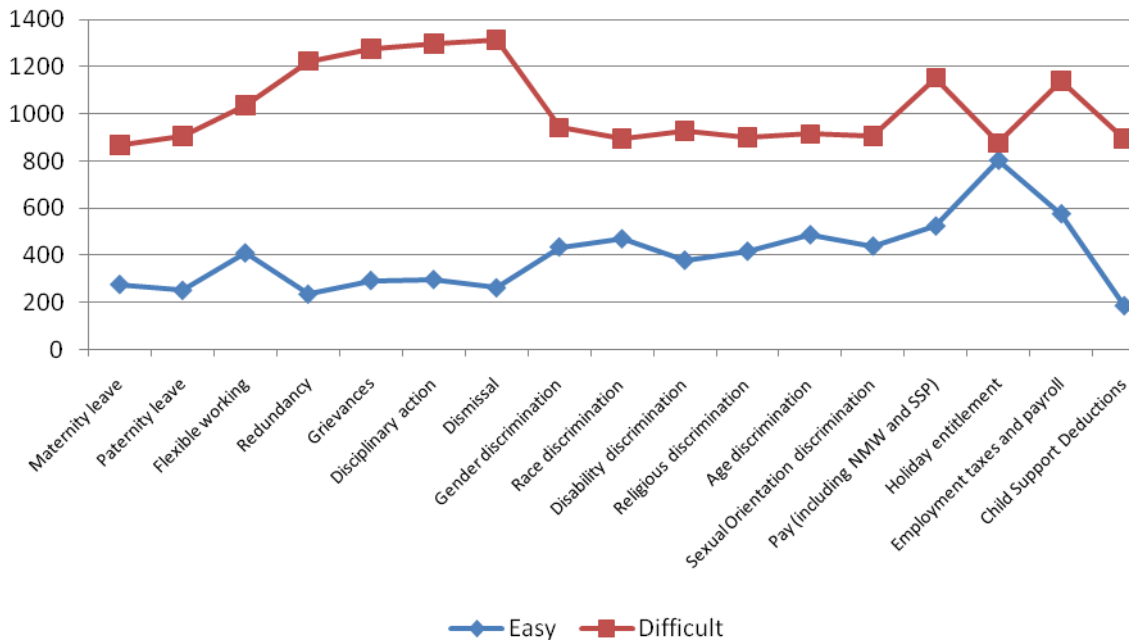


Figure 2 How concerned are you by the given pieces of legislation when contemplating taking on staff?

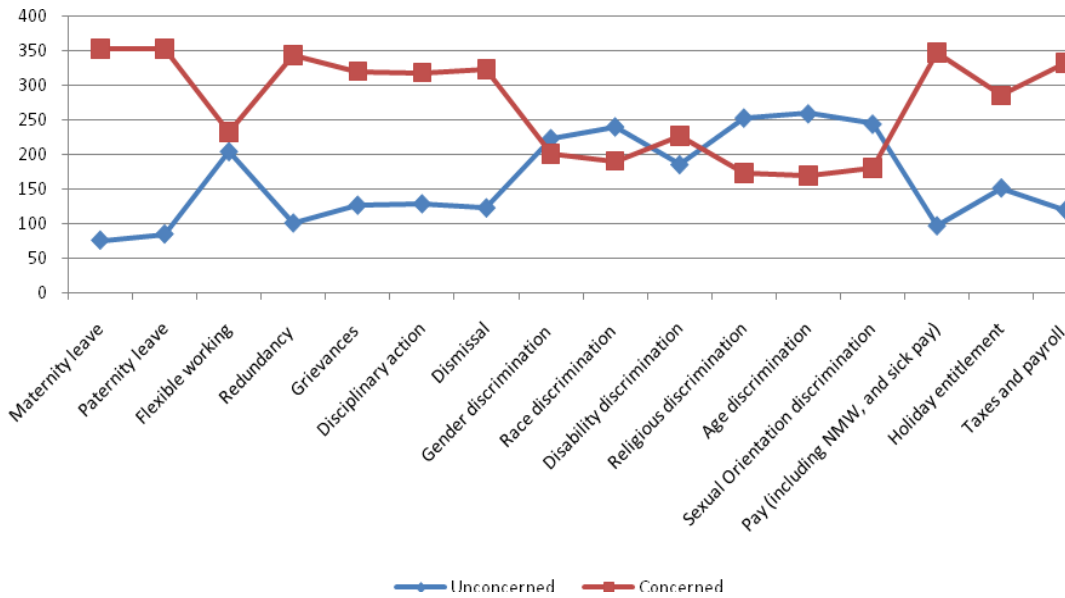




Figure 3. The condition of smallness in process and practice

