

Dynamics of Formality and Informality: Examining and Resolving Tensions

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Abstract

The formality-informality dynamic represents an interesting yet underexplored tension in the SME employment relationship. Much HRM research plays formality and informality off against each other, where the former is seen as progressive and natural and the latter is dismissed as backward or deficient. Informality is considered an inevitable consequence of a lack of formality and a direct function of scale, rather than as a legitimate approach in its own right. This chapter explores this tension, arguing that HRM research, by definition, must acknowledge the operation of degrees of (in)formality in all types of firms if it is to capture the reality of workplace relations. This emphasises the importance of understanding the logic underpinning the practices in use by paying greater attention to issues of context. We suggest that formal and informal HRM can be simultaneously complementary and substitutive within SMEs. However, current understanding and operationalisation of informality needs to be more nuanced and considered if this feature of SMEs is to be accommodated and appropriately researched. The result is a research agenda to further progress our understanding of the dynamics of informality and its relationship to formality.

9.1 Introduction

Dominant theorising in HRM has evolved from the study of larger organisations, where formalisation of activity is axiomatic and there is an assumption that generic models have universal relevance (Kitching & Marlow, 2013). This dominant discourse has served to sustain and support predominantly formal patterns of activity to the exclusion of informal approaches that frequently prevail in the SME setting. Scholars maintain that SMEs embody a number of unique characteristics that may preclude the adoption of more formal and sophisticated practices, including resource constraints, environmental vulnerability, and proximity of relations between owner-managers and employees (Harney et al., 2022; Wapshott & Mallett, 2021, see also Introduction). The aforementioned features of dominant theorising have led to

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the emergence of a deficiency model of HRM in SMEs, which implies that if small firms do not apply the same sophisticated HRM practices as used by large and leading companies then by definition they will not be able to obtain positive performance outcomes. However, this deficit perspective is fraught with problems as it does not aid in our understanding about what actually happens in SMEs and the logic underpinning particular approaches to HRM practice, particularly informality.

In this chapter we argue that debates grounded in the deficiency model have offered a rather sterile, one-way street of analysis; describing something by what it is not does little to illuminate its qualities or characteristics. This also raises the question of whether SMEs must adopt formality or whether informal, distinctive approaches to HRM might be equally successful (Kitching & Marlow, 2013). Consideration needs to be afforded to whether the practices-in-use are achieving their objectives within a given context (Wapshott & Mallett, 2016). As Burrows and Curran (1991, p. 17) maintain, “what is required is an approach which focuses on small scale activities as a starting point rather than treating them as derivative or residual to larger firms”. Moving beyond a deficiency logic requires challenging conventional wisdom regarding the empirical elusiveness of HRM in SMEs. Traditional research in this area finds a predominance of informal HRM practice e.g. SMEs recruiting through personal networks and an emphasis on learning on-the-job (Forth et al., 2006). SMEs have been found to be much less likely to apply the likes of psychometric tests for recruitment, to deploy employee surveys or extensive voice procedures. There are of course variances across practices, with institutionally mandated formal policies, for example in the domain of grievances and health and safety more likely to be in place. Still, given the socio-economic footprint of SMEs and the predominance of informality found in this context, there is a need for alternative understanding which better captures and explains what actually happens in SMEs and why HRM assumes a particular nature and form.

In an effort to advance understanding in this area this chapter commences by examining the overarching conceptual properties of formality and informality and how these concepts have been deployed in the study of HRM in SMEs. We then consider the nature of the formality-informality relationship within the unique SME setting, as well as tensions inherent in this relationship surfaced by owner-manager and employee perspectives. We contribute to the ongoing debate of the formality-informality dichotomy and suggest that formal and informal HRM can be simultaneously complementary and substitutive, but ultimately highly contingent on the firm context. Finally, we outline an agenda for future research that may serve to better capture and accommodate the formality-informality dynamic.

9.2 Examining Prior Use of the Terms Formality and Informality

Accounts of the informal nature of HRM in SMEs are plentiful, as borne out by recent systematic reviews (Harney & Alkhalaf, 2021; Van Lancker et al., 2022). Equally prevalent are studies criticising this informality (Bryan, 2006; Rauch et al., 2005). SMEs are frequently encouraged to adopt formality in their approach to managing the employment relationship with researchers extolling its superiority (Chhinzer, 2022). However, what is frequently lacking in these analyses are explicit definitions of the key concepts of formality and/or informality. As Marlow et al., (2010, p. 956) argue, “at best, ‘common sense’ renditions dominate or there is an assumption that ‘formal’ equates to rule based and ‘informal’ to social negotiation”. The HRM literature is not unique in this regard. For example, Morand (1995) bemoaned the fact that while formality and informality are terms frequently invoked by organisational researchers, rigorous attempts to define and validate these constructs have been avoided.

Useful insights concerning definitional matters can be gleaned from Child (1994, p. 294) who defines formalisation as the degree to which “work and responsibilities in organisations are formally laid down to standard procedures and allocated to designated specialists”. Significantly, Morand (1995) conceptualises formality and informality as modes of social activity that govern individual behaviour. Informality is defined by its “behavioural spontaneity, casualness, and interpersonal familiarity”, while formality refers to “situations and social relations that are more regimented, deliberate, and impersonal in nature” (ibid, p. 831–2). Such definitions suggest that formality serves as a means to control the employment relationship through the use of uniform and consistent procedures, often in the presence of a dedicated expert. Informality, on the other hand, is characterised by idiosyncrasy, close relationships, and social interaction between organisational members. From this understanding behavioural control is said to be more viable in smaller entities, because as the size of an organisation grows there may be more of an emphasis on output and rules.

While the particular challenges of defining and operationalising these constructs are acknowledged (Marlow et al., 2010), some authors (see Table 9.1) have endeavoured to map out the territory and establish key features. Upon closer examination of these sample definitions, informality appears to be used in a rather loose manner and in a number of alternative and competing ways. For example, there is a lack of emphasis and depth afforded to definitions of informality in comparison to its formal counterpart. Informality appears to be defined by conditions of absence and deficiency, with many studies abstaining from offering any insights. Informality also appears to signal an ad-hoc means of operating, which carries implications for the manner in which employment relationships are managed on a day-to-day

basis. Definitions of informality strongly emphasise the centrality of close, personal interactions and working relationships. A desire to “evade or challenge formality” (Marlow et al., 2010, p. 957) is evident, as is a reliance on custom and practice.

In contrast, there is a stronger degree of consensus amongst researchers regarding definitions of formality, as well as its identifying features (Misztal, 2000). This may be attributed to its visibility via the presence and measurement of particular HRM practices, which have attracted greater research attention. Typical examples of indicators of a formal system include the presence of an HR specialist, and documented policies and procedures for core HRM practices. Further important features of formality are its institutionalisation, consistency in use and delimited nature.

9.3 The Role and Function of Formality and Informality

There is a nascent, yet growing body of evidence concerning the role and function played by formality and informality within the context of the SME employment relationship. Such evidence stems primarily from studies that have investigated the impact of employment regulation in the smaller firm setting (e.g. Arrowsmith et al., 2003; Kitching, 2016; Mallett et al., 2019; Marlow, 2002; Saridakis et al., 2013). Other studies have explored employee involvement and participation (Marchington & Suter, 2013), attraction and retention challenges (Amarakoon & Colley, 2022), training and development (Nolan et al., 2019, 2020), employee voice (Gilman et al., 2015) and recruitment practices (Barrett et al., 2007).

9.3.1 Formality

Beginning with formality, research suggests that it is utilised to facilitate legal compliance and mitigate the risk of employment tribunals (Atkinson et al., 2016; Barrett, 2015; Kim & Ghao, 2010). Formality sends a signal that the firm is ‘doing things properly’, according to professional standards (Marlow & Thompson, 2008). It also plays an important legitimising function because it enables the firm to portray a sense of fairness and consistency in how employees are managed, often with the presence of a dedicated HR specialist (Wang et al., 2022). By way of illustration, Marchington and Suter (2013) maintain that formal employee involvement and participation practices provide a safety net to ensure that communications reach all staff, as well as an audit trail which is transparent. Moreover, the adoption of particular practices that conform to industry norms may also be an important driver of formalisation (Kaman et al., 2001; Nolan et al., 2020).

The use of formal management practices is positively correlated with firm size (Forth & Bryson, 2019). Larger firms may introduce more formalised HRM approaches due to their greater capacity and resources to absorb potentially high costs (Kim & Ghao, 2010). Formality may

also be borne of necessity as a firm grows. The concept of the 'formalisation threshold' (Atkinson & Meager, 1994) points to the requirement for a shift from informality to formality due to greater organisational complexity and the imperative to delegate responsibility. Some studies suggest that the limitations of informality become apparent when a firm reaches a threshold of 20 employees (Kotey & Slade, 2005; Roberts et al., 1992). At this point, the capacity of the owner-manager to assume full control is diminished, and delegation of responsibility becomes advantageous (Johnson & Beaver, 1997).

There is much contradictory evidence concerning the fundamental presence of HRM in SMEs and the merits of introducing formality to the SME context. While research suggests that SMEs make less use of formal HRM practices, what is less clear is whether formality is truly beneficial to SMEs and under what circumstances. A range of studies have found a positive relationship between the adoption of formal HRM practices and a wide range of SME performance outcomes such as profitability (Jones et al., 2013; López et al., 2019), labour productivity (Sheehan & Garavan, 2022), innovation (Do & Shipton, 2019), sales level (Messersmith & Guthrie, 2010), and resilience (Lai et al., 2016). Several studies have also confirmed the positive impact of formal practice on firm growth (Gray & Mabey, 2005; Heilmann et al., 2020), while others emphasise the importance of formality for successful internationalisation (Chi et al., 2008; Onkelinx et al., 2016). A further stream of research has concentrated on employee behaviour and performance outcomes. For example, employee participation in formal development opportunities may lead to higher levels of job satisfaction, increased motivation, decreased turnover intentions and neglectful behaviour (Pajo et al., 2010). Formality may also help to elicit employee commitment and increase organisational citizenship behaviours in SMEs (Giauque et al., 2010; McClean & Collins, 2011), as well as exerting a positive effect on absenteeism, the number of dismissals and staff perceived collective trust in management (Wang et al., 2022).

Despite the aforementioned advantages, for some researchers the idea that formality adds value in an SME context 'remains contentious' (Bryson & White, 2019, p. 750). Some even argue that formality may interfere with the distinctive advantages of smallness such as flexibility and informality (Forth & Bryson, 2019; Verreynne et al., 2013). It is also suggested that the introduction of formality may be harmful to the informal culture of SMEs (Chadwick & Li, 2018; Kitching & Marlow, 2013). For example, formality may be damaging to interpersonal relationships and negatively impact upon job satisfaction, trust and engagement (Storey et al., 2010). Other research points to the constraining role that formality plays in the ability of employees to negotiate on their salary and benefits (Michiels, 2017) and obtain access to flexible working arrangements (Kotey & Koomson, 2021).

Several studies emphasise the complex trade-off between investments in formal HRM and the potential benefits within the SME setting (Chadwick et al., 2013; De Winne & Sels, 2010). Some report that the costs of introducing formalised HR practices may well outweigh the benefits (Sels et al., 2006) and undermine productivity gains (Verreynne et al., 2013). Such costs may involve the upgrading of firm structure, which SMEs may find prohibitively costly (Patel & Cardon, 2010). As Sheehan (2014, p. 551) observes “before a formal practice is introduced, there are likely to be at least some implicit (if not explicit) calculations about the possible returns associated with the implementation”. Hence, the introduction of formality may only be justified if the investment pays off in the long term. Despite this economic reality, the resource investment in terms of expertise, time and finance required of HRM practices is something that is rarely considered in the literature (for one exception see Sels et al., 2006).

9.3.2 Informality

As observed, there is a significant body of literature that emphasises the preference for informal approaches to managing and developing the workforce amongst SMEs “the notion of informality comprising particularistic/individualistic management of employees and the absence of professional HR managers, policies and practices is the underpinning construct informing contemporary analyses of HR practices in small firms” (Kitching & Marlow, 2013, pp. 30–31). Informality is manifest in a number of ways, beyond the simple absence of formal policies, procedures and practices. For example, informality often persists as the firm is typically overseen by the owner or one general manager, in the absence of a dedicated HR specialist (Garavan et al., 2016). The prerogative of the owner-manager therefore has a greater influence on HR decision-making (Sheehan & Garavan, 2022). However, owner-managers usually lack professional understanding, preferring instead to adopt idiosyncratic approaches without recourse to formal procedures (Marlow et al., 2010). Indeed, the desire of owner-managers to remain ‘hands-on’ with labour management for as long as possible is strongly emphasised (Wang et al., 2022). A key motivating factor for many owner-managers is the desire to escape the formality and bureaucracy of the large firm (Nikolova, 2019). Hence, the small business setting permits owner-managers to pursue particularistic ways of operating, which extends to HRM (Arrowsmith et al., 2003). Indeed, Woods and Joyce (2003) argue that efforts to encourage SMEs to transcend their preferred informal style of management and adopt more formal methods of operating may be somewhat utopian.

Many SMEs operate in highly dynamic and turbulent environments characterised by volatility, uncertainty, complexity, and ambiguity (VUCA) (Xing et al., 2020). The proximity of SMEs to these external environmental conditions leaves them particularly vulnerable and unable to

exert significant power or influence (Psychogios et al., 2019). The ability to survive and successfully compete in a VUCA world requires the ability to anticipate and respond rapidly and effectively to external conditions (Zhang-Zhang et al., 2022). As a consequence, informality fits well with the constraints facing SMEs, as it can speed up decision-making and may even be more appropriate and effective in enhancing business performance (Chadwick et al., 2013; Úbeda-García et al., 2017). Informality therefore lends itself to the operational flexibility needed to effectively respond to evolving external pressures. For example, Nolan et al. (2020) found that formal approaches to training and development may constrain SMEs at a time when flexibility and adaptability is required, while Hubner and Baum (2018) argue that informality is strategically leveraged by SMEs to meet dynamic business needs. Such findings resonate with Harney and Alkhalaf's (2021) conclusion that even if HR practices are informal, they can still play a vital role in the success of SMEs.

SMEs are frequently hindered by resource limitations which can exacerbate operating conditions, leaving little room for error or unexpected shocks (Kroon et al., 2013). SMEs invariably respond by adopting a short-term horizon, favouring projects offering rapid returns. HR interventions are thus appraised on the basis of their usefulness to practice and direct applicability in the firm setting, with informality being seen as delivering a more immediate and tangible payback (Morgan et al., 2008). Resource constraints (e.g. finance, time, operational pressures, lack of HRM expertise) may also coalesce to reinforce the informal, ad-hoc nature of HRM within SMEs (Wapshott & Mallett, 2021). Informality persists because it enables prompt, flexible and inexpensive responses to labour management issues (Marlow et al., 2010). For example, Chadwick et al. (2013) argue that formal HRM may impose significant burdens on the constrained resource context of SMEs in terms of managerial time and expertise. However, other studies suggest a more nuanced picture. In the context of small tourism firms, Nolan et al. (2020) found that informality may be adopted for legitimate reasons such as the development of critical customer service skills, rather than being an inevitable consequence of resource constraints or opportunities to utilise formal approaches. Informality is therefore not inevitable but may represent a choice by the firm.

The close social and spatial proximity that characterises the employment relationship in SMEs is widely reported (Ram et al., 2001). Working space is shared, with employees and owner-managers working alongside each other, often in an interdependent manner (Nolan et al., 2019). However, Wapshott and Mallett (2016) caution against the assumption that spatial and social proximity will automatically lead to informality in SMEs, nor does it suggest that social interactions will always be harmonious and positive. These features may frequently co-exist,

but this is not always the case. Nevertheless, informality can offer a range of advantages to employees in the SME setting. By way of illustration, in their study of employee voice mechanisms in SMEs, Gilman et al. (2015) found that informality plays an important role in creating and maintaining close and collaborative working relationships, accompanied by high levels of trust, task autonomy, and demonstrated loyalty to the firm. It can also create opportunities for employees to voice their ideas and concerns (Marchington & Suter, 2013), thereby facilitating high levels of involvement and participation (Saridakis et al., 2013). Moreover, in their study of an HR services organisation, Amarakoon and Colley (2022) report that informality was leveraged to avoid standardised approaches to remuneration, thereby allowing the firm to provide a personalised remuneration and benefits package that was highly valued by staff. From this perspective dominant formal approaches may not be viable or even necessary in some SMEs contexts.

In extolling the potential merits of informality, it is also imperative to acknowledge its potential limitations. While informality can offer many advantages to SMEs, it can carry negative implications for the firm and the workforce. Fundamentally, a reliance on informal practices can suggest a lack of strategic insight and sophistication to harness employee effort to enhance productivity and facilitate future growth (Cardon & Stevens, 2004; Kitching & Marlow, 2013). Informality can therefore “co-exist with confusion and uncertainty” (Gray & Mabey, 2005, p. 480). As Benmore and Palmer (1996, p. 114) maintain, “there is a fine line between the claim of an informal system and no system”. Importantly, informality may be associated with an autocratic work environment and disguise exploitative, arbitrary practices as typified by the ‘bleak house’ perspective (Dundon & Wilkinson, 2019). Philip and Arrowsmith (2021) suggest that informal and idiosyncratic HR practices can lead to sub-optimal employee outcomes in the form of inconsistent training, staff burnout, and high labour turnover. Informality may also result in the persistence of detrimental work practices or risk bad habits being passed on (Coetzer et al., 2019). This can be particularly problematic in SMEs where employees are inappropriately appointed to impart their skills to others. Moreover, in certain types of jobs, informality alone may not be sufficient to acquire the necessary knowledge, skills and attitudes to undertake complex work activities (Susomrith et al., 2019).

On the basis of the above discussion, it is commonly asserted that SMEs are lacking in their adoption of formal HRM. However, a more accurate statement is that while formal systems are rare compared with the situation in larger firms, they are far from absent in SMEs (Edwards & Ram, 2019). In practice, the pattern of HR diffusion and implementation is mixed and variable (Doherty & Norton, 2014). By way of illustration, the Workplace Employment Relations

Survey (WERS) has reported a degree of formality with respect to certain HRM practices such as disciplinary issues and dismissals (Forth et al., 2006), while other studies indicate a preference for informal approaches with respect to recruitment (Psychogios et al., 2016) and training practices (Coetzer et al., 2022). The same practices have also been found to oscillate between formality and informality within a single firm, according to particular business needs (Debrah & Mmieh, 2009). The empirical reality is that formality and informality often operate simultaneously within firms, and it is to this relationship that we now turn.

9.4 The Formality-Informality Dynamic

Empirical evidence regarding the dynamic nature of the relationship between formality and informality within SMEs has emerged in a sporadic and patchy manner. However, there has been a tendency for researchers to uncritically associate informality and formality with small and large firms respectively (Marlow & Thompson, 2008). This stance has been questioned by more recent research, which argues that the polarisation of formality and informality is misleading because it draws attention away from understanding the contextual factors and managerial processes unique to SMEs that shape HRM (Marlow et al., 2010). As Kitching and Marlow (2013) observe, the employment relationship must be managed by SMEs, irrespective of the form that it assumes. Following Kaufman (2010), it is possible to conclude that HRM may be done, with no formal, tangible or measurable practice. For Ram et al., (2001, p. 846), informality and formality are dynamic constructs which co-exist in differentiated forms in time and space such that “informality in small firms is a matter of degree and not kind”. Hence, informality is not the sole preserve of SMEs and co-exists with formality in all firms (Edwards & Ram, 2009). More specifically, firm size in itself does not influence the presence/absence of informality/formality but rather its degree and the manner of its operation (Marlow et al., 2010). Indeed, it has long been accepted that the reality of managerial practice in all organisations involves navigating “between rationality, formality, personal preference and idiosyncrasy as the occasion demands” (Harney et al., 2018, p. 117).

The achievement of synchronicity between formality and informality is emphasised in a number of studies. This synchronicity concerns the ability to achieve an optimum balance and complementarity between formality and informality to meet the needs of the firm. Amarakoon and Colley (2022) highlight the benefits of synchronising formal and informal HRM approaches to address attraction and retention challenges. Formalised approaches were created as appropriate, but informal and personalised approaches were also retained. Similarly the stronger social ties created by informal HRM practices may combine with the individual effects of formal practices to elicit positive organisational outcomes (Pittino et al., 2016). In addition,

Marchington and Suter (2013) purport that formal and informal practices can operate in both a parallel manner (to address different issues) or in sequential manner (to address similar issues) but need to be combined for operational effectiveness. Further support for this is found in Nolan et al.'s (2020) study in the hospitality industry. Formal and informal training approaches were used in parallel to meet distinct regulatory and operational skill requirements. The ability of employees to express their voice was also facilitated in a sequential manner by informal daily interactions, as well as via the formal performance review process. The concept of synchronicity in relation to (in)formality suggests that both approaches can facilitate each other and generate synergies.

A further cohort of studies suggests that informal practices can serve as a viable substitute for formal HRM (Harney & Alkhalaf, 2021). Useful insights about the aspect of the formality-informality dynamic can be gleaned from studies on small professional service firms (PSFs). In this context, client needs and project requirements dictate workflows and work activities, and employee roles are highly discretion based, resulting in little need for more formal and direct forms of managerial control (Scase, 2003). However, such discretion may be tempered by informal, tacit rules and a latent (silent) hierarchy (Brown et al., 2010). Swart and Kinnie's (2003) study of a small software engineering consulting firm also demonstrates that informal training processes can hold equal significance to formal practices when managing PSF workers. Their study found an interplay between written HR policies, informally embedded development processes used for sharing tacit knowledge, and important formal mechanisms for exchanging explicit information. Similarly, Nolan et al. (2019) found further support for the notion that deeply embedded routines may serve as a proxy for formality as they create an informal, yet standardised approach to labour management within the particular context of small PSFs. The implication of these studies is that if informality is used as a substitute for formality, its ability to produce fair outcomes is of considerable importance (Morand, 1995).

A further dimension to the formality-informality dynamic can be examined through the lens of the concept of 'mock formality' (Marlow, 2002). While SMEs may claim to have formal, written policies, these may not be utilised in practice at appropriate times, with owner-managers preferring to pursue idiosyncratic approaches to manage HR issues. Formality may be pursued for legitimacy purposes or to secure reputational benefits, only to be forgotten over time, as studies of the Investors in People (IiP) accreditation in SMEs have shown (Hoque & Bacon, 2008; Ram, 2000). Thus, formality may represent nothing more than an 'empty shell' (Hoque & Noon, 2004; Kitching, 2016). While it is important to acknowledge that degrees of formality might be present in SMEs in the sense that indicators can be identified, what is more important is the examination of how formality is implemented and whether it is consistently and appropriately used to manage the employment relationship, what Marlow et al. (2010)

refer to as embedded formality. To this end, it becomes vital to examine the role of key actors in the SME setting who play a central role in shaping the nature of (in)formality, as well as its operation.

Ultimately, the relationship between formality and informality is likely to be dynamic, reflecting the interplay of internal and external contingencies (Heillmann et al., 2020). A notable feature of recent work is the attention given to the scope for action and strategic choice in SMEs, which combine with the aforementioned contingencies to shape firm behaviour (Barrett, 2015; Krishnan & Scullion, 2017; Mayson & Barrett, 2017). More nuanced analyses of people management practices that move beyond deterministic accounts which assume that internal dynamics flow direction from external conditions have emerged (Gilman et al., 2015; Wu et al., 2014), yet more are undoubtedly required. Beyond the issue of firm size, studies demonstrate that the degree of (in)formality adopted may be contingent on a range of factors such as industrial sector, skill mix, product markets, labour markets and firm resources (Edwards & Ram, 2019; Psychogios et al., 2016). The role played by firm growth has been acknowledged and the sustainability of informality during periods of growth may be problematic (Barrett et al., 2007). However, others challenge the notion that SMEs must, should or inevitably move from informality to formality as they grow (Marlow et al., 2010). Rather, informality is often retained due to the desire of owner-managers to maintain informal control over the employment relationship (Baron & Hannon, 2002). It is also argued that practices need to be understood with reference to the role and interpretation of owner-managers and their employees, because these actors are not passive recipients of external influences (Atkinson et al., 2016; Wapshott & Mallett, 2013). The orientation of actors in the SME setting towards formality and informality is invoked in the next section to examine the key tensions of the informality-formality dynamic.

9.5 Examining Key Tensions in the Formality-Informality Relationship

The nature of the relationship between formality and informality gives rise to a number of potential tensions and contradictions inherent in the SME employment relationship. When examining these tensions, it is important to consider the orientations and perceptions of owner-managers and employees towards (in)formality. To begin with, there is a critical difference between the presence of formality and its acceptance as the norm. In order to achieve the successful adoption of formality, there is a critical need for both owner-managers and employees to accept and embrace it (Marlow & Thompson, 2008).

Several studies point to the reluctance of SME owner-managers to adopt greater formality. This may be attributed to their beliefs about its benefits or a preference to maintain informality

(Kitching & Marlow, 2013; Nguyen & Bryant, 2004). Formality may be undermined by the agency and actions of owner-managers (Edwards & Ram, 2019). Research has found that even in the presence of formal procedures, owner-managers may override these systems as they see fit (Tsai et al., 2007). A desire to retain personal supervision, avoid delegation and defend their authority in the face of replacing unwritten understandings with more formalised practices is observed by Mallett and Wapshott (2014). However, in their study of flexible working arrangements, Townsend et al. (2017) report that managerial discretion is restrained by the formality required to meet statutory requirements. This is not always the case, however, as managerial prerogative may simply be repositioned in its application rather than removed as suggested by Atkinson et al. (2016).

Conversely, efforts of owner-managers to introduce formality can be met with resistance and resentment from employees, who may actively challenge such efforts. For example, Nolan et al. (2020) report managerial frustration in trying to introduce more formal approaches to training in the face of resistance from employees who preferred more traditional, informal approaches. This study surfaced the ongoing tension between the orientation of owner-managers towards formality and the reality of their ability to implement it. Efforts to institute formality may be perceived by employees as an unnecessary burden, encroaching on personal relationships and disrupting custom and practice within the firm (Kitching & Marlow, 2013). A number of studies have shown that employees in SMEs exhibit greater levels of job satisfaction and work engagement in the absence of formal HRM (Bryson & White, 2019; Lai et al., 2017; Storey et al., 2010). Indeed, Saridakis et al. (2013) caution against the introduction of more formalised, bureaucratic HRM approaches, which may represent a threat to creativity, innovation, loyalty, trust and flexibility in SMEs. Others have highlighted how informality in SMEs facilitates significantly broader employee participation in decision-making beyond their work role, including those decisions related to HRM (Gilman et al., 2015; Wikhamn et al., 2022). Paradoxically, other research points to the desire for greater formality amongst SME employees. Mazzarol et al. (2021) reports that employees rate formality as more important than employers as it serves to introduce order and role clarity into the work environment. Furthermore, the introduction of formality bestows legitimacy on complex and emotive issues such as redundancy (Atkinson et al., 2016). Thus, efforts to formalise HRM may represent a vital means of enhancing employee perceptions of substantive fairness and trust in how the employment relationship is managed (Saridakis et al., 2013). It would be interesting for further research to unpack if the process by which a HRM practice is introduced e.g. level of communication and justification to employees, proves more significant than the ultimate form that practice takes.

The owner-manager is widely regarded as holding the greatest power to ultimately shape HRM in SMEs. However, it is arguable that such a unitarist focus alone obscures the full picture. The power of owner-manager is not absolute but rather is tempered by the attitudes and perceptions of other stakeholders, notably employees. Relationships between employee and employer interests in the SME working environment will invariably involve trade-offs and have implications for the approach to HRM. Undoubtedly, employee compliance and cooperation play an important role in facilitating or resisting formality. Hence it is important to conceptualise the operation of HRM in SMEs in terms of particular formal and informal practices that may be subject to negotiation and renegotiation. The relationship is one of mutual dependency, whereby each party has some room to negotiate and/or bargain with the other party over time (Edwards & Ram, 2006).

9.6 Resolving Tensions: Moving the Debate Forward

A theme running throughout this chapter is the “the need to bring context back in” (Sergeeva & Andreeva, 2016, p. 257) by incorporating it “more mindfully and systematically” (Johns, 2017, p. 577) into analyses of HRM in SMEs. The contrasting evidence regarding the role, function and stakeholder perceptions of formality and informality in SMEs, coupled with the multidimensional tensions inherent in the formality-informality dynamic suggest a need for future research to make sense of this contradictory evidence by privileging contextual factors. To this end, we now propose a research agenda to advance understanding and progress the line of thinking outlined in this chapter.

A wealth of studies have concentrated on identifying measures or indices of HR formality as an independent variable and have neglected to identify informality as a separate construct (e.g. Burhan et al., 2023; Forth et al., 2006; Lai et al., 2016). This has led to limited and simplistic understandings of informality, apart from the fact that it is not formal (Nolan et al., 2016a). This is further compounded by a focus on measuring the level of formality of HR practices as the only basis for examining the effectiveness of HR activity (Harney & Alkhalaf, 2021; Nolan et al., 2016b). In adopting an undue focus on formal HRM, researchers fail to consider how and why informality may or may not be effective within SMEs (Wapshott & Mallett, 2016). Moreover, simplistic analyses of the presence or absence of formal HR policies and practices provides limited knowledge in terms of the dynamics, embeddedness, and substance of HRM in practice or how it is experienced on the ground (Edwards & Ram, 2009; Saridakis et al., 2013; Wilkinson et al., 2007). Such arguments underline the importance of producing more nuanced analyses of HRM practices in SMEs. Hence, an alternative perspective that may prove fruitful is the functional equivalence model (Behrends, 2007; Ram,

1999), which emphasises the need to analyse SMEs on their own terms (Gilman & Edwards, 2008) and 'to engage with practice as we find it' (Taylor, 2006, p. 480).

Under an equivalence model, the suitability of an SME's approach to HRM can only be evaluated "against the backdrop of its specific context and action requirements" (Behrends, 2007, p. 57). This suggests that HRM is not merely size-dependent; a narrow focus on formality should not be indicative of the substance of HRM, and the unique features of SMEs must be afforded attention. This requires researchers to be sensitive to the existence of different ways to manage HRM within SMEs. In further support of this trend, there is also acknowledgment that the decision not to adopt a formal approach to HRM may reflect rational and informed decision-making on behalf of the SME owner-manager (Forth & Bryson, 2019), which highlights the importance of understanding the logic behind the practices in use. Informality in HRM may be adopted for legitimate reasons and may represent the appropriate response in particular organisational contexts or circumstances (Marchington et al., 2003). It is therefore imperative that informality should not be dismissed as ineffective if it meets particular sectoral or business needs. The merits of adopting an equivalence model are also evident when seeking explanations for the diversity of HRM approaches amongst and within SMEs. SMEs are not a homogenous group when it comes to HRM, and thus key contextual influences must be at the forefront of analysis.

As discussed earlier in the chapter, there is conflicting evidence regarding informality as the basis for competitive advantage within SMEs. Studies advocate the superiority of formality because it is indicative of some conscious thought being afforded to how employees' knowledge, skills, attitudes, and behaviours can contribute to the achievement of strategic objectives (Barrett et al., 2007; Edwards & Ram, 2019). However, if we accept that informality may represent a viable alternative (or equivalent) in SMEs rather than merely reflecting a haphazard approach to HRM, its logic lies in its contribution to the successful operation and survival of the organisation (Watson & Watson, 1999). Indeed, Paauwe (2004, p. 67) acknowledges that "sometimes the most effective form of HRM is one that allows for a change in policies and practices quite flexibly on short notice". Thus, while informality may superficially imply that HRM is not a priority, the logic needs to be understood in strategic terms because of its impact on firm viability (Hubner & Baum, 2018). Furthermore, combinations of formality and informality may represent a deliberate, pragmatic decision-making approach made by the owner-manager (Haugh & McKee, 2004), as well as reflecting employee influence.

In advocating the adoption of an equivalence model, we suggest that HRM in SMEs, whatever shape or form it takes, can be more robustly captured and explained by drawing on a

combination of theoretical perspectives. A single theoretical perspective in its own right may not be sufficient as an explanatory vehicle for the formality-informality dynamic of HRM in SMEs (cf. Lewin & Volberda, 1999). A theoretically pluralist approach may serve to provide a more holistic account of the unique HRM orientations, policies, practices and processes that develop within the SME setting over time, in interaction with the wider context. In addition, a contextually-based approach can facilitate a better exploration of what SMEs actually do and can serve to better explain how and why HRM assumes particular characteristics such as the degree of (in)formality. The development of context-informed understanding of HRM in SMEs may help to uncover subtleties in how HRM is formed and operates in this context. Greater recognition of the social and business context of SMEs is therefore vital given 'the limitations of acontextual "best practices" thinking' (Johns, 2017, p. 581).

Furthermore, the adoption of an HR process perspective (Ostroff & Bowen, 2016) may also help to shed light on the formality-informality dynamic. This stream of research examines how external factors shape HRM practices, as well as emphasising how HR policies are implemented and subsequently understood and experienced by employees (cf. Atkinson et al., 2022). The utility of this perspective lies its focus on how and why formal/informal practices are implemented rather than which practices are implemented, thus representing a change of direction for research (Fu et al., 2018). An influential strand of HR process research concentrates on how employees make sense of the intentions behind HRM practices, known as HR attributions (Nishii et al., 2008). Thus, HR attribution may account for the shared consensus of the value of informal relationships amongst owner-managers and employees (Storey et al., 2010). It may also explain the differences between employee perceptions and managerial intentions regarding attempts to introduce formality (Nolan et al., 2020).

The preceding discussion carries a number of methodological implications for future research. First, recognition of the complexity and heterogeneity of the employment relationship in SMEs has led to calls for narrow, sector-specific studies, rather than adopting a 'broad brush approach' (Edwards et al., 2010). This approach is advocated as an effective means to increase the confidence in research findings and characteristics ascribed to a particular sector rather than the idiosyncrasy of a particular firm (Sengupta et al., 2009). Second, this chapter illustrates that the denaturing thesis has served to perpetuate the myths regarding the deficiency model and obscures the reality of HRM practice in SMEs as experienced by employees and owner-managers. Hence, to enhance understanding it is argued that HRM is best assessed by how it operates in terms of the breadth and intensity of practices, as well as how it serves key firm objectives versus simplistic measures such as existence or not of

practice, and/or the extent of formality versus informality (Harney & Alkhalaf, 2021). This mandates a need for research designs employing case studies or ethnography that afford significant attention to context to unpack the dynamics of formality and informality (Harney et al., 2022), but also highlights the importance of moving beyond owner-manager dominated accounts to incorporate employee perspectives (Nolan et al., 2019; 2020). Employee perspectives must be examined both as a point of principle as well as to fully inform debates (cf. Lai et al., 2016) and rebalance the HRM agenda.

9.7 Conclusion

This chapter has outlined how the informality of HRM practice is extensively documented but inadequately understood. The failure to sufficiently analyse informality and its relationship to formality has left a significant gap in the literature of how HRM actually operates in all firms. This omission is especially pertinent given the prevalence of and critical role played by SMEs, where informality tends to prevail. The stance of positioning formality as more sophisticated than informal HRM practice is a questionable one. The adoption of formal HRM practices is not simply a good versus bad debate, but a complex, nuanced issue contingent on the nature of the firm, its management, and the workplace environment (Atkinson et al., 2016; Della Torre & Solari, 2013). To present it as a binary assessment between two alternatives fails to recognise the co-existence of formality and informality that evolves as circumstances evolve. We would therefore argue that what is more important is consideration of the factors that influence when and how informality works and how well it does so.

SMEs exhibit considerable diversity in their approach to HRM. Policies and practices tend to be heterogeneous, flexible and reflective of the particular sectoral and operating context of the individual firm. The nature and degree of (in)formality of HRM in SMEs is therefore contingent and reflects the outcome of enduring, dynamic and complex interactions within the idiosyncratic context of smallness. The nature of the relationship between formality and informality is undoubtedly multifaceted and complex. HRM in SMEs is therefore context-specific and context-dependent; it can only be understood in, and explained by, consideration of context. The dynamics of formality-informality HRM in SMEs firms thus represents a theoretical knot that is both intriguing and challenging, but one that needs to be untangled.

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