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## **Economic Recession and Workplace Flexibility Practices in Lancashire-Based SMEs**

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# RESEARCH REPORT

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## Executive Summary

This report presents findings from an innovative workplace flexibility study of Lancashire-based Small and Medium Enterprises (SMEs) during the recent 2009 economic 'credit-crunch' recession in Britain. The study was carried out at the Lancashire Institute for Economic and Business Research (LIEBR), which is part of the Lancashire Business School (LBS) at the University of Central Lancashire (UCLan).

Distinctive study features include: offering a timely contribution to SME research under recession; focusing on the previously largely ignored relationship between workplace flexibility practices (WFPs) and firm performance measures; utilising objective measures of performance; applying a new analysis approach by disaggregating flexibility into numerical, functional and cost flexibility; and analysing a large set of WFPs.

Data is collected via postal and online questionnaires from a total sample of 2,053 regionally representative SMEs, with 147 SMEs in the final respondent set. The questionnaires asked SMEs senior managers to provide information related to the spread, variation and take-up of a very large number of WFPs, amounting to 60, with particular detail related to the use during the 2009 recession for each practice categorised as follows: not used, first time use, increased use, the same use, decreased use, abandoned or stopped.

Results are shown with regard to the incidence of WFPs as well as to an econometric analysis, the latter producing previously unknown insights into the links between WFPs and three critical corporate performance indicators: labour turnover, absenteeism and financial turnover. The influence of a large set of firm and market characteristics - SME size, ownership, industry, managerial and workforce gender composition, and perceived market competition - is statistically controlled so that results are relevant and robust. Importantly, results show association with performance, due to the cross-sectional nature of the study. Further data, from another point (or points) in time, would be needed in order to infer causality of findings i.e. whether a higher use of WFPs causes higher performance or, vice versa, whether higher performance causes a higher use of WFPs.

Figures obtained for the incidence of the 60 WFPs studied show the following:

- the average number of practices in use out of the 60 WFPs surveyed, is 14 practices per SME; two-thirds of SMEs use more than 10 WFPs and only 10% of SMEs use fewer than 3 WFPs;
- the most used practices are:
  - teamwork (81% of SMEs);
  - job security (70%);
  - problem solving (68%);
  - increasing skill training (66%);
  - training duration (64%);
- the most used flexibility areas are High-Performance and Functional Flexibility
- the full potential of WFPs is not used. Examples of practices with relatively low use by SMEs are: job autonomy (not used in 50% of SMEs), family friendly practices (not used in 59% of SMEs), home working (not used in 60% of SMEs), individual performance related pay (not used in 81% of SMEs), or job sharing (not used in 87% of SMEs);

- there is a wide variation in the use of practices: about 30 - 50% variation around the average take-up level;
- the least used practices are:
  - stock for pay cuts (1% of SMEs use this practice);
  - staff pay cut (9%);
  - postponing retirement (9%);
  - temporary contracts not renewed (9%);
- the most common WFPs introduced first time by SMEs in response to recession are: management pay freeze (26% of SMEs introduced this practice); staff pay freeze (17%); management forgo bonus (14%); voluntarily reduced working time (14%); compulsory redundancies (13%); and management pay cut (13%);
- the most common increases in use in WFPs due to recession are: training (25% of SMEs report increases) and teamwork (20% of SMEs report increases);
- the most common decreases in use of WFPs due to recession are: overtime (7% of SMEs report decreases) and outsourcing (11% of SMEs report decreases).

Higher level data analysis, via an econometric model, finds consistent and highly significant relationships between certain WFPs and the three corporate performance measures for which SMEs are asked to provide data, namely labour turnover, absenteeism and financial turnover. Statistical analysis reveals that:

- flexitime and job sharing link to low redundancies, yet staff pay freeze and, surprisingly, part-time work, and job security link to high permanent employee redundancies, so WFPs offer mixed help towards recessionary downsizing;
- WFPs link positively with low absenteeism, especially training, job sharing and family friendly practices, but not location and job flexibility, and not staff pay freeze;
- job security and staff pay freeze link to high financial turnover, unlike management pay cuts or freezes;
- company and market characteristics play a significant role: large SME size links to high redundancies and high absenteeism but also to high financial turnover; having a relatively larger share of female staff links to low redundancies; family-owned SMEs and SMEs with relatively more female managers link to high absenteeism; and a high perceived market competition links to low redundancies and low absenteeism.

In conclusion, the finding that some WFPs are rather widespread in the sample, is interesting, portraying SMEs in a similar respect to most innovative high-performance organisations which embrace advancements in employment relations regarding employee discretion or participative working arrangements.

This research highlights best practice to the benefit of organisations and the local economy, but with potential applicability at the national level. Moreover, it contributes to the relatively unknown area of the use and incidence of WFPs under recessionary conditions in SMEs, in order to increase knowledge and better inform SME decision makers, policy makers and practitioners of some of the likely methods to reach low levels of labour turnover, low levels of absenteeism, or high levels of financial turnover.

## **1. Introduction**

In the current difficult economic climate, significant cost reduction challenges arise for Small and Medium Enterprises (SMEs) which sometimes have to enforce redundancies to survive, and continually search for ways to reduce absenteeism or increase financial turnover. Very little is known about the decisions made by firm managers, whether from SMEs or larger organisations, concerning how performance measures may relate to the availability and mixture of workplace flexibility practices (WFPs). For instance, do SMEs cope better with recessionary pressure if they introduce and expand their use of WFPs such as part-time working, shift working, or lowering the number of working days per week? The use of which practices prevails and why?

This report is the result of investigations, via questionnaire-based research and econometric data analyses, into the crucial decision-making times of the 2009 'credit-crunch' recession in Britain, with consequences to the national and regional economy that continue to be felt today. This research is geographically-located in the Central Lancashire area of North-West England. Its distinctiveness stems from analysing the less-researched SME, in relation to WFPs, and under recessionary economic conditions.

The research is the result of collaborative work lead by Professor Philip B Whyman and Dr. Alina Petrescu. Funding was obtained from the Lancashire Business School (LBS), at the University of Central Lancashire, as part of the Research Internship programme which gives LBS undergraduate students experience of working as part of a research team on projects with high quality outcomes. Primary field work was undertaken in August 2009, utilising a sample of Lancashire-based SMEs, drawn from the *Central Lancashire Business Directory 2008 - 09* with regard to assessing the incidence, extent and impact of WFPs and their role in decision-making related to objectively-measured performance indicators at the respective SME. The project sought to increase the knowledge related to WFPs and better inform SME decision makers, policy makers and practitioners of methods to reduce labour turnover and cope with recession. The new data brought to light here allows some of the first insights into the extent of use of WFPs in SMEs.

Labour flexibility research is gaining momentum in the macroeconomic context of increased interest in creating a cohesive European Union labour market and, in particular, in view of British firms having to seek new ways to be competitive in the age of the knowledge economy. In Britain this is clearly portrayed by the inclusion of labour market flexibility in the five tests for joining the European Union.<sup>1</sup> However, there is little consensus over a definition of flexibility. Instead, originating in the seminal work of John Atkinson in 1984, classifications of flexibility at microeconomic level distinguish among: numerical flexibility, described as the adjustment of the number of workers or of their working time; functional flexibility described as the adjustment of the job content or of the ways in which employees are expected to perform their jobs; and cost or wage flexibility described as the adjustment of the ways in which pay is decided.<sup>2</sup> Typical examples of WFPs falling in the numerical flexibility category are non-standard contracts such as part-time working, working from home, shift-working, flexi-time or job sharing. Functional flexibility practices usually include training, job enrichment, teamworking, or allowing employees job autonomy via having a say

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<sup>1</sup> HM Treasury (2003)

<sup>2</sup> Atkinson (1984)

in the design or content of their job. Cost flexibility describes various forms of setting pay systems such as through negotiations with trade unions, profit-related payments, merit pay or payment by results.

## **2. What Do We Already Know?**

This study aims to fill a large and persistent gap in the economic and employment literature on SMEs, with the vast majority of studies being concerned with large organisations, while numerous authors highlight the scarcity of studies on human resources management and related workplace practices in SMEs.<sup>3</sup> This is so despite SMEs playing a significant part in the British and European economy. For instance, statistics show that 99.9% of British companies are SMEs, and they account for 59.2% of private sector employment and 51.5% of private sector turnover.<sup>4</sup>

Moreover, the turbulence stirred by the recent economic recession in Britain put forward a previously under-researched question: to what respects does flexibility relate to performance under recessionary pressure? With SMEs taking the brunt of any economic recession, a crucial question was also: could an SME make use of WFPs, such as part-time work or management pay cuts, in order to reduce its labour costs and thus avoid laying off trained and / or experienced staff? Could business survival be linked to the appropriate and timely use of WFPs? Anecdotal evidence from numerous media stories in Britain 2009 points to organisations shifting their practices dramatically in favour of adopting flexible programmes including reduced pay or pay freezes, increases in part-time work, increased reliance on casual contracts etc.<sup>5</sup> With scant academic interest on the topic of workplace flexibility and performance, such organisational changes have been first-hand experiments trialled out without the backup of learned advice. It is high time that at least *a posteriori* some lessons are learnt about what kind of SME flexibility profile associates positively with performance indicators.

This research also originated from the perceived need to redress a second two-fold imbalance: the paucity of research into WFPs and objective measures of performance. On the one hand, this research looks at flexibility in association with performance measures, whereas there is a comparatively overlooked research area specifically addressing WFPs and corporate performance. A few studies are the exception and these tend to report, on balance, a positive association between certain WFPs and corporate outcomes. Even so, the literature is analysing too few variables, running the risk of overlooking important links between the use of WFP and performance.<sup>6</sup> For instance, Chandler and McEvoy (2000) focus only on training and group performance pay, whilst Gray (2002) only looks at family friendly practices. Moreover, studies have been analysing less quantifiable measures of performance such as employee morale, organisational commitment or job satisfaction.<sup>7</sup> Still in relation to organisational benefits associated with the implementation of WFPs, family-friendly policies

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<sup>3</sup> Chandler and McEvoy (2000); Cassell *et al.* (2002); Matlay (2002)

<sup>4</sup> BERR (2008)

<sup>5</sup> For a brief selection, see PM Online (2010); BBC News Online (2009a; 2009b; 2009c)

<sup>6</sup> Dex and Smith (2002), Gray (2002); Kleinknecht *et al.* (2006); Whyman *et al.* (2009)

<sup>7</sup> Dex and Schreibl (2001); Origo and Pagani (2008)

in particular, these are found to help to reduce labour turnover and absenteeism.<sup>8</sup> Related studies show that organisations with family-friendly policies are better at retaining employees even if the employees choosing to remain within the organisation do not use the policies themselves.<sup>9</sup>

### **3. What Is Expected To Be Found?**

WFPs are expected to induce more productivity and commitment from employees whose needs are better met in a flexible workplace, therefore SMEs implementing the right WFPs would be associated with low redundancies as a measure of how well they manage their workforce, low absenteeism as a measure of employees looking forward to taking an active part of a flexible workplace, and high financial turnover as a measure of SME competitiveness under recession.

The first expectation is that certain WFPs would support SME decision-makers in reducing the pressures that recession puts on workforce via downsizing, yet the scope of particular WFPs implementation may be limited in SMEs. It would be expected that an efficient use of WFPs would provide a range of alternative responses to difficult market conditions, thereby possibly helping to avoid the typical recession-related high number of redundancies. This would be so especially with regard to the number of permanent employees, in accordance to the flexible firm core-periphery theory, whereby permanent workers would compose the core area of the workforce and would be given a higher priority e.g. more job security, training offering firm specific knowledge, intra-firm career plans and functional flexibility than the peripheral workforce.<sup>10</sup> The assumption, similar to the one of internal labour markets theory<sup>11</sup>, is that when offering permanent contracts to its workers, an organisation is then more committed to integrating these in its highly skilled workforce, and generates an 'internal' labour market whereby its core workers are relatively more protected from the vagaries of the external labour market. Consequently, relative to non-permanent workers, laying off core workers would be more costly if at least in terms of redundancy pay. It may also be relatively more damaging to workforce morale to experience core workforce redundancies. Another significant detrimental effect of redundancies is that they signal to outsiders too that the organisation is facing major difficulties. Moreover, WFPs would be instrumental in creating a good workplace climate, hence retention should be high in SMEs making an efficient use of WFPs.

*Expected Finding 1: The use of certain WFPs is associated with offering the SME alternative responses to redundancies, limiting the impact of recession on permanent employee redundancies.*

Secondly, it is assumed that certain WFPs are conducive to a more present workforce, for instance since employees are enabled to diminish the mismatch between their contractual and desired hours or work, maintain a better work-life balance, and do not need to take unnecessary time off work. An under-researched topic is the relationship between WFPs and

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<sup>8</sup> Goff *et al.* (1990); Meyer and Allen (1997)

<sup>9</sup> Yanadori and Kato (2009)

<sup>10</sup> Atkinson (1984)

<sup>11</sup> Doreinger and Piore (1971)



absenteeism. An expectation that can be supported by a few studies, such as a recent large scale empirical research in Europe, is that WFPs can reduce corporate levels of absence substantially.<sup>12</sup> In Britain in particular, flexibility in the contractual hours of work has been reported as a more important factor in determining absence than even individual characteristics, the latter being usually the main analysed determinants of absenteeism.<sup>13</sup> Therefore, the second expectation is:

*Expected Finding 2: The use of certain WFPs is associated with low levels of absenteeism.*

Thirdly, in view of the benefits of utilising certain WFPs to the employee and employer, WFPs are expected to allow organisations to make an efficient use of their financial resources and be more productive. On a cautionary note, the precise link between what are usually referred as human resource management (HRM) practices - some of which are labelled as "high-performance" practices<sup>14</sup> - and corporate financial performance is not yet clearly established,<sup>15</sup> yet job satisfaction, higher-commitment or less stress may link to improved performance.<sup>16</sup> That would lead to the expectation that:

*Expected Finding 3: The use of certain WFPs is associated with high levels of financial turnover.*

#### **4. The Use of WFPs in SMEs under Recessionary Pressures**

The average number of practices in use, out of the 60 WFPs surveyed, is 14 practices per SME, with two-thirds of SMEs using more than 10 WFPs and only 10% of SMEs using fewer than 3 WFPs. Table 1 classifies 38 out of the 60 WFPs, which is a selection of practices based on those of most interest. Practices are categorised according to the flexibility area into numerical, temporal and location, functional, high-performance, and various types of cost flexibility.

The column headed "Incidence" shows the use of these WFPs in the SMEs part of our sample, whereas the column headed "Spread" shows the standard deviation i.e. by how much the use of WFPs varies in the sample. For instance, recruitment freezes have been used by 27% of SMEs in the sample, with a spread of 45%. The larger the incidence, the more a practice is used, whereas the larger its spread, the more dispersion there is in the number of firms using the practice. It can be noted by looking at the last column that there is a wide variation in the use of practices: about 30 - 50% variation around the average take-up level.

<sup>12</sup> Study conducted by Lusinyan and Bonato (2007)

<sup>13</sup> Reported by Barmby *et al.* (2004)

<sup>14</sup> Practices are labelled "high-performance" not necessarily because research has shown that these practices are likely to associate with high levels of corporate performance, but because they have become collectively associated with emphasis on high-quality goods and services, empowered and motivated employees, and other positive organisational outcomes. Examples include: autonomous work teams engaging in problem-solving groups, increased worker participation in decision-making, higher levels of management-workforce communication and consultation, or incentive pay. The impact of some of these practices on performance is analysed, among the most notable studies, by: Addison and Belfield (2001), Appelbaum *et al.* (2000), Stavrou *et al.* (2010).

<sup>15</sup> Whyman *et al.* (2009); Stavrou *et al.* (2010)

<sup>16</sup> That job satisfaction may link to higher-performance is a topic studied in a large literature, with a brief literature review in Petrescu and Simmons (2008).

**Table 1. Incidence of Workplace Flexibility Practices in the Lancashire SME Survey 2009\***

FLEXIBILITY AREA	WORKPLACE FLEXIBILITY PRACTICE USED BY SME	INCIDENCE (%)	SPREAD (%)
NUMERICAL	1 RECRUITMENT FREEZE	27	45
	2 INTERNAL LABOUR MARKET VACANCY FILLING	17	38
	3 POSTPONING RETIREMENT	9	29
	4 COMPULSORY REDUNDANCIES	17	38
	5 SHIFT TO TEMP OR CASUAL	19	39
	6 TEMPORARY CONTRACTS NOT RENEWED	9	28
	7 FULL TIME WORKERS SHIFTING TO PART TIME	14	35
TEMPORAL AND LOCATION	8 HOME-WORKING	40	49
	9 SHIFT WORKING	16	37
	10 VOLUNTARY REDUCED TIME	20	40
	11 MORE EMPLOYEES WORK OVERTIME	41	49
	12 FAMILY FRIENDLY PRACTICES	41	49
	13 FLEXITIME	26	44
FUNCTIONAL	14 JOB SHARING	13	34
	15 INCREASE SKILL TRAINING	66	47
	16 JOB ENRICHMENT TRAINING	53	50
	17 TRAINING DURATION	64	48
	18 OUTSOURCING	36	48
	19 EDUCATION LEAVE	21	41
HIGH-PERFORMANCE PRACTICES	20 JOB AUTONOMY	50	50
	21 TEAMWORK	81	39
	22 JUST-IN-TIME MANAGEMENT (JIT)	31	47
	23 QUALITY CIRCLES	29	46
	24 TOTAL QUALITY MANAGEMENT (TQM)	58	50
	25 PROBLEM SOLVING	68	47
	26 EMPLOYEE JOB SECURITY	70	46
COST FLEXIBILITY: EMPLOYEE	27 STAFF PERFORMANCE APPRAISAL	62	49
	28 STAFF PAY CUT	9	28
	29 STAFF PAY FREEZE	31	46
	30 PENSION SCHEME CONTRIBUTION CUT	13	33
	31 INDIVIDUAL PERFORMANCE RELATED PAY (PRP)	19	40
	32 GROUP PRP	11	32
COST FLEXIBILITY: MANAGER	33 MANAGEMENT PAY CUT	27	44
	34 MANAGEMENT PAY FREEZE	40	49
	35 MANAGEMENT FORGO BONUS	30	46
	36 JOB PERK CUTS	15	36
COST FLEXIBILITY EMPLOYEE & MGT COST FLEXIBILITY MANAGER	37 PROFIT RELATED PAY	18	39
	38 STOCK OPTIONS IN COMPENSATION FOR PAY CUTS	1	9

Source: The Lancashire SME Survey 2009

\*Based on SMEs answers to the question: "In response to recession in your organisation, please rate the use of these practices over the past 12 months". A workplace flexibility practice is recorded as in use if the answer was: "first time use", "increased use", "same use" or "decreased use". The incidence peaks at 81% for teamwork meaning 81% of SMEs use it.

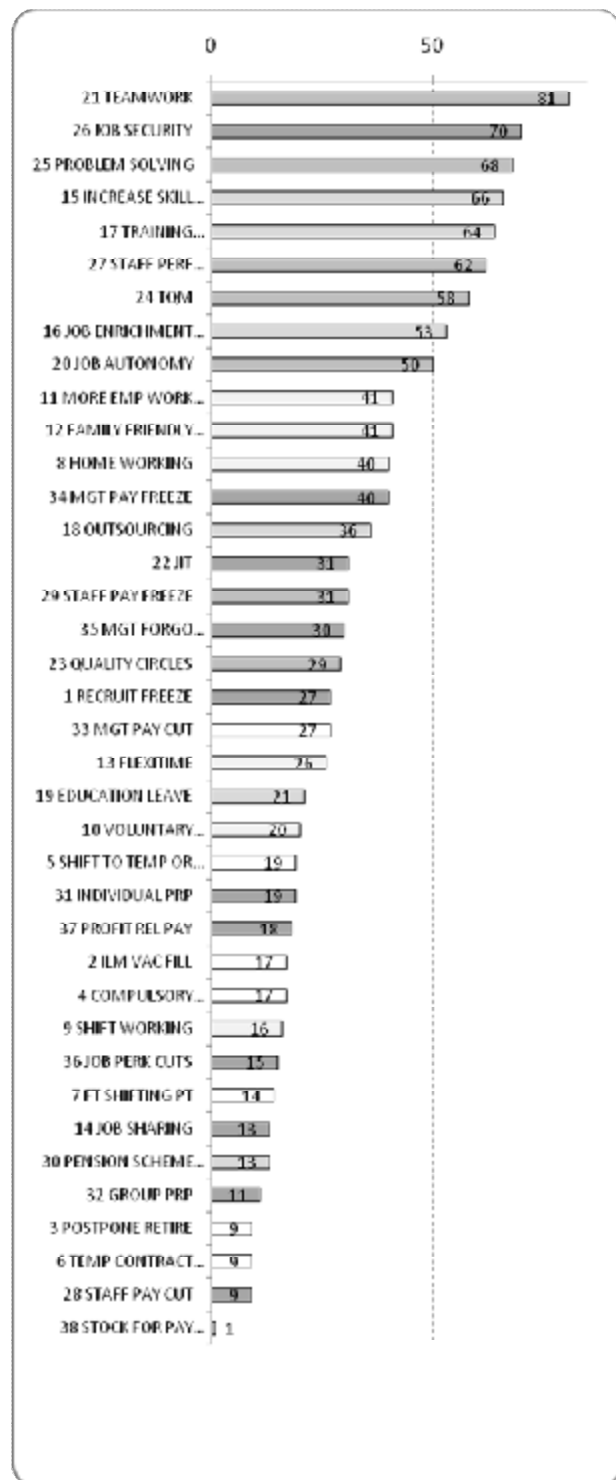
Figure 1 shows the information from Table 1 this from a comparative perspective, highlighting the variation in incidence of WFPs .

**Figure 1**

Areas	Workplace flexibility practice	Incidence (%)
HP	21 TEAMWORK	81
HP	26 JOB SECURITY	70
HP	25 PROBLEM SOLVING	68
Funct.	15 INCREASE SKILL TRAINING	66
Funct.	17 TRAINING DURATION	64
Cost	27 STAFF PERF APPRAISAL	62
HP	24 TQM	58
Funct.	16 JOB ENRICHMENT TRAINING	53
HP	20 JOB AUTONOMY	50
T & L	11 MORE EMP WORK OVERTIME	41
T & L	12 FAMILY FRIENDLY PRACTICES	41
T & L	8 HOME WORKING	40
Cost	34 MGT PAY FREEZE	40
Funct.	18 OUTSOURCING	36
HP	22 JIT	31
Cost	29 STAFF PAY FREEZE	31
Cost	35 MGT FORGO BONUS	30
HP	23 QUALITY CIRCLES	29
Numr.	1 RECRUIT FREEZE	27
Cost	33 MGT PAY CUT	27
T & L	13 FLEXTIME	26
Funct.	19 EDUCATION LEAVE	21
T & L	10 VOLUNTARY REDUCED TIME	20
Numr.	5 SHIFT TO TEMP OR CASUAL	19
Cost	31 INDIVIDUAL PRP	19
Cost	37 PROFIT REL PAY	18
Numr.	2 ILM VAC FILL	17
Numr.	4 COMPULSORY REDUNDANCIES	17
T & L	9 SHIFT WORKING	16
Cost	36 JOB PERK CUTS	15
Numr.	7 FT SHIFTING PT	14
Funct.	14 JOB SHARING	13
Cost	30 PENSION SCHEME CUT	13
Cost	32 GROUP PRP	11
Numr.	3 POSTPONE RETIRE	9
Numr.	6 TEMP CONTRACT NOT RENEWED	9
Cost	28 STAFF PAY CUT	9
Cost	38 STOCK FOR PAY CUTS	1

Notes: Numr. Numerical; T & L, Temporal and Location; HP, High Performance.

Source: The Lancashire SME Survey 2009



It is interesting to remark that the most used flexibility areas are high-performance and functional flexibility, meaning SMEs use relatively sophisticated WFPs without relying simply on numerical flexibility.

The most used practices are:

- teamwork (81% of SMEs);
- job security (70%);
- problem solving (68%);
- increasing skill training (66%);
- training duration (64%).

The least used practices are:

- shares offered for pay cuts (1% of SMEs);
- staff pay freeze (9%);
- postponing retirement (9%);
- temporary contracts not renewed (9%).

Table 2 complements Table 1, in that it shows a more detailed look at the use of WFPs. Table 2 reveals that the full potential of WFPs is not used by SMEs in our sample. Examples of “not used” practices are:

- job autonomy (in half of SMEs);
- family friendly practices 59%;
- home working 60%;
- individual performance related pay 81%;
- job sharing 87%.

The most common WFPs introduced first time by SMEs in response to recession are:

- management pay freeze (26% of SMEs);
- staff pay cut (17%);
- management forgo bonus (14%);
- voluntarily reduced working time (14%);
- compulsory redundancies (13%); and
- management pay cut (13%).

The most common increases in use in WFPs due to recession are training (increased in 25% of SMEs) and teamwork (increased in 20% of SMEs), whereas the most common decreases in use of WFPs due to recession are overtime (decreased in 7% of SMEs) and outsourcing (decreased in 11% of SMEs).

Overall, the emerging picture of incidence is a compellingly positive one, whereby SMEs are found to be innovative and modern in their use of WFPs in response to recession, although there could be improvements in respect to the least used practices.

**Table 2. The Detailed Use of Workplace Flexibility Practices in the Lancashire SME Survey 2009**

FLEXIBILITY AREA	WORKPLACE FLEXIBILITY PRACTICE USED BY SME	FIRST TIME	INCREASE	SAME USE	DECREASE	NOT USED	STOPPED
NUMERICAL	RECRUITMENT FREEZE	10	4	11	1	73	1
	INTERNAL LABOUR MARKET VACANCY FILLING	1	2	13	0	83	1
	POSTPONING RETIREMENT	1	4	4	0	91	0
	COMPULSORY REDUNDANCIES	13	2	1	1	83	0
	SHIFT TO TEMP OR CASUAL	7	7	4	1	81	0
	TEMPORARY CONTRACTS NOT RENEWED	4	1	2	1	91	0
	FULL TIME WORKERS SHIFTING TO PART TIME	7	2	4	0	86	1
TEMPORAL AND LOCATION	HOME-WORKING	4	9	25	1	60	0
	SHIFT WORKING	1	2	13	0	84	0
	VOLUNTARY REDUCED TIME	14	4	2	1	80	0
	MORE EMPLOYEES WORK OVERTIME	1	11	21	7	59	1
	FAMILY FRIENDLY PRACTICES	3	6	32	0	59	0
	FLEXITIME	4	8	15	0	74	0
FUNCTIONAL	JOB SHARING	5	2	6	0	87	0
	INCREASE SKILL TRAINING	3	29	33	1	34	0
	JOB ENRICHMENT TRAINING	6	24	23	0	47	0
	TRAINING DURATION	2	21	38	2	36	0
	OUTSOURCING	2	11	18	5	64	0
	EDUCATION LEAVE	0	2	17	1	79	2
HIGH-PERFORMANCE PRACTICES	JOB AUTONOMY	2	7	40	0	50	0
	TEAMWORK	0	20	61	0	19	0
	JUST-IN-TIME MANAGEMENT (JIT)	1	4	26	0	69	0
	QUALITY CIRCLES	0	6	23	1	71	0
	TOTAL QUALITY MANAGEMENT (TQM)	3	11	43	0	42	0
	PROBLEM SOLVING	0	15	53	0	32	0
	EMPLOYEE JOB SECURITY	0	3	62	3	30	2
COST FLEXIBILITY: EMPLOYEE	STAFF PERFORMANCE APPRAISAL	3	8	51	0	38	0
	STAFF PAY CUT	3	2	4	0	91	0
	STAFF PAY FREEZE	17	5	10	0	69	0
	PENSION SCHEME CONTRIBUTION CUT	1	1	10	1	87	1
	INDIVIDUAL PERFORMANCE RELATED PAY (PRP)	2	3	14	0	81	1
	GROUP PRP	2	1	7	0	89	1
COST FLEXIBILITY: MANAGER	MANAGEMENT PAY CUT	13	9	4	0	73	0
	MANAGEMENT PAY FREEZE	26	3	11	0	60	0
	MANAGEMENT FORGO BONUS	14	6	10	0	70	0
	JOB PERK CUTS	4	2	6	2	85	1
COST FLEXIBILITY EMPLOYEE & MGT	PROFIT RELATED PAY	2	2	14	2	82	0
COST FLEXIBILITY MANAGER	STOCK OPTIONS IN COMPENSATION FOR PAY CUTS	0	0	1	0	99	0

Source: The Lancashire SME Survey 2009

Note: Cells show the *percentages* of SMEs in the survey using the respective workplace flexibility practice. For instance 4% of SMEs introduced home-working for the first time, and 9% increased their use of it.

## **5. Relationships between WFPs and SME Performance**

The data collected by the project enables consideration of a number of questions, including which SME characteristics and which WFPs are most likely to be associated with any or all of the three objective performance measures used in this study? How can SMEs use WFPs to potentially increase their chances of having low labour turnover, low absenteeism, or high levels of financial turnover, and ultimately improve their chances of survival under recession?

Results are shown with regard to both SME workplace characteristics, and the classification of WFPs implemented in the higher level econometric analyses. Please see the technical appendix for further details regarding the econometric models. A limited set of 12 WFPs and 5 SME workplace characteristics are discussed in relation to SME performance. Importantly, the results presented here should only be interpreted in view of showing associations, or relationships between WFPs (including taking into account SME characteristics) and performance.<sup>17</sup>

### **5.1. SME Performance Indicators**

*Redundancies* are reported in response to the question "How many people in your organisation have been made redundant due to recession in the last 12 months?". Firstly the respondent fills in an answer for "the number of recession-related redundancies"; secondly, an answer for "how many of these were permanent employees". Unsurprisingly, the two answers are linked by a high positive correlation coefficient of 0.72, since they measure similar organisational aspects, namely the extent to which an organisation is forced to downsize its labour force in response to recessionary pressures. However, the high correlation already points out that SMEs have a low 'buffer zone' of 'peripheral' employees vis-a-vis the core-periphery theory. 'Peripheral' employees are expected to be in the front line for redundancies, in preference to permanent employees who are given relatively more job protection from recession-induced cost cutting. The majority of 109 SMEs in the sample (82%) report not laying off employees due to recession. Still, permanent employees are laid off in 24 SMEs, or 1 in 6 of the organisation in the sample, and the size of redundancies ranges from 1 to 14 permanent employees. A total of 87 permanent employees are laid off due to the recession, representing 3.4% of the total sample of 2,509 employees. Moreover, it is important to remember that these labour turnover figures, though relatively small (e.g. when some SMEs report having to make redundant one permanent employee), represent proportionally a very significant reduction in an SME's small total workforce size. Data show that due to the recession in the 12 months up to July 2009, 16 SMEs, representing 12% of SMEs in the sample, had to let go of more than 10% of their 2008 workforce.

*Absenteeism* is measured as work days lost per employee in the 12 months up to July 2009. These exclude work days lost as part of authorised leave of absence, employee away on secondment or courses, or days lost through industrial action. Descriptive statistics show that

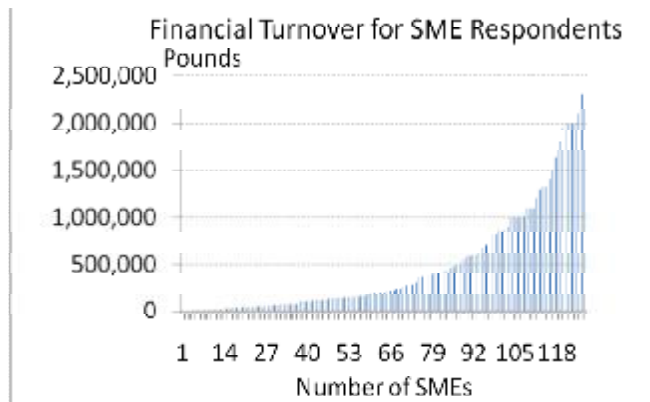
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<sup>17</sup> A similar study, ideally including the same organisations sampled here, is needed in order to be able to ascertain causality. In more detail, with the data available here, it is not possible to discern whether higher use of WFPs leads to higher performance, or whether higher performance leads to a higher use of WFPs. This is an inherent limitation of cross-sectional studies, conducted at only one point in time, whereby association can only be inferred and not causality.

zero-levels of absenteeism per employee were reported in 2009 for 35% of SMEs in the sample. The average reported absence is 5.5 days per employee, which is relatively lower than the British national average in the private sector standing at 6.4 days in 2009 according to the Chartered Institute of Personnel and Development (see CIPD, 2009).

*Financial turnover* is reported by SMEs as total turnover obtained in the 12 months up to July 2009. Financial turnover figures in 2009 reach on average under half a million pounds, with half of the SME respondents reporting that their financial turnover is under £ 210,000. Figure 2 shows the distribution of SMEs according to the size of their financial turnover.

**Figure 2**



## 5.2. SME Workplace Characteristics

*Larger SMEs* in this study are associated with high levels of absenteeism. Agency theory represents the workplace in terms of a relationship whereby the manager contracts the employee to work as his 'agent', without being able to supervise employee activity at all times unless at high cost.<sup>18</sup> This theory suggests that the finding related to larger SMEs and higher absenteeism may be due to absence being expensive and difficult to monitor when managing larger scale organisations. An alternative explanation is that larger firms are more likely to suffer from the free-rider problem: the larger the workplace, the easier to fail to notice the absence of an employee when other employees are present. Furthermore, absenteeism behaviour has been shown in the psychology literature to be sometimes influenced by other people's decisions and the size of their group.<sup>19</sup> So a reason for high absenteeism in larger SMEs is that people identify less with one another in bigger groups, making them more likely to report sick even though that would let their colleagues down. Larger SMEs are also more likely to associate with high levels of financial turnover, which is an intuitive result.

*Family ownership* is associated with low levels of redundancies but high levels of absenteeism. It may create a different structure of leadership and management which is more cohesive with regard to avoiding layoffs in recession, but less efficient at counteracting absenteeism. The related literature offers support to this interpretation. For instance, family-

<sup>18</sup> Eisenhardt (1989)

<sup>19</sup> see Olson (1965)

owned firms are reported to have lower capability to set clear targets for employees, and more informal employee relations.<sup>20</sup>

The *gender composition of the workplace* has been analysed intensively in relation to the assumption that a workforce with a larger female proportion would implement particular types of flexibility practices.<sup>21</sup> Here, two variables assess the female composition of the workforce. Firstly, a larger *female workforce composition* has been generally associated with more part-time work, casualised contracts, and family related practices.<sup>22</sup> Under the assumptions made by the core-periphery theory, with peripheral workers most likely to be affected by recession, workplaces with more casualised contracts would see high levels of redundancies. Moreover, in the absenteeism literature, the female employee has usually been found to have higher levels of absence than male employees.<sup>23</sup> The findings here confirm only the expected relationships between *the female share of employees* and absenteeism: workplaces with more female employees suffer from higher levels of absenteeism.

Secondly, the role of the *female share of managers*, in relation to organisational performance, has received little attention. Yet, the proportion of female managers can be linked to the family-work responsiveness of a business.<sup>24</sup> Here, there is no significant link between female managers and financial turnover. Still, results show that there is a higher likelihood for permanent redundancies and especially for absenteeism problems in workplaces with relatively more female managers. The finding on absenteeism levels could be explained in view of the stylised fact described above, namely that female employees are likely to take more absences than men. What managers chose to do in terms of use of flexible working practices sends a message to the employee about acceptable and supported behaviour in the organisation. The finding on redundancies may also interact with this, such that, if workplaces are among those most likely to suffer from absenteeism, it may be expected that they are less well equipped to deal with the recession and have to lay off permanent employees.

*Market competition* has a negative association with redundancies. It may imply that the SME prefers to retain experienced employees during recession, as opposed to cutting costs via reducing permanent employees, in order to maintain its productive potential for the economic recovery.

Analyses show a negative association between a relatively *intense market competition* and absenteeism. This finding suggests that the SME would have high attendance when employees are under the pressures that a highly competitive market puts on most organisational aspects including productivity or job security, and especially so under recession.

### 5.3. Numerical WFPs

By using numerical flexibility, SMEs may experience low absenteeism via flexitime, and low redundancies via family friendly practices, but numerical WFPs associate with low financial turnover or are not related to financial turnover.

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<sup>20</sup> Bacon and Hoque (2005); Battisti *et al.* (2009)

<sup>21</sup> Visser and Williams (2006)

<sup>22</sup> Cassidy and Sutherland (2008); Manning and Petrongolo (2008)

<sup>23</sup> Cassidy and Sutherland (2008)

<sup>24</sup> Ingram and Simons (1995)



*Home or mobile working* links to high absenteeism and low financial turnover, which are unexpected results of a negative connotation regarding this numerical WFPs. Research on modern employment relationships mentions increasing numbers of individuals working mainly from home or via mobile work in the UK. The number of home-working employees rose from 1.5% to 2.5% of the labour force between 1981 and 1998, whilst in 1998, those working partially from home accounted for 3.5% of the national labour force and those working sometimes at home represented a further 21.8%.<sup>25</sup> In excess of a quarter of the labour force completed a proportion of their work from home, with some findings suggesting that a majority of workers may prefer to work from home, yet the option is mostly available in public and large organisations, or when individuals can be responsible for the quality of their own output.<sup>25</sup> The literature reports overall positive connotations for implementing home-working, describing it as a highly-desired flexibility practice. Moreover, some studies on home-working also debate the consequences of offering too much flexibility via this practice. Absenteeism may indeed increase if home working resulted in the boundary between home and work being more disputed, the employee working too many long days, and work-life conflict ensued.<sup>26</sup> However, it provides an alternative to forms of absenteeism, including incidences of parent absence due to child illness.

Here, an interpretation of the negative connotation of results for home working may be that this practice is implemented in those SMEs *a priori* more prone to recessionary, performance and absenteeism problems. For instance, some studies report that working at home commands a higher wage than traditional work in a central location, and if the recession disproportionately affected high-wage firms, then SMEs offering home working could be linked to low financial turnover.<sup>25</sup> An alternative interpretation of the negative association is that data misreports the working part of home-working, as in the case that employees are sent home from work if recession suppresses firm activity. It is not possible to discern whether managers misreport the use of home-working when, in fact, their staff do not need to come to the office due to decreased demand in recession. However, *Home or mobile working* is not relevant with regard to redundancies. Thus it remains uncertain the extent to which home-working could be a mutually agreed flexible solution to keeping workforce on payroll during low labour activity.

*Family friendly practices* are linked to low absenteeism levels, with a predicted 3 day per employee per year decrease in absenteeism if family practices are implemented. This positive finding is in line with results in the literature showing that employees supported in their workplace are more likely to reciprocate by taking less absence and being loyal to their employers.<sup>27</sup> Moreover, organisations with family-friendly policies are found to be better at retaining employees even if the employees choosing to remain within the organisation do not use these policies themselves.<sup>28</sup>

*Part-time working* is associated with high redundancies and low financial turnover, but with low absenteeism. The association with high redundancies may be due to part-time working being taken up by employees who would otherwise want to be employed full-time but who cannot find such jobs in recession. Part-time work may also link to low financial turnover if employers under-utilise this resource due to misjudging the skill and commitment

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<sup>25</sup> Felstead *et al.* (2002); Gariety and Shaffer (2007)

<sup>26</sup> see Russell *et al.* (2009)

<sup>27</sup> Giardini and Kabst (2008); Goff *et al.* (1990); Meyer and Allen (1997)

<sup>28</sup> Yanadori and Kato (2009)

of their employees.<sup>29</sup> Consequently, part-time workers may be trapped in a company-generated vicious circle, with fewer career growth opportunities in the short-term leading to poorer career opportunities in the long-term and lower financial prospects for both employee and employer. The use of part-time workers is inked with low rates of absence, showing a 1.2 day of annual absence per person as the predicted difference between SMEs with part-time workers and those without. This is a result in line with the literature reporting that full-time workers had significantly higher absence rates than part-time workers, or finding that a bundle of flexibility practices including part-time work reduced absenteeism.<sup>30</sup> One possible theoretical explanation is that, as flexible working time options become available, workers can optimise their labour-leisure options to match their contracted with their desired hours, hence absence may decrease. In practice, an extensive study of absenteeism at European level has found similar results.<sup>31</sup> The finding that part-time working is associated with low levels of absence is also predictable from research on the pressurised nature of part-time contracts.<sup>32</sup>

*Flexitime* is highly significantly associated with low redundancies, hence this WFPs is one which SMEs may be able to implement in order to avoid recession-imposed downsizing. So, by varying the times when staff start or end working, the firm may be able to fit the cost cutting scenarios imposed by recession without needing to lay off as many permanent employees as otherwise.

#### 5.4. Functional WFPs

Most of the functional flexibility practices are highly significantly associated with lower absenteeism levels, with results of a magnitude that implies SMEs adopting *training via job enrichment*, *job security* or *job sharing* may have up to 6 days less absence per employee per year. This is a significant finding, showing the WFPs have the potential to dramatically reduce absence which is reported to average in Britain at around 7 days per employee per year.<sup>33</sup>

The exception is *Teamwork or job autonomy or employee involvement* which is highly significantly associated with high levels of absenteeism in the order of a predicted extra 2.4 days per employee per year. Forms of interdependent worker productivity, such as teamwork, are expected to make the SME face a higher cost of absence due to incurring collectively increased costs from lost productivity, so workplaces implementing them are found to usually spend more money to lower their absence rates.<sup>34</sup> However, SMEs are more limited in their financial power to monitor absence than larger firms, albeit that this is compensated by greater visibility within smaller work teams. The result is still counterintuitive, because better working conditions, such as where employees have discretion over their tasks and feel involved in their work, should lead to lower absence.

There are two feasible explanations for this finding. The first notes similar surprising findings that, in some organisations, flexible job design or teams do not have any impact on absence. Moreover, some studies suggest that the relationship between workgroup cohesion and absenteeism may be mediated by job satisfaction, and if job satisfaction is low, the result

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<sup>29</sup> Stevens *et al.* (2004)

<sup>30</sup> Barmby *et al.* (1995); Giardini and Kabst (2008)

<sup>31</sup> Lusinyan and Bonato (2007)

<sup>32</sup> Visser and Williams (2006)

<sup>33</sup> CIPD (2009)

<sup>34</sup> Heywood *et al.* (2008)

is higher absence.<sup>35</sup> Peer pressure may produce a similar result, possibly arising from an increase in monitoring or stress during recession, leading to unpleasant working conditions. Teamworking has indeed been found to inculcate a culture of tense supervision.<sup>36</sup> An alternative explanation for the finding may be the breadth of definition certain SME managers may ascribe to the term teamworking, whereby almost any activity might potentially be included, and hence the variable is failing to capture what it intended. Further fieldwork would be required to determine the true cause.

*Training or job enrichment* is correlated with higher proportion of employees with degree, a variable which could not be used in the analysis because it was also (negatively) correlated with family-owned SMEs. Results show that absenteeism may be reduced by 5.9 days per employee per year in SMEs utilising these WFPs.

*Job security* is associated with high redundancies, but with low absenteeism and high financial turnover. The latter observation is unproblematic, with employees who feel safe in their job potentially experiencing greater motivation, whilst tenure is associated with greater human capital acquisition and hence productivity, and therein associated with higher corporate performance measures. The relationship between job security and absenteeism is an interesting one, suggesting that motivation effects outweigh the potential to shirk, at least amidst recessionary conditions. However, it is the link between job security and high redundancies which is most intriguing. This may reflect one of a number of potential causes, including changing definitions of what constitutes ‘security’, particularly amidst a recession. Alternatively, SMEs with job security, which is usually associated with high-end jobs, may be a priori suffering more from recession, suggesting that sectors of highly-skilled workforce could have been relatively harder hit by recession-related redundancies than those with lower skilled workforce.

*Job sharing* is significantly linked with low redundancies and highly significantly linked with low absenteeism. Job sharing is the WFP with lowest incidence in the sample so the finding that it may associate with low redundancies points to the unexploited potential of this practice to help SMEs maintain their workforce size, whilst also benefiting from low absenteeism. Yet, the low uptake of this practice may hide certain drawbacks feared by the employees who would be job sharing such as regarding negative consequences for career progression. For instance, both job sharing and part-time work may lead to reduced career opportunities, due to the perception that job-sharing, like part-time working, is the choice of individuals avoiding the toil of full-time work.<sup>37</sup>

## **5.5. Cost WFPs**

*Management pay cut or pay freeze or bonus cut* shows an association with low financial performance. Managerial compensation has attracted a lot of attention currently in Britain, with widely publicised incidences of top executives seeing their pay size disputed and having to forgo bonuses.<sup>38</sup> This study cautions that the predicted outcome in those SMEs implementing this type of managerial cost flexibility is to experience associations with low financial turnover. Advocates of tight control over finances via pay-freezes and bonus cuts need to proceed with caution.

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<sup>35</sup> Drago and Wooden (1992)

<sup>36</sup> Batt (2004)

<sup>37</sup> McDonald *et al.* (2008)

<sup>38</sup> see, for example, Hutton 2010

*Staff pay freeze* is linked to high redundancies and high absenteeism. An interpretation of these findings may suggest that staff pay-freezes were implemented in SMEs already suffering from the economic recession, hence where staff was being laid off, whilst neo-classical economics might suggest that a natural response to lower real rewards would be to reduce work effort. Results also show that this cost reduction method associates with high financial turnover, but to a low extent.

A surprising finding is the lack of significance of one of the most frequently discussed high-performance practice in the relevant literature, namely *individual performance related pay*. This may arise due to a faulty method of implementation, whereby the links between performance and reward are obfuscated, or where rewards are skewed to certain groups within the workforce, or simply due to rates being set too low, and thereby failing to incentivise staff to achieve desired goals. Authors have indeed pointed to the importance in British workplaces of analysing in-depth the way in which performance related pay is implemented by managers as a complex instrument to negotiate employee productivity.<sup>39</sup>

*Profit related pay* is associated with low redundancies and high financial turnover. The result echoes suggestions in the literature on forms of pay sharing that such pay systems motivate co-operation, thereby encouraging higher productivity and employee involvement.<sup>40</sup>

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<sup>39</sup> Marsden (2004)

<sup>40</sup> Sels *et al.* (2006); Shepard (1994)

## 6. Conclusions

This Lancashire SME Survey addresses a gap in the knowledge of utilisation of SMEs flexibility practices in recession, especially with regard to the association of WFPs to performance. It uses a geographically-focused primary dataset, collected by the authors in the midst of the 2009 British economic credit-crunch recession, and finds that certain workplace flexibility practices (WFPs) may help SMEs during recession. WFPs offer a mixed recipe of success, with the potential pitfalls that they could also be associated negatively with financial turnover.

Despite limited resources available to them, SMEs are portrayed as innovative and entrepreneurial organisations which embrace advancements in employment relations regarding employee discretion, training, participative working arrangements or job security. For instance, more than 70% of SMEs in the sample use training or job enrichment, offer teamwork or job autonomy, and job security. Moreover, SMEs are more likely to introduce than abandon WFPs during recession, yet there is scope for improvement as some WFPs are under-utilised. Importantly, the WFPs with the highest incidence are not necessarily those which are also most likely to be associated with intended corporate performance outcomes.

Results of higher level statistical analysis on the relationship between a selection of 12 WFPs and three SME performance objective measures (number of permanent employees made redundant, absenteeism and financial turnover) show that:

- **Flexitime** and **job sharing** link to **low permanent-employee redundancies**.
- **Training, job security** and **family friendly practices** link to **low absenteeism** with reductions of up to 6 annual days per worker - this would lead to virtually eliminating absence standing at national average of around 7 days.
- **Job security** and **profit related pay** link to **high financial turnover**.

On a cautionary note,

- Spending cuts often enforced by policy makers in recessionary Britain may be of limited help, because:
  - **staff pay freeze** associates with **high financial turnover**, but to the **detriment** of **redundancies** and **absenteeism**,
  - **management pay cuts** or **management pay freeze** link to **low financial turnover**.
- Surprisingly **part-time work**, and **job security** link to **high permanent employee redundancies**, so WFPs offer mixed help towards recessionary downsizing.

Statistical analyses also reveal that **firm and market characteristics play a significant role**:

- a **large SME size** links to **high redundancies** and **high absenteeism** but also to **high financial turnover**;
- a **large proportion of female staff** (over 50% of staff) links to **low redundancies**;
- **family-owned** and **relatively more female-manager lead SMEs** link to **high absenteeism**; and
- a **high perceived market competition** links to **low redundancies** and **low absenteeism**.

The results are, therefore, of considerable potential value for individual firms, seeking to improve their performance. The broader dissemination and adoption of examples of 'best

practice' can have a noticeable impact upon the improvement of company performance and the economic success of an area. Moreover, policy makers, with a stated aim of enhancing the support for SMEs, should be able to utilise the information generated by this study in order to fine-tune their programmes and approaches to the problems identified, with evident advantage to the organisations and local citizens who benefit as a result.

This research has been envisaged as the first part of an in-depth SME workplace flexibility and performance study, which is hoped to progress into a greater longitudinal survey of SMEs at local and national level. The essential element of further research would be conducting surveys at more than one point in time, in order to be able to analyse the detailed impact of WFPs on corporate performance and to establish causality. Initially, an ideal extension would be a repeat survey carried on the same respondent SME firms as those in the first phase. Changes over time would highlight the previously unknown relationship between SME flexibility profile and performance, thereby building an informative longitudinal aspect to this study.

Thus, depending upon receipt of external funding and/or sponsorships, a second survey phase is intended to take place as soon as possible. Crucially, the authors would be very grateful to the SMEs surveyed in the first wave in 2009 for their repeat participation in the second wave of questionnaires for this research. Moreover, findings from the first wave could then also be developed into more detailed analysis of best practice, such as via case studies, with potential of bringing enhanced information to practitioners and policy makers. Furthermore, based on securing wider funding and support, the follow-up of the initial 2009 SME respondents could be expanded to include a larger scale survey, therefore to also allow regional and national level comparisons.

## **7. About the Lancashire SME Survey 2009**

The authors of this study have designed and carried out the *Lancashire SME Survey 2009* meant to be a nationally and regionally representative survey of SMEs during the most recent economic recession in Britain. The unit of analysis is the SME, defined officially as an organisation with fewer than 250 employees.<sup>41</sup> The SME official definition has been observed throughout this research.

The initial contact information for firms was obtained from the *Central Lancashire Business Directory 2008 - 09 (CLBD2008-09)* collected by the Preston City Council. The aims of data collection in *CLBD 2008-09* are numerous, such as to enable economic research, provide a reference for local suppliers of goods and services, as well increasing trade and investment opportunities. Firms volunteer to have their details registered in the directory and are offered the service subject to being located in the Central Lancashire area of the Lancashire County. This is a post-code defined geographical area, including three main towns: Chorley, Leyland and Preston. The resulting data set includes the name, address, employee size and industry of more than 3,300 Lancashire-based businesses of which 2,053 are SMEs.

In terms of representativeness of the *CLBD 2008-09*, estimates based on the ONS (2009) UK business statistics show that the *CLBD 2008-09* contains records for 44% of SMEs located in Central Lancashire, hence it can be considered significantly representative for the SME population of firms in the area. Yet, BERR (2008) shows the following stratification by size for SMEs in Lancashire County, which is similar for the North-West, and for the UK: around 88% of SMEs are micro firms (with 1 to 9 employees); around 9% of SMEs are small firms (with 10 to 49 employees); and around 3% of SMEs are medium firms (with 50 to 249 employees). This matches relatively closely the *CLBD 2008-09* stratification of the 2,053 sample targeted in our research, albeit the *CLBD 2008-09* sample under-represents the micro firms and over-represents the medium and large firms: 70% are micro firms; 23% are small firms and 7% are medium firms.

Primary data was collected during the period 1<sup>st</sup> - 31<sup>st</sup> of August 2009. The SME respondent was the SME manager with human resources responsibility or an equivalent senior manager. Of the 2,053 SMEs in the targeted sample, 750 received an e-mail questionnaire backed up by a postal questionnaire while, due to financial considerations, the remainder 1,303 were sent an e-mail but not a postal questionnaire as well. Both postal and e-mail questionnaires were merged to a passcode allowing the respondent the choice of filling in the questionnaire online. An overall response rate of 7.1% was obtained, corresponding to 147 SMEs. After discarding unusable entries due to missing observations, the resulting sample contained 135 SMEs.

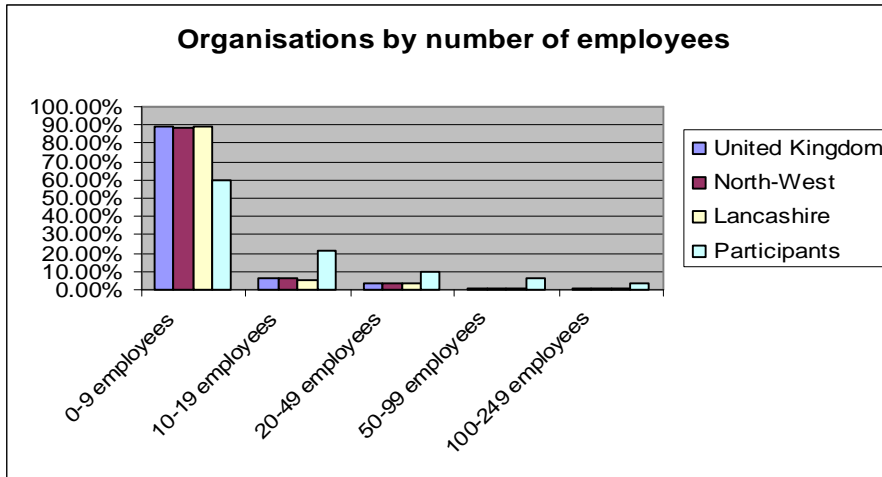
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<sup>41</sup> EU (2003)

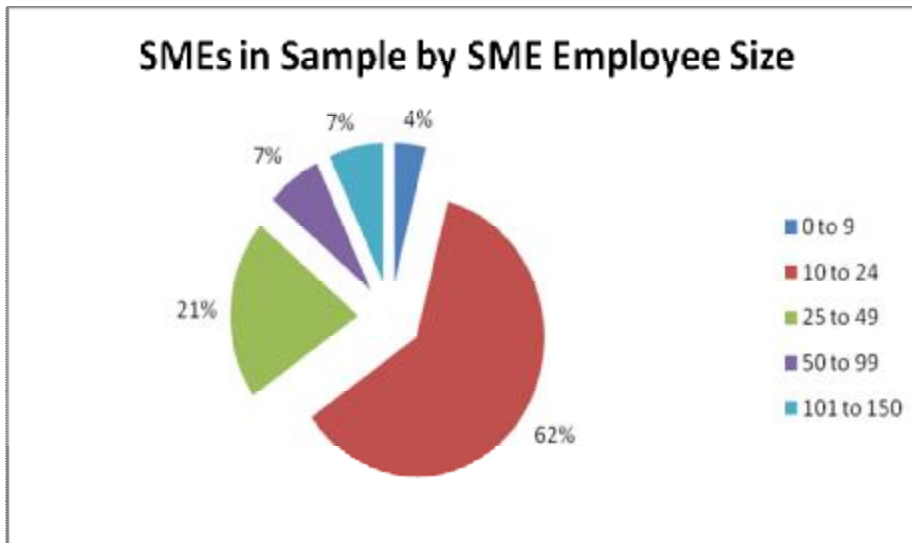
Descriptives for the 135 SMEs in the sample used in this study can be summarised as follows:

- Size (see Figures 3 and 4):
  - more than half (79 SMEs or 59% of the sample) employ fewer than 10 people so are micro firms;
  - 43 SMEs or 32% employ between 10 and 49 people; and
  - 13 SMEs or 9% employ between 50 and 249 employees.

**Figure 3**



**Figure 4**

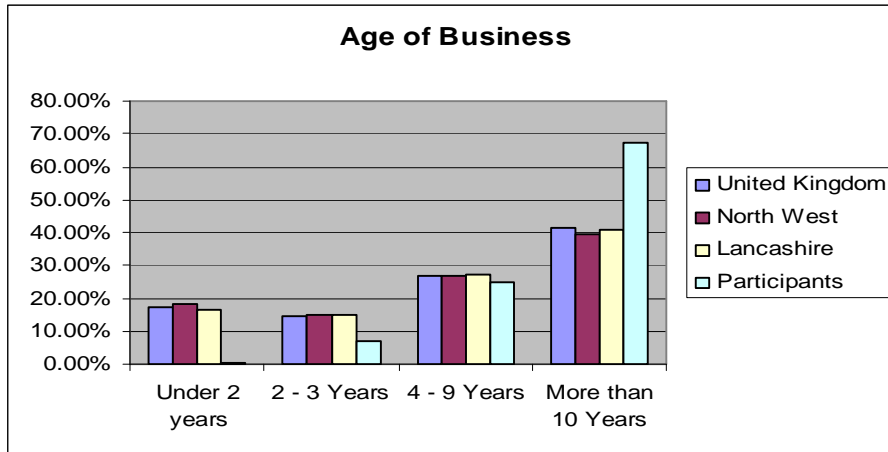


- All SMEs are active in the **private sector**.
- Almost all SMEs (97% of the sample) are **non-unionised** workplaces.
- Almost all SMEs (97% of the sample) are **independent** as opposed to being part of a larger organisation.



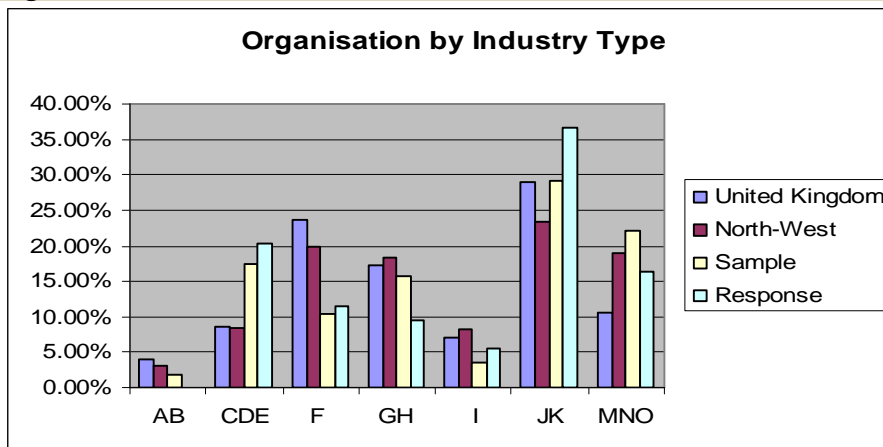
- Around two thirds are **family owned** (83 SMEs or 63% of the sample).
- A third (44 SMEs or 33% of the sample) have been in business for under 10 years (see Figure 5).

**Figure 5**



- For about a quarter of SMEs (32 SMEs or 26% of the sample) **female staff represent more than half of the workforce.**
- In a similar proportion (31 SMEs or 27% of the sample) more than a third of the workforce has a university degree.
- Only 17 SMEs (13% of the sample) have a human resources manager.
- Finally, in terms of the industry composition (see Figure 6), a fifth of SMEs (28 SMEs or 21% of the sample) are active in the manufacturing sector.

**Figure 6**



- Industry:**
- AB Agriculture, Forestry & Fishing
  - CDE Mining & Quarrying; Manufacturing; Electricity, Gas & Water Supply
  - F Construction
  - GH Wholesale, Retail & Repairs; Hotels & Restaurants
  - I Transport, Storage & Communication
  - JK Financial Intermediation (excluding turnover); Real Estate, Renting & Business Activities
  - MNO Education; Health; Other Services

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## Technical Appendix: Brief Insight into the Econometric Analyses

Data is collected for the 12 months up to July 2009 regarding the number of permanent employees made redundant due to recession, number of annual absence days per employee, and financial turnover.

In addition to performance measures, a set of six workplace characteristics was introduced in each model to take into account for effects on company performance other than those related to WFPs. These were: firm size; a dummy for family firm ownership; the firm being active in the manufacturing sector; the share of female employees in the non-managerial workforce; the share of female managers in the managerial workforce; and the SME manager reporting perceived high market competition.

Table 3 shows the set of WFPs entered in statistical analysis, including the three SME performance measures. A set of 12 WFPs are included in higher level statistical analysis, a selection made based on a variety of criteria, including: the literature interest in the particular WFPs; the incidence of practices as shown in the "Average" column in Table 3; and the correlation coefficients between / among practices whereby if a two practices were too similar, they were combined in one practice. This was the case for four of the twelve WFPs: (1) *Home\_or\_MobileWork* representing home working or mobile working; (2) *Teams\_or\_JobAut\_or\_EI* representing teamworking, job autonomy or employee initiative; (3) *Train\_or\_JobEnichment* representing training or job enrichment via training; and (4) *MgtPayCut\_or\_PayFreeze\_or\_BonsuCut* representing management pay-cuts, freezes or bonus cut. The "Spread" column in Table 3 shows that the incidence of flexibility practices was wide in the SMEs sample, with values around 30% to 50%.

**Table 3. SME Performance indicators, workplace characteristics and WFPs**

		Description	Average	Spread	Min	Max
SME PERFORMANCE INDICATORS		Redundancies due to recession (No. of permanent employees laid off)	0.65	2.03	0	14
		Financial turnover (Natural logarithm)	12.64	2.17	3.91	17.91
		Employee absenteeism (Days lost per employee)	5.55	14.68	0	120
WORKPLACE CHARACTERISTICS		FirmSize	18.59	34.16	1	189
		FamilyOwned	0.63	0.48	0	1
		Manufacturing	0.21	0.41	0	1
		StaffFemaleShare	0.38	0.31	0	1
		MarketCompetition	0.51	0.50	0	1
WORKPLACE FLEXIBILITY PRACTICES (WFPs)	NUMERICAL FLEXIBILITY	Home_or_MobileWork	0.44	0.50	0	1
		FamilyFriendly	0.41	0.49	0	1
		Part-TimeWork	0.37	0.49	0	1
	FUNCTIONAL FLEXIBILITY	Flexitime	0.25	0.44	0	1
		Teams_or_JobAut_or_EI	0.83	0.38	0	1
		Training_or_JobEnichment	0.71	0.45	0	1
		JobSecurity	0.70	0.46	0	1
		JobSharing	0.12	0.33	0	1
	COST FLEXIBILITY	MgtPayCut_or_PayFreeze_or_BonsuCut	0.54	0.50	0	1
		StaffPayFreeze	0.30	0.46	0	1
		IndivPerformanceRelPay	0.19	0.39	0	1
		ProfitRelPay	0.18	0.38	0	1

*Source: The Lancashire SME Survey 2009*

For more details regarding the econometric analysis, please contact the authors.

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