

The 'Fairness Paradox' and 'Small-Firm Growth Resistance Strategies'

Abstract

Purpose – We examine and explore why 'Small-Businesses' resist employing outside the immediate family and investigate the employee as an outsider and entrepreneurial resource.

Design/methodology/approach – We review the literature on barriers to small-business growth concentrating on key empirical and theoretical studies. We use empirical data from the Federation of Small Business (FSB) in which informants commented on growth and employing outside the family.

Findings – The findings suggest that small business owners adopt a polemical stance, arguing that a barrage of employment regulations deters them from employing outsiders because doing so brings trouble in terms of costs such as insurance, taxes, paperwork, leave (maternity and paternity) entitlement etc. They argue that employing from inside the family or ones peer group is much cheaper, convenient and less hassle. This ignores the entrepreneurial employee as a potential ingredient of growth and points to a paradox whereby the very values and emotions characterised by fairness of which of 'smallness' and 'familialness' is composed compound the issues of discrimination central to the debate.

Research limitations/implications – We offer important insights for growth issues among small businesses and challenge the contemporary equilibrium in terms of small 'family-orientated' business philosophy relating to employment practices. Ideologically, the entrepreneur is an "outsider" fighting the establishment, yet paradoxically, in a small business context s/he becomes the establishment by employing outsiders. This results in the fairness versus unfairness paradox.

Originality/value – We contribute to the existing knowledge and understanding on growth issues among small businesses by illuminating a paradoxical insider versus outsider tension.

Keywords – The Fairness Paradox; Small business growth, Small-firms, Small-firm mentality; Resistance strategies; Employment Regulation; Squeezed firm thesis, Discrimination.

Paper type – Conceptual paper

1. Introduction

There is renewed interest in research into small-firm growth (Leitch *et al.* 2010). Growth is a contentious issue in that although this is a desirable outcome from an economic development perspective, it may or may not match the entrepreneur's goals for the business. For example, some businesses are started as "lifestyle" businesses, where the entrepreneur wants to do nothing more than make a good living (Burns, 2011). In entrepreneurship and small-business literatures there is a gap in our understanding of what exactly constitutes a small-firm despite numerous definitions of the term SME. The designation 'small' is usually taken to refer to the business size. Small-businesses (whether family owned or not) all experience similar growth issues, concerns and problems.¹ Indeed, the family (and family-business), as near universal organising structures are eulogised in the literature and elevated to an ideal to be perpetuated (Carsrud, 2006). Family-businesses are said to be imbued with human values including justice and fairness (Van der Heyden, Blondel and Carlock, 2005) - but what about notions of fairness and unfairness, in relation to non-family, small-firm? The literature is silent albeit the 'fairness' literature in regards to small family-firms attempts to understand these issues in relation to how non-family members view their treatment as being 'fair' or not. This is an internally focused concept with no reverse viewpoint.

¹ We acknowledge that attempting to combine the insights of the broad field of family business into distinct form types as they relate to small-businesses is a daunting task. Yet this is an important but peripheral distinction. Research into family-firms is relatively mature but there remains an obvious gap between the family-firm proper and hybrid forms. Many small-firms begin in the family domain being started by husbands, wives, partners, siblings, work-colleagues and family-friends. A family business may qualify as a small-business too. Many small-firms transition from family-firm to a managed entity and many are operated by members of the same family yet are not recorded as family-businesses. Conversely, some small family-firms grow to be corporations. The nuances and commonalities in the related literatures have yet to be fully charted and understood. Globally, family-businesses represent around two thirds of all businesses. It is assumed that family-business as a structure is the ideal to aim for - privileging the term but closing down atypical forms of family-business where the business or businesses are family controlled. Ivan Lansberg (1999) discusses various forms of family business including 'families-in-business' which he refers to as "*small-miracles*" (1999, p.2). We question this myopic focus on family and not all small-businesses. We labour this point because many people associate family-businesses with small and medium-sized businesses (Carter & Jones-Evans, 2012) and we argue that small-firm ideology *per se* is shaped by the family-values of their owners. Many small-firms provide the financial wellbeing of the whole family.

Fowers and Wenger (1997) refer to the concept of “*the-good-family*” but in the small-business literature there is no similar assumption that all such businesses are good business despite their acknowledged importance in employment creation. Small-firms are lauded by politicians and policy makers for their potential to contribute to economic and financial growth. Yet, our understanding of their make-up and dynamics remains unclear with many small-businesses being started by friends, relatives and workmates. As a result founding entrepreneurs may have pre-existing relationships and expectations of fairness similar to those in small family-businesses. Yet the small-business literature is particularly silent on this important aspect of business growth and small-business management decision-making.

From a theoretical perspective, many small-businesses and indeed family businesses suffer from a ‘*liability-of-smallness*’ (Aldrich and Auster, 1986) or ‘*condition-of-smallness*’ (Anderson and Ullah, 2014), which results in them remaining small. There are about 4.5 million businesses in the UK of which about 99% are small-and-medium-sized, employing roughly 59% of private sector employment (13.8 million) with an estimated £1,500 billion annual turnover. Despite this huge economic contribution to society, SMEs face huge challenges and government employment regulation is one of the biggest barriers in employing further employees. Carter and Jones-Evans (2012) tell us that a high percentage of entrepreneurs start their businesses as family-firms with family members providing key support and resources both human and financial. In many such businesses other experienced family members offer advice and guidance to the business owners. Smaller-firms find it difficult to disentangle ‘firm’ from ‘family’ causing an intertwining of family and business motivations, resources and dreams (Carter and Jones-Evans, 2012, p. 232). Thus family members, friends or close associates may have significant influence on the business and play a key role. Within many small-firms an ‘insider.v.outsider’ dichotomy may emerge resulting in similar discrimination against outsiders as is documented in the family-business literature.

Though growth in sales, new branches and additional employees may be a desirable outcome, for most small-business advisors and government policy makers trying to encourage small-firms to ‘take-on’ further employees for the benefit of the economy and society is a ‘hard-sell’. For small-business owners, contemplating doing so is a complex decision-making-process (Bennett, 2008). Consequentially, many owners do not actively seek to grow their businesses (Burns, 2010). This may not indicate a lack-of-interest, motivation and desire for growth among small-entrepreneurs, their desire is often blunted by personal experience, or through observing others experiencing hardships in growing their businesses. This issue has perplexed politicians and policy makers because people are a company's most vital asset and key to improved performance (Connor, 1999). People equate to business growth and ‘staff’ remains an important growth metric. Employing new staff and issues of growth intentionality are important topics worthy of serious research effort. Accordingly, we focus on policy barriers to growth.

We are also concerned with the contrasting dynamic we conceptualise as the *perception of fairness*. Indeed our most novel insight is our notion of an existing fairness versus unfairness “paradox” (as understood by Smith and Lewis, 2011) which causes tension within small business.² This paradox relates to a self-defeating set of circumstances whereby the very values and emotions epitomised by fairness and characterised in ‘smallness’ combine to compound the issues of discrimination central to the debate. Our guiding research question is therefore – “*Why do many small-businesses resist employing outsiders?*” We contribute by extending theory about how misperceptions of fairness and unfairness hamper growth in small-firms via ‘circularity-of-distrust’ and a ‘council-of-despair’. Although our concept of (un)fairness is nebulous and arises from *the condition of smallness* it nevertheless holds

² We use the definition of paradox posited by Smith and Lewis as being – “...*contradictory yet interrelated elements that exist simultaneously and persist over time* (2011, p. 382”. In this context, a paradox contains two main elements namely underlying tensions which point to incongruities; and 2) responses which embrace these tensions. The fairness paradox is an apparently self-contradictory statement setting up a tension between small-business owners and employees whereby what is good for one is not always good for the other.

explanatory power. We now review the literature on fairness in relation to small-business before articulating our methods. We then discuss the findings and conclude by elaborating on why perceptions of fairness are important and what this means.

2. A review on small business, fairness and business growth

Small-firms face many challenges in “growing” and there is a vast literature on barriers to growth (Chell, 2001). Previous studies explored issues such as access to finance, the role of government and skills shortages and other socio-economic and psychological barriers to small-business growth. For high growth oriented and entrepreneurial small-firms, these problems are much more intense. Issues of finance for high growth orientation are well researched (Westhead and Storey, 1997; Williams, 1998; Oakey 2003). Consideration of policies and the perception of fairness are central to the argument.

2.1. Issues of discrimination and fairness in small business: Discrimination and issues of unfairness feature heavily. However, most studies do not focus on the barriers to employment growth among small-firms highlighting a gap in the literature. Fairness at work (Connor, 1999) particularly in relation to small (and family-business) is a growing area of interest (See Covin, 1994; Kickul, 2001; Carsrud, 2006; Sundaramurthy, 2008; Zellweger, Eddleston and Kellermans, 2010). Fairness (as in equality) is a human state, condition, or quality standing in opposition to falsehood.³ Fairness is defined subjectively (Fowers and Wenger, 1997) and is open to the nuances of individual perception (Carsrud, 2006). It is socially constructed (Lamertz, 2002) in relation to unfairness (Lind, Kray and Thompson, 1998) but as an ideal is difficult to attain. Because of the multitude of emotive issues and contextual variables involved we consider fairness to be a changeable state (whereas traits or conditions are more fixed). Applications of fairness are situationally dependent and require conformity to laws,

³ To be fair, is to be free from bias, injustice, dishonesty, discrimination and is characterised by the judicial concepts of ‘*even-handedness*’ and impartiality. It involves acts of choice, judgement and moderation.

rules, standards, morals and mores. We use fairness to measure our treatment by others against collective standards. Fairness is thus a test making trust central to achieving and maintaining both fairness and equality in business (Sundaramurthy, 2008). Issues of trust, fairness and emotional messiness are well aired (Carsrud and Brännback, 2012).

Explanations of fairness (in marital relationships) are related to “*who contributes what*”. This in turn is influenced by gender ideology; limited alternatives; and equity across key domains of the relationship. Whether one views one’s level of work and contribution as fair is influenced by the effect of ideology and considerations of equity as well as one’s level of general human capital (DeMaris and Longmore, 1996). These findings may pertain to work relationships if we view work as an intimate relationship (Longmore and DeMaris, 1997). Issues of relationship equity/inequity and their influence on well-being also feature.

Fairness is an emotive issue making unfairness central to our thesis. Nevertheless, prior research did not directly discuss employment issues nor, why small-businesses resist employing outside their family-circle. Fama and French (2002) argue that growth is a determinant of the capital structure of a firm. According to Hutchinson (1995) and Lang, Ofek, and Stulz (1996) capital structure determines a firm’s realized growth. Davidsson, Kirchhoff, Hatemi, and Gustavsson (2002) and Delmar and Wiklund (2009) suggests that the growth dynamic is influenced by other determinants like the age, size, industry affiliation, and growth motivation of the firm.

2.2. Personnel issues in small business: Most businesses have personnel issues either internal to the firm or residing outside the business (McEvoy, 1984). A dated but still relevant 1970, Dun and Bradstreet report indicated that most of the business problems frequently cited by small-business managers were personnel-related. Little has changed. Internal issues include ownership and control, day-to-day management, family members’ suitability for the job, profits distribution and many others. Consideration of ownership and control raises

emotive questions.⁴ However, we are not concerned about the internal issues of small-firms and assume that there is an interest, need, capacity, willingness, and motivation amongst most small-businesses to hire further employees to grow but these often cannot be materialised due to ‘government-employment-regulations’ which act as an external deterrent (by impacting compliance responsibilities) to employee growth.

2.3. Entrepreneurial growth in small-firms: Growth among small-businesses may be dependent on the motivations of entrepreneurs (Hoy and Sharma, 2010) and constrained by factors such as the availability of finance, skills-shortages, raw-materials, supportive environment and favourable economic circumstances. In addition, the objectives of entrepreneurs starting a business as a necessity (redundancy, long-term-unemployment or other personal circumstances) differ than those who seize an opportunity in the market place (Deakins and Freel, 2009). However, some opportunity-oriented entrepreneurs may opt for life-style-business and ignore growth potential to remain small.

Non-family owned small-businesses may be more willing to welcome outsiders as employees due to their entrepreneurial talents and investors as venture capitalists, business-angels in return for equity finance and expertise in management. For small-firms involving such investors and taking on outside employees can be emotionally, financially, psychologically and practically challenging. Much of our knowledge on small-firm growth comes to us from studies relating to growth models which suggest a business goes through evolutionary stages which induce crises, stress and tensions which must be overcome to grow.⁵ Nevertheless, many scholars challenge the validity and utility of such models because

⁴ Such as whose business is it? Is it mine, or ours? There may be more than one investor. Thus sole traders can call their business their own, but when there are family partners investing their money in the business, it is difficult to attribute individual ownership.

⁵ See for example – Greiner (1972); Churchill and Lewis (1983); Scott and Bruce (1987). To elaborate on the growth stages, the Greiner (1972) model suggests that there are five stages of growth of a small firm. If the entrepreneurial-firm is to linearly progress through these five stages (e.g. creativity, direction, delegation, coordination and collaboration) then each attribute (i.e. management focus, organization structure, top management style, control system and management reward emphasis) evolves and bring changes to the firm.

of the uniqueness of many small-businesses and the lengthy gestation period of such businesses, particularly those who emerge from the informal economy (Williams and Nadin, 2012). In this study, we take a narrower viewpoint of growth and attempt to move the literature beyond growth models and other tangential issues to concentrate on the specifics of employment growth.

Employing further members of staff certainly bring operational changes to existing firms such as formalization of the firm structure - compliance with the health and safety rules and many other pieces of legislation becomes obligatory if firms grow beyond the sole-trader status. According to growth models, a small-firm follows a stage or life-cycle model similar to Penrose's (1959) metamorphosis model as a small-entrepreneurial-firm transforms from a caterpillar into a butterfly. Yet, according to Deakins and Freel (2009) as a rule-of-thumb, out of every 100 small-firms, only 4 are responsible for 50 per cent employment growth (gazelles) and the rest remain small (mice).

Many small-firms experience crises such as crises-of-leadership; crises-of-autonomy; crisis-of-control; crisis-of-red-tape; and unknown-crisis of which there are many in a small-business. Crisis-of-red-tape is of particular interest to us and is a pivotal point of discussion. However, the Griener's notion of red-tape is limited to internal formal procedures and paperwork that comes with business expansion whilst we are interested in external red-tape which is generated by employing each additional employee in the form of government legislation such as National Minimum Wage (NMW), National Insurance (NI) contributions, tax, Maternity and Paternity leave and compliance with many other government rules and regulations. Most small-businesses do not have an HR department to deal with the paperwork and find it costly (in terms of time too) to keep up and comply with regulations. Churchill and Lewis (1983) suggest some successful firms disengage and resist growth and having achieved above average profits and economic viability prefer to remain small. For example, sole-

traders and life-stylers' may prefer this option due to internal and external constraints. Stakeholders in small-firms with a controlling family interest may develop psychological contracts from the start and particularly the newborn children growing up in a family-orientated-business environment. Traditions, norms and expectations and how to manage and control the small-business are picked up from an early stage of life (Sharma and Manikutty, 2005). However, generational differences in business ownership suggest that the needs of firm owners, together with their risk attitude can significantly change as a business develops over generations (Molly, Laveren and Jorissen, 2011). However, studies focusing on the impact of generational differences on the financing and growth behavior of small-firms have produced mixed results.

The evolution of attitudes to growth over generations is an important factor in explaining a small-firm's growth behavior. This 'willingness argument' describes the extent to which different generations realize firm growth. Thus, Zahra (2005) and Fernandez and Nieto (2005) found that when new generations of family enter a small-firm and become actively involved, wealth increases and strategic renewal becomes more important. With each succession, new family members bring fresh knowledge and insights into the firm, positively affecting the incentive to innovate, internationalize, and grow.

A counter-argument indicates a negative effect from intergenerational succession on the growth level realized by the small-firm. First-generation small-firms with a familial controlling interest are more business oriented in comparison with subsequent generations, and firms with a business orientation have a higher capacity to grow (Cromie, Stevenson and Monteith, 1995; Dunn, 1995).⁶ Reid *et al.* (1999) use similar ideas to suggest that first-generation small-firms grow at a faster rate compared with subsequent generations, and that for the latter type of firms family goals (family orientation) become more desirable than

⁶ In accordance with Ward's (1987, 1997a) model.

rational economic growth. These findings correspond to those of Martin and Lumpkin (2004) that with regard to successive generations, entrepreneurial orientation tends to diminish and family orientations prevail, as stability and inheritance concerns become the firms' principal drivers. Similarly, McConaughy and Phillips (1999) claim that next-generation firms invest less in capital equipment and R&D, and exploit fewer new technologies or markets, leading to slower growth compared with founder-controlled-firms.

Taking into account agency perspective, Kellermanns and Eddleston (2004) and Blanco-Mazagatos *et al.* (2007) state that in next-generation firms a serious increase in information asymmetry between owners and managers is evident, resulting in conflict, rivalry, and managerial opportunism, detrimental to firm growth. According to Ward (1997b), conflicts among firm members with a controlling interest are one of the main reasons behind the stagnation of some small-firms. Schulze *et al.* (2003) found evidence that an increased level of ownership dispersion in sibling partnerships results in more risk-averse behavior, meaning that owners/managers become less willing to pursue growth and to use debt financing to fund it. So, research indicates lower growth figures can be expected in subsequent generations.

There is a need to refocus academic studies to better understand the perceptions of hiring policy as a barrier to employment growth and to 'map-out' the core issues of where hiring policy "hurts". Such research must focus specifically on the hiring decision and the barriers to hiring as well as the specificities of employment growth (see Wiklund, Davidsson and Delmar, 2003; Chandler, McKelvie and Davidsson, 2009 for a starting point). The latter two studies whilst useful do not address policy reflections albeit they demonstrate some of the specificities of hiring further employees.

2.4. Revisiting Issues of fairness and unfairness: Going back to the external barriers to growth, studies suggest that small-firms are more severely affected by red-tape than large companies because small-firms are less proficient in dealing with the complexities of

regulation and are unable to spread the costs of compliance across large-scale operations (Chittenden, Kauser and Poutziouris, 2003b; Poutziouris, Chittenden, Watts and Soufani, 2003). The UK tax regime imposes a high burden on unincorporated businesses and their owners but the lowest on employees. As a result small-firms view government taxation and red-tape as burdensome (Poutziouris *et al.* 2003). Despite the government efforts to deregulate and simplify the taxation regulations, there has been little progress made in this regard. Nevertheless, regulation is one of the main tools that government uses to achieve their objective; to protect their citizens and the government and to promote a thriving economy. However, regulation affects business by imposing compliance costs, i.e. the red-tape-burden (Chittenden, Ambler and Shamutkova, 2003a). Politicians and civil servants should ‘think-small-first’ when deciding whether and how to introduce new regulations that affect businesses. In only 11% of new regulations were small-firms considered and the compliance costs borne by them were quantified in only 2% of cases (Chittenden *et al.* 2003a).

Small-firms do not necessarily follow growth stage models of development and many internal barriers inhibit growth (employment growth in particular). There are external barriers to growth (employment regulations which is our main focus) which deters small-firms and associated costs and complexities that deters them from employing outside help. This review points to a ‘circularity-of-attitudes’ and ‘resource-limitations’ which characterise small-businesses setting up the fairness paradox which favours insiders (friends, partners and family) versus outsiders (employees) contrary to espoused values of fairness associated with family and family-ness.

3. Moving from method and methodology to meaning

Our research objective fills a gap in small-firm growth theory relating to issues of fairness and unfairness which arose from our literature review and the overarching *condition-of-smallness*. We argue that the same ‘circularity-of- attitudes’ and ‘resource-limitations’ which

characterise small-businesses also drive the fairness paradox. As our contribution is a theoretical one, we examine empirical data for evidence of the existence of the paradox.

Our methodology is simple. We accessed a dataset from the Federation of Small Businesses (FSB) comprising of 2524 observations conducted in 2009.⁷ This recent survey contained around 170 questions on various aspects of small-business. Some questions related to the influence of government employment regulations on the business whilst considering employing further employees. Informants were invited to comment voluntarily on this issue and share their experience and observation.⁸ Their responses were open, rather than simply box-ticking, representing freely offered expressions of the informants' attitudes and experiences. A total of 624 FSB member businesses responded and the 624 usable quotes which are representative of the true-beliefs and feelings of those who responded to the survey. We do not consider the "access-to" versus "creation-of" the dataset to be a major limitation. We qualitatively analyzed these quotes and embed these in a table of main themes and sub-themes relating to the effect of employment regulations on the employee growth in small-businesses. Our interpretivist approach investigates social reality. Similarly, to better understand neglected aspects of growth especially practitioners' perspectives, we use qualitative analysis (Achtenhagen *et al.* 2010) to help us better understand employment and growth issues.

As we did not collect the data, we had no control over the design of the survey and how it was delivered and administered. Nevertheless, the data presents an informative or revelatory

⁷ The FSB is a not-for-profit 'lobbying' organisation formed in 1974. It is the UK's leading business organisation representing small-and-medium-sized-businesses. Its stated aim is to promote the voice of the self-employed and its remit is to protect and promote itself, the self-employed and small-businesses. It has around 200,000 members and represents small-firms to national, local and devolved Government. Any small-business owner can apply to join and receive a comprehensive package of benefits. It regularly surveys its members to establish their views on everyday issues that 'affect' them and can thus claim to be speaking for small-businesses and small-businessmen. Information gleaned from - <http://www.fsb.org.uk>.

⁸ We consider it helpful to explain and justify our use of the term – informant – which we use instead of the term of respondent because the small-business persons surveyed were surveyed by the FSB, not us. This is no semantic issue because unlike standard qualitative research scenarios we cannot simply check with them to clear up any queries or check facts because of their anonymity.

case (Patton, 1990) bounded in context with multiple observations. Our interpretative analysis of the content treats the dataset as a case representing informants' views and not as objectified facts. This perspective introduces an ontology that accepts that meanings, and consequent actions, are formed by the understanding that informants attribute to their experiences (Fuller and Moran, 2001; Anderson and Ullah, 2014). The ontological level is comprised of mental models, individual capabilities and attitudes of the owners (Wiklund *et al.* 2009). Philosophically, our approach is underpinned by our informant's reality as socially constructed (Berger and Luckman, 1966; Aldrich and Martinez, 2003; Downing, 2005; Fletcher, 2006) and that small-firm growth is also socially constructed (Leitch *et al.* 2010).

Small-firm owners' practices are shaped by how they see the world, reflecting different beliefs, values, assumptions as perceptions of the world (Gibb, 2000). Examining the form of responses and their relationships to each other helps us understand and interpret what is happening in the small-business sector and how best to explain it. Our inductive analysis provides insights not achievable by quantitative analysis (Pratt, 2009). We identify themes which explain why small-businesses resist employing outside staff and these form the constructs of the concept. We interrogate the responses to understand this active form of small-firm resistance and interpret the meanings behind the responses.

4. Presenting the evidence and listening to the voices of the informants

We now present the informants quotes, reporting on the main themes and sub-themes in the quotes following the content and thematic types of analyses. We attempt to read meaning from these quotes and our analysis extrapolates meanings from them. It is helpful to present some descriptive but informative information about the number of employees in the sample. Table 1 provides a snapshot of the size of the sample firms. Nearly a quarter (24.30%) have no employees and nearly half (45.40%) have less than five employees, whilst 14.30% are still micro-businesses (< ten employees).

Insert table 1 here.

Table 2 below provides useful information about the age of the business. As noted above, Davidsson *et al.* (2002) and Delmar and Wiklund (2008) opine that growth is influenced by size (number of employees) and the age of the business along with other determinants mentioned earlier. Table 2 shows that less than 5% businesses surveyed are less than one year old. The largest majority (45.30%) are more than 10 years old. About 41 or 30% are between 5-10 years old. This suggests that overall (about 87% or 2195 firms) are established, operating for more than five years. Thus our analysis of over 600 quotes provides a true picture about the mental models, actions and experiences of the businesses and validity of the results presented.

Insert table 2 here.

We present an overview of the informants' responses to specific questions about employment regulations in table 3 which evidences forceful, passionate and deeply polemical responses, demonstrating insularity and polemic justifications for their intolerance as well as avoidance strategies. When conducting analysis it is difficult to look beyond the 'face-value' of the quotes - for example, one cannot accept that just because the informants were angry, they were being polemical. That may, or may not have been their intention. However, it illustrates a weakness in or methodology of using informant data as opposed to respondent derived data because we cannot ask them further questions to determine what they meant or how they felt in relation to issues of fairness. This makes it problematic for us to interpret the data in light of the notion(s) of fairness. Nevertheless, the notion of the fairness paradox emerged from their polemics. However, we can 'read out' of their quotes what they 'feel' is unfair practices designed by the government to promote fairness. We now present the data as we interpret it.

Insert table 3 here.

What is apparent from these representative quotes is that the majority are very negative and directly aggressive in their tone. They close-down debates and dialogue. Disappointment in staff is a key theme and business owners appear to have no time to train, council and mentor new employees. This may be an artifact of a further education system that trains employees and apprentices for big-businesses. Conversely, prospective employees may not have the life-experience or social capital to appreciate what is expected of them. This issue could easily be remedied and presents a business opportunity for an employment agency to supply fully briefed and competent employees as and when needed. The two more conciliatory quotes at the table-end offer some hope. Moving beyond the polemics, these quotes link back to the fairness paradox because on the ‘face-of-it’ they are apparently unfair and even discriminatory comments. They allow no room for a discourse, or dialogue to mature and they appear to us to be neutralization technique to absolve them from personal responsibility.

We read the quotes from the dataset very carefully and summarize these in Table 4 concentrating on the main themes, sub-themes and the response strategy (or reaction) of the surveyed firms. After subjecting them to analysis (a la Miles and Huberman, 1994) we identified six main themes (left column in Table 4). These themes are - complexity/paperwork; costs; focus on employees; maternity and paternity leave; recession issues; and lack of government understanding or empathy. Secondly, from the six bundles of quotes we picked up main points presented in columns 2-5 under sub-themes. We did not provide counts for each sub-theme. All quotes echo more-or-less the same voices, shouting and concerns. In the last column (column 6) we synthesized some combined themes for reactionary response to these employment regulations (a response or action strategy based on real experience, observing other businesses, or developed mental model). It is helpful for us to explain one item from Table 4. For example under the ‘complexity/paperwork’ informants

remarked employment regulations are ‘off-putting’ which impacts on the response strategy in column 6. However, the arrow can also be linked to ‘do it yourself’ under sub-themes column 3 or can go direct to response strategy ‘keep-it-simple’. Informants also remarked on ‘uncertainty’ because employment regulations are frequently changing and you never know whether you have got it right or not. Reading up on and understanding the new employment legislation is stressful. The arrow encourages simplicity in response strategy (column 6). Lastly, ‘employees are a trouble’ because of they have too many rights. Informants reported that employment laws are heavily tilted towards the employees and against employers. So, the arrow links to the response strategy and small businesses are hesitant to take on employees and the resultant action is ‘keep-it-simple’. To conceptualise this notion, we illustrate this via figure 1, shown after the Table 4.

Insert table 4 here.

These selected, abstracted quotes help make sense of the data and determine what it means in relation to the paradox and the strategies used by the firms and how these are dealt by current policies. We present a vast amount of data in summary form whilst listening to the voices of the informants to understand what they are telling us. Figure 1 illustrates how the main theme feeds forward into and informs all the sub-themes and how these influence each other to help formulate the response strategy. This in turn feeds back to the sub-themes and reinforces the main theme of complexity and paralysis by paperwork.

Insert figure 2 here

Figure 2 also emerged from the data and illustrates that the elements of the *condition-of-smallness* and fairness paradox combine to metaphorically encircle the small-firm entrepreneur and the firm influencing perceptions of fairness and how it is experienced differently by the entrepreneur and their staff / prospective employees.

Pascall and Lewis (2004) identified voice as a key element in entrepreneurship and business literature. An understanding of ‘voice’ and its gendered nature (Gingrich-Philbrook, 1998; Simpson and Lewis, 2005) is crucial to understanding these voices because they are invariably skewed towards the masculine and the patriarchal. Other voices including employees are often silenced. A powerful but untapped voice is that of the “*entrepreneurial-employee*” (Fulda, 2008; and de Jong and Wennekers, 2008) and the “*creative-employee*” (Scott, 1995). According to Kickul (2001) attracting and retaining reliable and competent employees is essential for entrepreneurial growth. Kickul identifies the importance of the psychological contract and the types of promises made and communicated by small-business organizations to attract and retain employees. Kickul articulated that there was a wide perception of unfulfilled promises on both sides. The voices of the small-business owners are often strident, even belligerent in their intolerance and open resistance to employing outsiders. Business owners use an emotive ‘resource-based-argumentation’ to justify their potentially discriminatory employment practices which manifest themselves as a small-firm-mentality⁹. The very *condition-of-smallness* itself constrains economic growth, but there is more to growth than mere economics. The fairness paradox constrains growth in a similar manner. Nevertheless, in relation to fairness, the analysis demonstrates room for negotiation and for developing mutually beneficial relationships between employer and employees.

5. Discussion

We now give voice to the collective views of the informants. The evidence presented and in particular in table 3 suggests that small-businesses are constrained by the various types of employment regulations. There is a strong preference for the active (producing) over the

⁹ Ironically, by refusing to employ staff the business owners do not fall foul of employment law and their views remain in the private, not public domain.

passive (recording) entrepreneurial processes. These (as a consequence) impact on the willingness and motivations of small-businesses to respond to employment regulations.

The complexity/paperwork theme suggests informants feel that both the frequency and amount of complexity that employment regulations bring is too heavy for small-firms. They stress these rules are designed for large businesses and do not fit with their practices. Thus, business owners have to work seven days a week just to keep going for apparently no benefit to themselves whilst paying the government just for employing someone. The combined pressure of these regulations results in a default response strategy of simply not employing anybody in the first place even where there is a serious need. Business owners may downsize because of a bad prior experience. Employment regulations appear to actively discourage small-businesses and prospective entrepreneurs from employing someone rather than supporting the businesses to bring down unemployment level in the country.

Under the second theme, informants believe that employment regulations are too costly both in terms of time, costs, taxes and other payments if somebody is off. The complexity issue surfaces again because most small-businesses do not have a separate HR department to ensure compliance with regulations. They take issue with part-time staff holiday pay entitlement and the complexity and cost of redundancy laws. If the default response strategy is not activated then preference goes to family members, friends, freelancers, or agency staff. Employment laws detract them from main business activities. They allude metaphorically to *“keeping-their-heads-above-water”* and apportion blame, suggesting that employees once trained leave. Avoidance tactics prevail.

Under the third main theme - ‘focus-on-employees’, informants reiterate that employment laws favour employees. Employees’ rights are overwhelming, whilst employers have no rights. Complexity and costs issues are cited again. There is a constant fear among employers that they will get it wrong, resulting in costly tribunals. Some employers emotively see

themselves as criminals complaining that “*the employee is always right*”. As a result, the default response strategy or downsizing is implemented. They counsel others not to go into business; prefer to work hard themselves; or in worst case scenarios exit business. These are serious blows to government initiatives and efforts to combat unemployment. If employers are not on the side of the government, then it becomes extremely difficult to bring unemployment levels down in ‘recession’ situations where unemployment is record high. Of course there is a circularity, or cyclic nature, to the arguments because policy makers could argue that small-business owners and managers regularly complain about everything and that complaining is a useful mechanism for venting to release their sense of irritation. It is difficult to establish if this did indeed impede the hiring of new outsiders employees and that those who complained actually hired new employees or not during weeks or months that preceded, or followed the investigation? This is because the data collection methodology is not sophisticated enough to detect if we are being faced with a false problem. Similarly, we cannot establish if all these small-business owners/managers sincerely wanted to grow their business or if they would hire additional workers if the government did not cause them all these perceived problems?

Maternity and paternity leave entitlement emerge as major themes. Small-businessmen argue it is too heavy a price to bear. When an employee is off work for maternity or paternity leave, the employer has to pay the employee and spread the work over other members of staff which frustrates and annoys them. It affects the business in terms of time delays on project completion which impacts on the profitability. Big businesses are in a better position to absorb these costs but in a small and micro business employing less than 10 people, the costs are enormous and prohibitive. The default response strategy is common. Another avoidance strategy is to not employ young women of child bearing age or young men who might take paternity leave. This leads to reverse form of ageism which creates another problem for

government. The popular tactics are to avoid, downsize, discriminate on the basis of age (which is illegal) or only employ within the family. These constitute an anti-growth mentality which may be detrimental to growth plans.

In the fifth main theme ‘recession’, informants believe that employment legislations hinder them and curtail growth ambitions. Again informants reported employing younger more cost effective staff. The default response strategy is again commonly implemented.

The sixth theme is ‘lack-of-understanding’ by the government. Surveyed firms believe that the government does not understand their needs and problems. Previous themes of complexity, costs, focus on employees and leave entitlement are echoed here and in all themes. Some SME owners emotively see government policy makers as parasites destroying the body that are feeding them. They suggest government policy makers and ministers should have business experience in order to understand the problems of the small-business-sector. As a consequence these small-businesses avoid growth; contract their business size; and discourage others from going into business. Because they feel squeezed, they remain small and oppose growth plans. We conceptualise this small-business-mentality as the “*Squeezed-Firm*” thesis.

6. Tentative implications and conclusions

The discussion led us to conclude that these surveyed small-businesses feel actively discouraged from employing anyone which is a huge economic loss to the business itself, the economy and society as a whole. The primary motive and responsibility of the government employment regulations must be to provide a supportive and nurturing environment for small-businesses (the backbone of the economy) rather than inhibiting growth. We fall well short of being able to answer our guiding research question of –“*why do many small-businesses resist employing outsiders*”? However, our reexamination of this complex issue

has posited the useful conceptualizations of the ‘fairness paradox’ and the thesis of the ‘squeezed-firm’. Our analysis suggests that greater effort is required such as engaging the FSB and small-business owners in a more potentially productive dialogue. We make an incremental contribution to the extant literature on small-business growth by updating it and by listening to the voices in the debate. It also refreshes the empirical evidence base by offering a practical synthesis reflecting lived experiences.

In terms of the fairness paradox, it seems to us that the business owners see themselves as the victims of discriminatory government policies and employment practices. This is manifested in their arguably insular responses to the survey. It is necessary for small-business owners to adopt a less-one-sided ‘fairness-test’. Developing such a (potentially marketable) test is a future research priority. Their perception and misperceptions of fairness are a proverbial ‘double-edged-sword’ and that far from arising from a ‘*condition-of-smallness*’ the decision of whether or not to employ more staff must be made rationally and not emotively. In answering the survey, informants took the opportunity to vent their frustrations and to be heard and listened too. Venting is an important stage in the development of a productive dialogue. We believe that the inherent unfairness in their comments, attitudes and small-business-philosophies arise from frustration and not discrimination, stubbornness or ill-will. Much hard work is required to change such perceptions and misperceptions. Clearly this change must come from both sides. We as active researchers have a role to play here too. Continuing to perpetuate the existing double-sided system of unfairness with its perceptions and misperceptions is not helpful. Our main contribution is that we approach small-business growth from a different angle. Indeed, this characterises the originality of the approach. The study begins ‘bridging-the-gap’ between theory and practice.

In considering the limitations of the study, we acknowledge that in presenting observations and voices that they may not all be typical of all small-firms but nevertheless

they are representative of small-business owners, managers and employees of associated with the FSB. In terms of originality we have moved the argument away from the starting point that entrepreneurs are dissatisfied with policy by discussing why; what this means in relation to implications for policy and practice; and how this can be achieved. The study has enormous potential implications for policy. There is a pressing need to design new fully and partially funded training opportunities and apprenticeships for small-business owners and potential employees so future employees can ‘hit-the-ground-running’ and contribute to small-business growth. Politicians, civil servants and policy makers must listen to the voices small-business and be creative and pragmatic in designing new policies and solutions. They must adopt an open position enabling them to negotiate away from the existing defeatist circularity-of-attitudes articulated by small-business. They must break the bonds which perpetuate ‘*in-thinking*’ and ‘*small-business-mentality*’. Government negotiators could learn much from the debate in the literature on informal economy and model their responses on this lively debate and in particular what could be done in order to facilitate change (Williams and Nadin, 2012). There are implications for research, practice and/or society. The growing skills gap between employees for large and small-businesses suggest there is scope for entrepreneurial solution such as an ‘App’ for small-business policies and legislation to allow small-business owners to comply with more ease and confidence. This has potential commercial impact too. We business school scholars have a responsibility to air small business views when educating business students.

The fairness paradox offers a novel explanatory concept which may help explain why so many small-businesses do not employ outsiders. The paradox is abductively (and socially) constructed and provides a tentative theoretical viewpoint. The choice of abductive reasoning is crucial because deduction can generate consequences and construct plausible hypothesis, whilst induction establishes general rules. The voices of the small-businessmen and women

we analysed provide powerful evidence to policy makers and enterprise service providers to address personnel and employment issues directed at small-enterprises to enable them to develop more proactive and enterprising employment practices. We need to develop new growth models for small and micro business which highlight more achievable growth trajectories for the average firm. Finally, we make a call for more studies to collect the voices of the entrepreneurial employee to add balance to the debate.

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Table 1: Number of employees (Source – author generated)

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
Total	100.00	2524

Table 2: Age of business (Source – author generated)

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
Total	100.00	1875

Table 3: An analysis of response and interpretation (author generated).

Selected Informant Response (Typical of batch)	Interpretation / perception
<i>“Nothing would induce me to employ anyone”.</i>	A polemical statement indicating intolerance and insularity and perhaps insecurity. No explanations / justifications are offered.
<i>“I do not want staff!” ... Leave us alone!”</i>	Again very direct polemical statements couched in directive, defensive and aggressive tones.
<i>“...eventually we just gave up employing anyone except ourselves and it was the best thing we ever did.”</i>	A polemical statement and avoidance strategy alluding to a period of trial and tribulation.
<i>“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”.</i>	A polemical statement and avoidance strategy suggesting that it is more than arrogance and that choice is very important to SME owners.
<i>“I ignored them all (legislative rules) and just get on with running my business in a fair way”.</i>	A polemical statement indicating intolerance of authority and regulations. Avoidance is a key theme.
<i>“I found employees to be mainly a PITA (Pain In The Arm). It is easier to do the work myself. My business is more profitable without employees than it was with them. Simpler too”.</i>	A deeply polemical statement combining intolerance and insularity with avoidance. Nevertheless, this suggests there are structural, time and training issues at play here too.
<i>“...there should be legislation in place to protect employees but I really think it has gone too far. Small businesses have enough to deal with on a day-to-day basis just trying to survive without worrying that they may end up in a tribunal because you asked some nauseating adolescent to have a wash or stop chewing gum when serving customers food and drink. Also with the laws on maternity/paternity leave this will make most small businesses run a mile and have the total opposite effect of what it is trying to achieve”.</i>	This polemical statement suggests that there is an attitudinal difference which can be bridged with training and constructive dialogue. The beauty of such polemics is that one is not left unaware of any nuanced conditions. From a negotiators perspective there is room to debate and to respond in a non polemical tone.

“In a small business... taking on the further responsibilities of Management and administration. Although we believe that it is right and fair that employment rights must be addressed, recognised and implemented, the overall weight of responsibility is very high, often expensive and extremely time consuming. Company and employment law is a big enough hill to climb in itself without considering the massive 'umbrella' of Health and Safety legislation, equal rights and opportunities legislation, anti discrimination laws and so on. The list grows ever on and the hours available for addressing these matters effectively are few for any small business. A large organisation can afford to employ a person or persons to address these needs, or at the very least, to pay a third party 'consultant' to do the Donkey work. For most SMEs these are unaffordable luxuries, especially when in the grip of recession when company purse strings are stretched to the limit. If we're going to be fair to our workers then let's be equally fair to employers and administrators too by making these huge subjects easier to address”.

This is an excellent starting point for future debate.

Table 4 - Reasons for not employing outsiders: Government employment regulations and small business entrepreneurs coping behavior and response

Main themes ↓	Sub themes →				Small business owners response strategy
1. Complexity/paperwork	This theme is characterised by government cluelessness, too many restrictions and a storm of regulations. Informants feel they work for the govt. and not themselves. It is off-putting.	Informants rather than employing someone, would do it there selves, sacrifice weekends or employ their wife. The talk is of hassle and rules.	The talk of employment is of uncertainty and risk. Government regulations appear to them to be drafted with big businesses in mind. They work hard whilst public sector employees enjoy.	There is an acknowledged need for employees but a fear of the trouble it brings. Talk is of minefields and the employee always being right and the owner being wrong. Difficulties in firing bad staff are emphasised.	Justifications are mono syllabic – one or two terse words – ‘keep-it-simple’ ‘keep-it-small’ and is anti-employment rhetoric. Employees sap profits and there is an almost vitriolic reaction to having to provide sick and holiday pay. The talk is of Government hindrance.
2. Costs	There is a sense Government regulations are too costly and size prevents them from accessing HR expertise. Wages bills and other associated costs are increasing.	Due to small profits and low turnover employing staff is daunting and distracts them from core activities. Government taxes and entitlement of part-time staff to holiday pay features again.	Lengthy process, redundancy laws, and no costs to employees is seen as a minefield.	There is a sense of working solely in order to pay taxes and employ others. There is a reaction to sick pay not being viable for a small-business.	Employing staff is not seen as cost effective. Lower costs would encourage employment. There is talk of ‘soldiering-on-alone’ or employing close-friends or family. There is sense of futility in training staff who invariably leave.
3. Focus on employees	Fear of being dragged to a tribunal.	Employees damage small-businesses with less than five people. Government regulations are unhelpful and add extra administrative burden.	Too many laws which favour the employee at the cost of the stability of the business. There are too many employee rights and not enough responsibilities.	Employees do what they want. Government regulations have negative attitude to employers and are focused on employed mums, dads, P/T and flexible hours.	Many talked of giving up employing anyone except themselves. Small business owners emotively believe they are ‘second-rate-citizens’ and it is not worth going into business.
4. Maternity and Paternity leave	The talk is of ‘crippling small business’ and of ‘Too-much-hassle’ of irritation and frustration of having to re-do bad work.	This should be judged on the size of the business. It causes great hardship for a small company (+, - 10 staff).	This curtails employment opportunities for younger women. As a result, less women of child bearing age or men, whose wives are likely to conceive are employed. There is also uncertainty that they may not come back to work.	Giving an employee paternity leave impacts on familial staff and other workers time. The talk is of uncertainty and unpredictability. There is a feeling it is legislation intended for big-business but wrong for small-business.	Talk is of active resistance to employing staff and of engaging in reverse ageism (employing older people). There is a feeling those with less than two years continuous employment should not be entitled to flexibility. This fuels reluctance to employ others than family members.
5. Recession	In the current climate and current legislation, there is lack of government help.	Prior bad experience is cited.	An aversion to employing apprentices is cited.	Holiday entitlement and minimum pay are cited as major cost burdens.	This results in a deliberate strategy not to employ outsiders.
6. Lack of government understanding	Law makers do not understand small-business and have no experience of running a small business. There is a belief MP's should have business experience before seeking office. The ‘muddy water’ metaphor is common.	Businesses should be entitled to employ who they want to, not be dictated to by well-meaning commercially uneducated politicians. There is talk of politicians being parasites killing the body that feeds them.	One-size legislation does not fit all and small-businesses should be treated as such and not like conglomerates with the same rules and penalties.	There is a sense that there is too much focus on employees and being an employer is a ‘thankless task’. There is talk of being treated ‘like criminals’. There is a genuine fear of being taken to court or a tribunal by vengeful employees. It is up to the employer to prove they are innocent.	There is a frustration with government lack of understanding of small-business needs. The Government do not know the facts. Government laws are inhibiting business growth. There is a sense of foreboding and doom to the rhetoric. Government policies reduce employment opportunities by burdening small-businesses.

Figure 1: Linkages between main themes, sub-themes and the response strategy

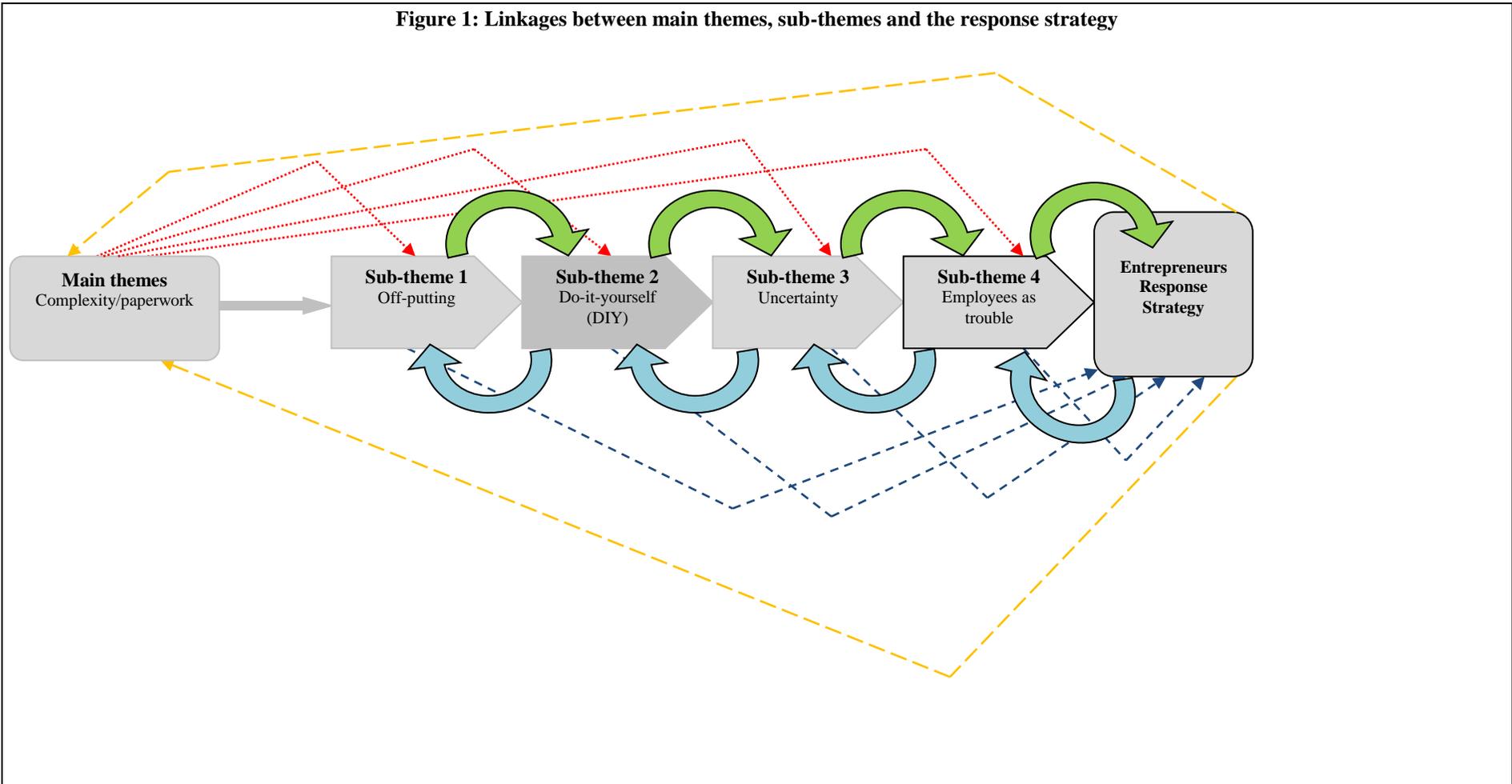


Figure 2 – The ‘Condition-of-Smallness’ and the ‘Fairness.v.Unfairness Paradox’ in the Squeezed Small-Business Environment.

