

**SMALL FIRMS IN SMALL STATES:
SIZE AND ITS IMPACT ON EMPLOYMENT**

MARYANNE SUE VELLA

Degree of Doctor of Philosophy
University of York
Department of Social Policy and Social Work
2006

ABSTRACT

Employment in small firms has taken on particular importance in Malta, called upon as a new Member State of the European Union to help promote more and better jobs. This thesis examines whether the effects of firm size are also evident in a micro-state comprised primarily of small firms, and how the context of a small state in Southern Europe shapes these effects.

Following a brief overview of Malta and its labour market, the literature review is divided into two parts. The first looks at job creation and growth in small firms from a small state perspective, focusing in particular on regulation and on how the dynamic of informality operates in the principal employment areas of recruitment, family-friendly measures, training and representation. The second part utilises a social capital framework to explore the Maltese context and how this affects employment in small firms.

The fieldwork is presented after an explanation of the methodology. The fieldwork has two main phases. The first quantitative study was conducted among 400 firms stratified by size and sector, and set out to examine whether there exist significant differences between smaller and larger firms with respect to job creation and the factors that affect it, as well as job quality measures. Significant differences were found, with smaller firms showing less job creation and destruction, more informal recruitment, reluctance to recruit women and persons with disability, and lesser degrees of training, representation and participation in social dialogue. The qualitative study was conducted with a sample of twenty eight small firms in different sectors, to better understand the factors in the local context that shape the employment situation in their firms. Analysis of the transcripts suggests that small firms face ten common concerns relating to size, competition, finance, politics, regulation, bureaucracy, association, familism, skills shortage and the work ethic.

The fieldwork is followed by a discussion of how the quantitative and qualitative findings combine, on the issues of female recruitment, fragmentation, staff shortages, low skill levels, and trust within and between firms. On each issue, a closer analysis is made of current regulation and of changes that may improve the context for small firms. The chapter then examines the issue of targeting and small firms, and the need for evaluation of programmes in the light of policy aims.

The concluding chapter reviews the results in the light of the aims, and gives an overview of policy implications. A reflection on the process and outcomes of the thesis is provided, as are the limitations of the thesis and recommendations for further research.

TABLE OF CONTENTS

Abstract.....	i
Table of Contents	ii
List of Tables	v
List of Charts.....	vi
Acknowledgements.....	vii
Author's Declaration	viii
Chapter One: Introduction	1
1.1 Background and Rationale.....	1
1.2 Conceptual framework	2
1.2.1 The prevalence of small firms.....	3
1.2.2 The Employment Implications of Small Firms.....	7
1.3 Purpose	13
1.4 Significance	14
1.5 Structure.....	14
Chapter Two: Setting the Context - Overview of Malta.....	16
2.1 Key Labour Market Policies, Institutions and Instruments	18
2.1.1 The Policy Framework.....	18
2.1.2 Institutions	18
2.1.3 Instruments.....	19
2.2 Small Firms in the Maltese Labour Market.....	20
2.2.1 Sectoral Change	20
2.6 Self-employment	24
2.7 Unemployment	24
2.8 Skill levels and Training.....	25
2.9 Chapter Summary	26
Chapter Three: Employment and Informality in Small Firms.....	28
3.1 Job Creation and Growth in Small Firms	28
3.2 A Small State Perspective on Job Creation and Growth	30
3.3 Regulation and Small Firms	33
3.4 Informality and Flexibility.....	36
3.4.1 Recruitment.....	37
3.4.2 Family-friendly Provisions	38
3.4.3 Training in small firms.....	38
3.4.4 Representation.....	40
3.5 Chapter Summary	41

Chapter Four: Social Capital in a Small Southern European State.....	42
4.1 Social Capital – An Overview	42
4.2 Bonding Social Capital	48
4.2.1 Bonding in Context	48
4.2.2 Bonding and Small Firms	51
4.3 Bridging Social Capital	53
4.3.1 Bridging in Context.....	54
4.3.2 Bridging and Small Firms	55
4.4 Linking Social Capital	56
4.4.1 Linking in Context.....	56
4.4.1 Linking and Small Firms.....	60
4.5 Chapter Summary	61
Chapter Five: Methodology	63
5.1 Defining the Small Firm	63
5.2 Overall Research Design	64
5.3 The Preliminary Phase: The Postal Inventory	66
5.4 The Quantitative Phase - More and Better Jobs?.....	69
5.4.1 Use of the Literature	69
5.4.2 Research Questions.....	70
5.4.3 Research Instrument.....	70
5.4.4 Sampling	71
5.4.5 The Analysis	73
5.5 The Qualitative Phase	75
5.5.1 Use of the Literature	76
5.5.2 Research Questions.....	76
5.5.3 Sample	77
5.5.4 Data Collection	78
5.5.5 Data Management and Analysis	79
5.6 Chapter Summary	81
Chapter Six: Employment in Small Maltese Firms – The Quantitative Findings	82
6.1 Respondent Characteristics.....	82
6.2 Job Creation.....	89
6.2.1 Job Creation and Loss in 2003	89
6.2.2 Creation and loss of jobs by occupational skill level.....	91
6.2.3 Factors influencing job creation.....	94
6.3 Job Quality.....	97
6.3.1 Recruitment.....	97
6.3.2 Gender Equality in Staff Composition.....	100
6.3.3 Job Security.....	102
6.3.4 Incentives Offered to Employees.....	103
6.3.5 Family-Friendly Working Conditions.....	104
6.3.6 Staff Training.....	106
6.3.7 Representation.....	108
6.4 Social Inclusion	109
6.5 Social Partnership	111
6.6 Chapter Summary	113

Chapter Seven: Operating in a Small State – The Qualitative Findings	115
7.1 The Ten Concerns.....	115
7.1.1 Stifled by size.....	116
7.1.2 Competing in a cut-throat market	118
7.1.3 Fretting over finance	123
7.1.4 The Pervasiveness of Politics.....	126
7.1.5 Reeling under Regulation	128
7.1.6 Burdened by bureaucracy	131
7.1.7 Apprehensive about Associating.....	133
7.1.8 Feeling like family	136
7.1.9 Searching for skills	139
7.1.10 The Question of Character	143
7.2 The Strategies	147
7.2.1 Growth	147
7.2.2 Cooperation.....	149
7.2.3 Management.....	150
7.2.4 Recruitment.....	152
7.2.5 Development.....	154
7.2.6 Representation.....	155
7.3 Chapter Summary	156
Chapter Eight: Small Firms in a Small State: The Combined Findings.....	159
8.1 Features common to small Maltese firms.....	159
8.1.1 The Gender Question	159
8.1.2 Growth and fragmentation in a limited market.....	163
8.1.3 Difficulty in finding staff.....	171
8.1.4 A Low Skill Status Quo	173
8.1.5 The Issue of Trust	176
8.2 The Need for a Targeted Approach?	180
8.2.1 Targeting the Small Firm Sector.....	182
8.2.2 The Need for Careful Evaluation	185
8.3 Chapter Summary	187
Chapter Nine: Conclusion	189
9.1 Aims, Objectives and Results.....	189
9.2 Policy Implications.....	191
9.2.1 Employment Policy.....	191
9.2.2 Training Policy.....	193
9.2.3 Other	194
9.3 A Reflection on the Process and Outcomes of the Thesis	195
9.4 Limitations of thesis	195
9.5 Contribution of the Thesis to Literature	197
9.6 Suggestions for more research.....	199
References.....	201
Appendix A: Letter to Postal Inventory Respondents.....	214
Appendix B: Postal Inventory.....	216
Appendix C: Quantitative Questionnaire	219

LIST OF TABLES

Table 1: Population and Average Firm Size, EU Member States.....	3
Table 2: Sectoral change, 2006 over 1992	21
Table 3: Self-employment by economic activity, 2006	24
Table 4: Anticipation of training needs by sector	26
Table 5: Training and Expenditure by Firm Size.....	26
Table 6: Annual cost of regulation by firm size, USA 2005.....	34
Table 7: Employers' perceived responsibilities	68
Table 8: Private sector employers in Malta.....	71
Table 9: All firms by size and sector	72
Table 10: Sample composition.....	73
Table 11: Statistical tests used	73
Table 12: Qualitative Survey respondents	78
Table 13: Age of firm.....	83
Table 14: Respondents' turnover	84
Table 15: Firms by Number of Staff.....	84
Table 16: Average proportion of staff in each occupational category	85
Table 17: Reasons for founding the firm	87
Table 18: Educational level of respondents	88
Table 19: Net change in firm size in 2003	89
Table 20: Regression - Jobs Created in 2003.....	90
Table 21: Regression – Jobs lost in 2003.....	91
Table 22: Small firm share of employment and GDP Change.....	93
Table 23: Correlation between Small Firm share of employment and unemployment.....	93
Table 24: Factors influencing job creation.....	94
Table 25: Market and Regulatory Influence, by sector.....	97
Table 26: Preference for informal recruitment, by size of firm	98
Table 27: Preferred Recruitment Methods, All Firms.....	99
Table 28: Average number of men and women in respondent firms	100
Table 29: Regression – Proportion of Female Staff.....	101
Table 30: Type of contract, by occupational category	102
Table 31: Firm size and type of contract.....	103
Table 32: Incentives offered, by occupational category	103
Table 33: Incentives by occupational category	104
Table 35: Family friendly measures.....	105
Table 36: Training Opportunities by Occupational Category.....	107
Table 37: An index of training opportunities for occupational categories.....	107
Table 38: Representation by firm size	109
Table 39: Rotated Component Matrix.....	110
Table 40: Firm size and inclination to recruit from marginal groups	111
Table 41: Participation by Firm Size	112
Table 42: Respondent Typology	181

LIST OF CHARTS

Chart 1: Employment rates in Europe, 2005	22
Chart 2: Employment by Age and Gender, 2006	23
Chart 3: Employment Growth by Firm Size, 1988 – 2003	29
Chart 4: Influences on Decision to Recruit	95
Chart 5: Business constraints faced by European SMEs, 2001 – 2003	96
Chart 6: Recruitment preferences, by occupational category	98
Chart 7: Trade union representation, by occupational category	108
Chart 8: Openness to different categories	110
Chart 9: Associations of choice by firm size	113

ACKNOWLEDGEMENTS

I could not have started this work without the kind sponsorship of my employer, the Employment and Training Corporation, and could not have finished it without the support of my family and friends.

I am very grateful for the guidance and support of my supervisor Professor Roger Burrows who helped me define and explore my area of interest. I am also grateful to each respondent for the valuable time they spent in sharing their concerns.

AUTHOR'S DECLARATION

I hereby declare that the material in this thesis has not been presented before and that this work is solely my own.


M. Sue Vella

CHAPTER ONE: INTRODUCTION

This Chapter is intended to provide the background to this study, including an overview of Malta and its labour market, as well as the rationale for this thesis.

1.1 Background and Rationale

Malta is a small Southern European state with a small-firm economy. Its natural resources are few, and it is insular and peripheral. Its human resources are its main asset, and the island's productivity depends significantly on the number and quality of its jobs. Malta recently acceded to the European Union, and as a member, must share the strategic goals of the Union. The overarching goal of the Union was set at the Lisbon European Council in March 2000, encouraging the Union to become

“the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion” (CEC 2002a).

This goal is to be brought about, in part, through European-wide legislation and through the open method of policy co-ordination. In the employment field, such legislation covers social security, conditions of work, health and safety and gender equality, among others. The open method of co-ordination (OMC), on the other hand, is also known as ‘soft regulation’, intended to spread best practices and attain greater convergence. Mid-way between harmonization and cooperation, the OMC is a “decentralized but carefully coordinated process” (De La Porte, Pochet and Room, 2001) that involves the shared use of common policy terms, objectives and targets; the collection of statistics; and the annual monitoring at EU level of members’ policy actions and outcomes. Jacobsson (2004) argues that these measures add up to a “system of governance with the potential to transform the practices of member states and thus add to the integration process” (p. 355).

The European Employment Strategy (EES) is a key example of the open method of coordination, and one that is central to the topic of more and better jobs. The EES was developed in the late nineties in response to relatively high levels of unemployment in Europe. The landmark paper by Jacques Delors in 1993 entitled *Growth, Competitiveness and Employment* argued for the Community's involvement in promoting employment, if Europe was to grow and become more competitive. This was followed up at the

Luxembourg Summit of 1997 when EU leaders agreed to implement a co-ordinated employment strategy, where member states would transpose specific employment policy objectives to national programmes and report upon them annually. This reporting was to be obligatory and was inserted into the Employment Title of the Amsterdam Treaty in 1997.

While the detail of these guidelines has evolved over the years, three overarching objectives have been repeatedly endorsed by the European Council: the pursuit of full employment; quality and productivity at work; and strengthened social cohesion and inclusion. In addition to the joint monitoring of over sixty labour market indicators, member states are to strive to attain a number of targets within a given time frame. The targets set for 2010 include the following: (a) an employment rate of 70% overall, of 60% for women and 50% for those aged 55 and over; (b) formal childcare provision for at least one third of children under 3; (c) at least 85% of 22 year olds with upper secondary qualifications; and (d) at least 12.5% of adults in lifelong learning.

As a new member state, Malta is committed to promoting more and better jobs for all and to meeting these targets. However, the application of universal guidelines and targets to very different national contexts requires a closer study of the realities of each state, if actions with the greatest chance of successful outcomes are to be developed.

The study is considered important for Malta as it currently has the lowest employment rate in Europe, while being highly dependent on the productivity of its workforce in the absence of other natural resources. Thus the practical rationale for this work is to contribute to the promotion of more and better jobs in the Maltese, small-firm context. This understanding will help to inform the author's contribution to the formulation and evaluation of policies and programmes in the field of employment in which she currently works.

1.2 Conceptual framework

Malta is a small firm economy. On average, the Maltese firm employs four persons. If the self-employed were to be included, 98% of all Maltese firms employ less than twenty persons and around 60% of the labour force. In the EU, the average firm size is seven (CEC, 2004a), although this varies widely across member states. It ranges for instance from 2 in Greece and around four in Poland, Hungary and Italy at the lower end, to 11 in Austria, 12 in the Netherlands and 15 in Latvia at the higher end of the EU spectrum (CEC, 2004a). There is, therefore, no clear correlation between the population of a country and the average size of

its enterprises; many of the smaller EU states have a higher average enterprise size than larger members.

Table 1: Population and Average Firm Size, EU Member States

COUNTRY	POPULATION ^(A)	AVERAGE FIRM SIZE ^(B)
Belgium	10,396,400	8
Czech Republic	10,211,500	5
Denmark	5,397,600	10
Germany	82,531,700	10
Estonia	1,351,000	9
Greece	11,041,100	2
Spain	42,345,300	6
France	59,900,700	8
Ireland	4,027,700	10
Italy	57,888,200	4
Cyprus	730,400	4
Latvia	2,319,200	15
Lithuania	3,445,900	11
Luxembourg	451,600	9
Hungary	10,116,700	4
Malta	399,900	4
Netherlands	16,258,000	12
Austria	8,140,100	11
Poland	38,190,600	4
Portugal	10,474,700	5
Slovenia	1,996,400	6
Slovakia	5,380,100	8
Finland	5,219,700	7
Sweden	8,975,700	7
United Kingdom	59,673,100	11

(a) CEC (2006): Data for 2005

(b) CEC (2004a): Data for 2001 (rounded figures)

This raises two interesting questions with respect to Malta: why Malta should be a small firm economy, and the employment implications of it being so. Although the first question is dealt with briefly hereunder, it is the second question that is central to this study and which will be elaborated upon in subsequent chapters.

1.2.1 The prevalence of small firms

Although there are no conceptual accounts of the small firm sector in Malta, one may draw upon more general theoretical statements from other national contexts that may assist in coming to terms with the nature of the Maltese case. Drawing on literature relating to the

UK as well as to Europe, two broad perspectives which dominate explanations of the existence of the small business sector are the neoliberal and the Marxist perspectives. With respect to the former, small business has always served an ideological purpose for those of conservative leanings. As Crossick and Haupt (1995) point out, in the nineteenth century it was feared that the disappearance or weakening of small business would “remove the middle of society and with it, the rampart against class division” (p. 3). In the twentieth century, the importance of small firms was once again reinforced through the rise of neoliberalist philosophy from the late 1970s. By then, post-war collectivism was believed to have harmed industrial competitiveness, while monopolies were seen to distort the market, restricting choice, inflating prices and creating barriers to market entry. Small firms, on the other hand, were seen as essential to vigorous competition, promoting utility and efficiency and allowing for the development of entrepreneurial talent. They are seen to be more flexible and adaptable and therefore more likely to survive and prosper in a post-Fordist economy of diversified demand and lean production. This perspective has been underscored by the work by Piore and Sabel (1984) on the potential for flexible specialization of small firms.

The Marxist perspective, on the other hand, has changed over time. Initially, small firms were seen as destined to give way to greater concentration and centralization of capital; small firms formed a sector that was “simply waiting to disappear” (Crossick and Haupt, 1995, p. 2). It was thought inevitable that larger firms would buy out smaller ones or drive them out of business. Orthodox Marxism saw this development as essentially positive, as it would enable ever larger numbers of workers to unite and take control of production. Small firms were seen as a barrier to this eventuality. Yet small firms have persisted even in countries where capital has become more concentrated. Revised Marxist theory posits that this persistence may be due to the fact that small firms are in a functional relationship with larger ones. The small firm sector is seen as peripheral to the core sector of larger firms, with whom they enter into subcontracting relationships that can be exploited or terminated as the need arises. Small business therefore persists as it is useful for large business.

As Rainnie (1989) points out, however, not all small firms are in relationships with larger ones. While some small firms are dependent, others are independent and compete with larger ones; yet others exist independently in certain market niches while a fourth group start up in specialized markets but may be prone to take-over by larger firms if they become successful enough.

Both theoretical perspectives have been criticized. Goss (1991) raises two such criticisms. Both tend to be prescriptive in approach, rather than analyzing what actually is. The free

market perspective, he suggests, is based more on 'rhetoric than rigour', at a time when the virtues of small business coincided with a political ideology that wanted more power for employers and to roll back the state. The same was true of the Marxist approach, which may have perceived small business as moribund because it would not allow for the uniting of workers necessary to socialize the means of production. Goss (1991) refers to the sociological approach to small business as being one which makes the small firm the focal point of enquiry and not just a derivative of a privileged theory. He suggests that

“the task of an adequate analysis of small business is to determine empirically and theoretically the nature of [their] inter-relationships and their role in affecting the organization of particular small business and the outcomes available to the actors concerned.” (p. 28).

Focusing on the *petite bourgeoisie* and the ways in which it continues to reproduce itself, Bechhofer and Elliot (1985) hold that the popular ideals of “a reasonable living, the chance to be your own boss, and the prospect of a little social mobility” (p. 204) ensure that this stratum reproduces itself. These ideals are in turn bolstered by three factors. Economic recession may increase the number of small businesses. Although capital concentration may lead some larger ones to absorb their smaller, bankrupt competitors, other small firms may survive recession better than larger ones. Furthermore, redundancies may free up a number of people who go on to try their hand at starting a business. A second factor is major technological change, which attracts persons with the skills and ambition to take advantage of the opportunities of innovation. The third factor mentioned by Bechhofer and Elliot (1985) is government policy, and the subsidies and concessions offered by government and the banks to those wishing to start a business.

Taking the small firm as the focal point of enquiry is necessary in the Maltese context where the prevalence of small firms cannot be neatly interpreted within either a free-market or Marxist framework. Small firms in Malta are not, in the main, agents of change, choice or innovation but are more of a survivalist nature. Neither does a vibrant public discourse exist where small firms embody and perpetuate values of initiative and self-reliance. Nor, on the other hand, has there occurred a concentration of capital in Malta that has squeezed out small business; the Maltese market remains a fragmented one with an equivalent small business share of employment today as at twenty years ago. Most small firms exist independently of larger ones and are not in subcontractual relationships. If concentration, rather than fragmentation, is profitable, and value-added is higher in large firms (Bannock, 1986) it seems necessary to look into the contextual reasons for the persistence of the small firm sector in Malta. As already seen in the Table above, there is no clear connection between

population and enterprise size, with relatively small countries like Latvia and Luxembourg having among the highest average enterprise size in Europe while larger countries such as Italy and Poland having among the lowest.

Regional variations in firm formation are discussed by Mason (1991), who notes that both in the UK and Western Europe since the eighties, new firm formation is more likely in cities, than in small towns and rural areas, and least so in declining urban-industrial areas. He seeks to explore these differences through a group of related factors including social, political, economic and cultural ones. Higher levels of business start-ups appear to be more likely in areas where industries have lower barriers to entry, though persons who have developed skills in high-barrier industries may also branch out on their own to apply their skills to a new business. More importantly, higher firm formation is more likely in an area where plant-size is relatively small, because workers in small firms tend to gain more relevant experience for starting a new enterprise than do those in larger ones. They have more customer contact and are more knowledgeable about local market conditions, and have had more opportunity to observe and emulate the owner-manager. Likewise, small firms tend to pay lower wages and this may prove to be more of an incentive to branch out on one's own than if enjoying a higher wage in a larger firm.

Mason also discusses the ways in which the 'entrepreneurial culture' of an area may affect new firm formation. He reviews various studies of this relationship, which suggest that the level of business optimism and standard of living at any one time and place may determine "whether new opportunities are perceived and whether new combinations of resources are fashioned" (p. 85). He also reviews studies which suggest that in certain cultures, the 'self-employment life-mode', to own and control production, is very strongly valued and is passed on through the generations. Economic factors, too, are important, particularly whether there is a rich stock of information that is readily available; whether resources such as access to finance, premises and labour are available; and whether the market is geographically restricted. Mason argues that high rates of firm formation afford a region greater adaptability to cope with economic and technological change.

In respect of Malta, one might argue in favour of the finding that small-firm localities tend to perpetuate themselves as such, as small firm employees gain the experience and the contacts they need to branch out on their own in the hope of a higher return on their efforts. Furthermore, one might argue that in Malta, self-employment is a valued life-mode, with the alternatives being restricted public sector employment or very competitive recruitment into one of a handful of large firms. Lower barriers to entry into trade and services means that these are the predominant areas in which start-ups in Malta occur, given the capital

requirements of manufacturing and the freight costs of export.

The small states literature also illustrates how restrictions of land, labour and capital lead to small firms taking up a larger share of the economic space in small states than in larger ones. Heavy reliance on imports also weakens the volume and variety of inter-industry transactions, so vertically integrated chains of economic activity are rare and small firms depend less upon larger ones for their survival (UNCTAD, 1985).

1.2.2 The Employment Implications of Small Firms

The size of the island contributes significantly to understanding why Malta should continue to be a small firm economy. This section looks at the employment implications of a small firm economy. Early literature on the small firm, which treated the small firm sector as largely homogenous, contributes to the debate. Issues include the informal recruitment of peripheral workers, low levels of training, non-representation, autocratic employer strategy and exploitative working conditions (eg. Goss, 1991; Rainnie, 1989). These features are not generally been associated with a high value-adding, competitive economy. However, over the past thirty years, a body of literature has emerged to illustrate that small firms are not necessarily homogenous, and their context as well as their size are important factors in shaping employment practices. These two debates are considered in turn.

1.2.2.1 Small Firms and Homogeneity

Since the emergence and growth of small firm literature from the 1970s, the issue of whether or not small firms are homogenous has arisen in a number of areas which include the management style in small firms; human resource issues; unionization; social inclusion; and social philosophy.

Although many agree that small firms may be defined by informality and face-to-face relations, there have been various approaches to management style in this sector. Initially, working in a small firm was seen to be either beautiful or bleak (Wilkinson, 1999), a utopic versus a sweatshop environment (Stanworth and Curran, 1989) depending on one's perspective. In the former account, employee relations were seen to be harmonious, based on flexibility and good communication. In the latter, they were seen to be characterized by latent conflict, job instability, poor working conditions and authoritarianism. This homogenous, though polarized, picture has given way to greater differentiation.

Early on, an important and basic distinction was made between entrepreneurial firms and small business (Carland, Hoy, Boulton and Carland, 1984). While the latter are independently owned and operated and are neither dominant nor innovative in their field, the former are more set on growth and profit and characterized by innovative practices. Various typologies have emerged to account for small firm employer strategies, for instance those based on the firm's growth stage and those based on the firm's market conditions. With respect to the former, authors have distinguished between small firm proprietors with an artisan or crafts identity, and those with a more entrepreneurial one (Stanworth and Curran, 1977; Goffee and Scase 1995). Informality and face-to-face relations are important to both, though the former are more likely to exhibit an autocratic and paternalistic approach than the latter, where the small firm has probably started to grow and requires a more rational organization of work.

Another account of employer strategy is based not on the 'growth' stage of the firm but rather on market conditions, particularly the stability of demand for one's good or service and the skill level required of staff. Scase (1995) argues that employers use different 'negotiated orders' to obtain the allegiance of their staff. Employers tend to adopt a paternalist approach – and their employees a correspondingly deferential one – in circumstances of stable demand and low staff mobility. Staff are hired on a relatively long-term basis, develop particular skills and enjoy reasonable autonomy. A fraternalist approach is adopted when the relationship is likely to be less long-term and where workers are required to have skills of a more universal nature. While in paternalism the employer differentiates his role from that of his employees, in fraternalism the employer seeks closer identification with them. Employers work alongside their staff as a means to secure their respect and allegiance. Lastly, an autocratic approach tends to be adopted in a fluctuating market with a shorter term perspective; reciprocity and trust are less important and employees are not required to have high skill levels. Employees have low bargaining power and are offered low pay and working conditions.

Others, however, have pointed out that that a low-skilled workforce does not always lead to an autocratic employer strategy. Ram (1994) describes 'indulgency patterns' in such circumstances where the employers develop complex forms of reciprocal obligation, although these may not constitute the most rational or efficient form of organization. Order is negotiated depending on conditions in the labour and product markets, taking into account other factors such as seasonality and culture. In a later study, Moule (1998) supports the theory that even in low-skilled workplaces, order is negotiated in ways that achieve

acceptable business outcomes rather than ways that necessarily reflect the best organizational practices including, for instance, tolerance of time and quality fiddles in return for workable relations.

Small firms are also said to differ with respect to key human resource processes. Two such processes are recruitment and staff development. Regarding the former, there appears to be general agreement that small firms tend to select people informally on the basis of how well they 'fit' into the firm rather than on their credentials and technical experience. As Goffee and Scase (1995) state, "recruitment is often a compromise between competence and compatibility" (p. 11) with the latter often having precedence over the former. Small firms recruit through word of mouth (Carroll, Marchington, Earnshaw and Taylor, 1999). They often recruit from secondary labour markets as they lack the ability to match the wages and career prospects offered by larger ones, and are less likely to employ professional and managerial staff (Stanworth and Curran, 1989).

With respect to staff development, both the literature and empirical evidence suggest that small firms are less likely than larger ones to provide formal training for their staff (Matlay, 2000). This may be rational from the small firm employer's perspective, who may perceive training as being too costly in terms of fees and employee time, as well as not relevant enough for their business goals (Kitching and Blackburn, 2002). However, an emerging literature suggests that it is insufficient to examine only the provision of training without also looking at the ways in which employers may enable on-the-job learning by employees, as well as the impact of the employee relationship upon employees' inclination to do so (Kitching, 2007).

Unionisation in small firms is generally agreed to be far lower than in larger ones. Although the labour process of extracting surplus value from workers is no less 'exploitative' in smaller firms, this reality may be better obscured in the latter through the 'family' metaphor that is prevalent in these firms (Rainnie, 1989). Workers in small firms may be aware – or be made aware - of the vulnerability of the firm in which they work, and therefore of their own job, which may lead to greater quiescence than among their counterparts in larger firms. Furthermore, small firm employers may practice a recruitment strategy involving the selection of disadvantaged candidates who are more 'flexible' and less likely to complain. Apart from the anti-union sentiments of many small employers, unionization is unlikely to take hold in this sector due to the significant resources this would require of unions to organize small firm employees. This has led some to argue for more, rather than less, legislative protection for workers in small firms (Rainnie, 1989). From an employees'

perspective it is less clear whether or not small firm employees would like to be unionized, though Stanworth and Curran (1989) suggest that unionisation becomes more likely with growth, as workers develop a group consciousness and conditions of employment become standardized.

The picture with respect to social inclusion and small firms is more mixed. The issue is significant to a study of small firms because equitable human resource practices are central if work is to offer disadvantaged groups a pathway out of poverty. This issue may be looked at from two perspectives – that of employee or prospective entrepreneur. From the perspective of a disadvantaged recruit, it may be argued that smallness of firm can operate in their favour or against it. If it is true that small firms are more likely to recruit from ‘secondary’ labour markets because such candidates are more quiescent or have lesser bargaining power, then persons from disadvantaged groups may have a greater chance of employment in these rather than larger firms. This raises the ideologically fraught issue of whether any job, or at least one with minimum standards, is better than none at all. However, the informality and focus on ‘fit’ in small firms may also operate against the disadvantaged recruit, as these features are more likely to allow for discriminatory behaviour than the more technical recruitment approaches in larger firms.

For the prospective disadvantaged entrepreneur, business start-ups may offer a viable alternative to employment. However, this is possibly more likely for those at the edge of marginality than those from seriously disadvantaged groups or areas. Blackburn and Ram (2006) discuss the prominence given to entrepreneurship as a means to social inclusion in both European and British policy, and they advise caution for a number of reasons. Social exclusion is multifaceted and entrepreneurial opportunity cannot be expected to make good for exclusion on other fronts such as education, housing, transport and policing. Class features such as capital, education and personal skills remain important factors for successful entrepreneurship and these assets may not be possessed by many from disadvantaged groups. Furthermore, entrepreneurship in vulnerable or volatile sectors may be an unstable option, or one with low reward for considerable effort leading to self-exploitation.

One last feature often said to be common among small firms relates to social philosophy. While not immediately relevant to considerations of employment in small firms, it does seem important in shaping employers’ approach to issues of equality and integration. Since the late twentieth century, small firms have been celebrated for embodying conservative values such as self-reliance and enterprise and for being ‘valuable allies’ (Bechhofer and Elliot, 1985) to capitalism. The sector has not always been considered a conservative one.

Crossick and Haupt (1995) for instance, discuss how the 'middle sector' became popular among liberals in the early nineteenth century in that it stood for progress, sitting between both aristocracy and populace. In the late nineteenth century, however, small enterprise started to be threatened by industrial concentration and sought protectionism – interpreted by some to suggest anti-liberal leanings. Although valued for embodying conservative ideals which serve an enterprise culture and also for mitigating class division (Weiss, 1988), it is not clear that the small firm sector has an homogenous political inclination itself.

Some light may be shed on small firm philosophy by the emerging literature on small firm ethics. The debate is not a new one; early on, Rowntree (1938) maintained that “no system of industry can be defended, nor will it endure, unless it not only is capable of serving but actually serves the interests of the community as a whole” (p. xiv). He made it his business to study whether it is possible to provide a good service as well as good working conditions while still ‘making business pay’, and he maintained that this is possible. Other authors have been less optimistic; as Vyakarnam, Bailey, Myers and Burnett (1997) point out, business ethics has often been termed an oxymoron, “with the only real concern of managers being profit and the bottom line” (p. 1625).

Over the past twenty years, a number of studies have looked into small firm ethics (eg. Quinn, 1997; Vyakarnam, Bailey, Myers and Burnett, 1997; Dawson, Breen and Satyen, 2002). Few, however, deal with employment-related ethics in any depth, focusing rather on the construction of ethical dilemmas and variables associated to ethical behaviour. Two studies that do incorporate an employment perspective are those conducted by Wilson (1980) and Spence (2000). In her study of 180 small firm owners in America, Wilson found employment-related ethical concerns to feature among one third of her respondents, almost half the number of those concerned with customer-related issues such as quality and price. Within the employment category, she found employers to be most concerned with wages and working conditions, followed by the provision of a job, with development and training falling further behind.

The study by Spence (2000) two decades later was based on a survey of 100 small firms in the UK. Spence found that “the motives and practices of the small business owner do not always centre round financial or economic objectives” (p. 28). Unlike Wilson’s findings, Spence found that care for employee health and welfare featured as the primary social concern for respondents, with 85% saying that they do take such actions in their firm. A lesser though significant number also believed it was their concern to generate employment for others, and 43% claim to act upon this belief. However, the study did not provide detail

with respect to the way employee health and welfare was acted upon or the particular duties perceived by small firm employers in this respect. The two studies by Wilson and Spence, although based on small samples and with a twenty year gap, do suggest that there may be national differences in the perceived obligations of small firm owners.

1.2.2.2 Factors contributing to heterogeneity

Although it is generally agreed that small firms share certain characteristics like informality and face-to-face relations, there has also been significant illustration of the differences between small firms. One may group the explanations of difference into three broad categories: market, social and governance perspectives.

Within a market-based explanatory framework, two perspectives may be taken. The first relates to small firm relations with larger ones and how these serve to determine their market position and its impact upon their working conditions. Rainnie (1989) emphasizes the need to understand the different ways in which small firms relate to larger ones in a context of uneven development of capitalism. Some small firms are dependent upon larger ones in terms of being subcontracted by the latter, while other firms are independent yet compete with larger firms either by exploiting labour, capital or both. Yet a third category of small firms operate in isolated niches of demand which do not appeal to large capital, and a fourth category operates in emerging, specialist markets that face the risk of take-over by large firms. Small firms that depend upon or compete with larger ones often have little liberty to set their own employment terms and conditions, and may pass their risk and exploitation 'down the line' to their employees.

Another market relates to product market differences. Most early accounts of employment practices in smaller firms were based on the lower-skill manufacturing sector. Technological advances, growth in the volume and transmission of knowledge, and the more diverse demands of post-Fordist consumers have led to a rise in higher-skill small firm production.

The services share of employment has also grown much faster in most developed countries in recent decades. Petit (2000) examines OECD data for the last three decades and finds that employment has grown in high-technology manufacturing like electronics, pharmaceuticals and biotechnology, but shrank in more traditional ones like textiles. The services sector has seen a growth in both higher-skill areas like finance but also in areas like tourism, hospitality and care. The competencies required of knowledge workers are likely to lead to a competitive leveling-up of their working conditions, while even within the same firms,

workers with lesser skills may form a 'peripheral' labour market and share similar poor conditions as those in lower-skill organizations.

The second explanatory category relates to the social dynamic of the locality in which a small firm operates, or more specifically the social capital – or norms and networks – that prevails. Fukuyama (1995) states that “social capital has a significant impact on the vitality and scale of economic organization” (p. 101) and claims that the higher the level of social capital, the more large firms an economy tends to have. Likewise, familistic societies where the radius of trust does not extend beyond the family are destined to small-scale, weak and inefficient production. Fukuyama holds that many small, family firms fail to adopt efficient management practices, remain atomized and intensely competitive, and fail to take advantage of scale or to move into new markets. However, as discussed later in this work, it is important not to over-generalise on social capital; for instance, one cannot argue that large-scale industry always implies high levels of social capital, as for instance in highly nationalised and depressed economies in former Eastern Europe. It seems fair to state that as industries change, so may the relative merits of large and small scale organizations – it is the general capacity to cooperate and to network, rather than size alone, that is essential to any successful economic structure.

The third explanatory category relates to governance. Scase and Goffee (1987) note that low levels of state expenditure and labour-related legislation are often seen as more conducive to business start-ups; this approach is typical of more liberal and conservative regimes. On the other hand, social democratic ones tend to have higher expenditure, more powerful unions and stronger labour regulations. These are said to impose disproportionate costs on small business and hence deter growth and start-ups, though the actual impact of such regulations has been debated. Reinecke and White (2004) also discuss the ways in which the fiscal system impacts upon small firms, with larger firms often enjoying greater tax exemptions and incentives while smaller ones are more prone to enforcement of regulations.

1.3 Purpose

The overall purpose of this work is to gain an understanding of the small firm sector in Malta, with a view to develop relevant policies and initiatives that may contribute to more and better jobs. The research objectives derive from the conceptual overview provided above and are as follows.

The first objective is to determine whether, in an economy made up almost exclusively of small firms, a size effect is still evident. That is, do small firms in Malta share common employment characteristics and if they do, what are they?

The second objective is to understand the effect of the national context upon employment in small firms. What are the significant issues to small firm owners and how does operating in the Maltese context affect their employment practices?

The third objective is to derive employment and training policy implications from the above.

1.4 Significance

Small firms employ almost two thirds of workers in Malta, and therefore play an important role in determining the working and living conditions of Maltese citizens and in structuring the Maltese labour market.

The research questions have practical significance. Determining whether or not small firms may be treated as a sector, and whether and how they may be segmented, is an important first step to relevant policy measures. Understanding the national context is also important if recommendations are to have a higher chance of success.

It is also hoped that this research may have theoretical significance. The examination of small firms within a small state context appears to be a novel approach to the small firm debate. The impact of small state dynamics upon employment in small firms is therefore intended to be the main theoretical contribution of this work.

1.5 Structure

The remainder of this work is structured as follows.

Chapter Two provides a brief overview of the Maltese context, with respect to its labour market, its small firm sector and what is known of employment and training in small firms.

Chapter Three looks more closely at employment issues in small firms, while Chapter Four looks at the concept of social capital in a Southern European context and how this may affect small firms.

Chapter Five describes the methodology adopted in this work, and provides the rationale for the research design as well as details of both the quantitative and qualitative surveys which provide the findings of this study.

Chapter Six presents the results of the quantitative study, addressing the research question whether or not small firms are homogenous with respect to various employment issues.

Chapter Seven presents the results of the qualitative study, addressing the research question as to how the Maltese context is perceived to affect small firm owners and their operations.

Chapter Eight presents a discussion of the findings, and how these combine to offer a particular account of small firm employment in Malta.

Chapter Nine is the concluding chapter, and revisits the findings in terms of the research objectives. It also discusses the contribution of the thesis to theory on small firms, small states and social capital. A discussion of the policy implications is followed by a reflection on the process and outcomes of the thesis. The limitations of the thesis are followed by suggestions for further research.

CHAPTER TWO

SETTING THE CONTEXT: OVERVIEW OF MALTA

Malta is a peripheral, island region in the Mediterranean with a small, open economy. It is made up of an archipelago with two main islands, covering 122 square miles and has just under 400,000 inhabitants. It is highly urbanised, and its density of 1257 persons per square kilometre (around ten times the European average) places significant pressure on natural resources, transport and communication. It has a rich history, coloured by the various legacies of colonising cultures that have held Malta for its strategic value over the centuries. The Phoenicians, the Romans, the Arabs and the Normans all ruled Malta for centuries, before the island was given – for a falcon – to the Order of the Knights Hospitallers of St John in the early sixteenth century. During the time of the Knights, Malta evolved from being an isolated outpost of the Kingdom of Sicily to a minor *entrepôt* of Mediterranean trade. Napoleon took Malta from the Knights in 1798 but within two years, at the request of the Maltese, the British fleet ousted the French and made Malta a British colony until Independence in 1964.

Malta is now a republic based on parliamentary democracy. Its two major parties are the Malta Labour Party (MLP) and the Nationalist Party (PN), though the *Alternattiva Demokratika* is a very small and relatively new Green party. The MLP has socialist origins while the PN has Christian Democrat ones. The MLP governed from 1971 to 1987, and the PN has been in government since then (with the exception of a short Labour administration from 1996 to 1998). Since Independence, Malta has seen some political turbulence, particularly for instance, the politico-religious question of the 1960s, alleged jerrymandering and far-left tendencies in the eighties, and the European accession issue in the nineties. In May 2004, Malta became a member of the European Union, though enjoying less popular support (with approval through referendum of 54 per cent) compared to any of the other accession states.

In social terms, the population is Catholic, given prominent recognition in the Constitution of Malta. Religious practice has been central to the way of life in Malta for centuries. It has structured people's rites of passage, and has shaped both entertainment and charity; religion is still an influential force in the organisation of social life today.

The Maltese language has semitic roots dating back from the Arab occupation at the end of the first millenium, though it has also adopted a number of Italian and English words. Maltese was not always the official language. In the mid-nineteenth century, the 'Language Question' involved a struggle between the local élite on the one hand – who pressed for the retention of Italian as the official language – and the colonial authorities, who replaced it with English.

In economic terms, Malta moved from agricultural activity through crafts and trade, then to the status of an 'island-fortress economy' serving a geo-strategic military and naval function during British rule throughout the World Wars. Efforts were made after Independence to develop the manufacturing and tourism sectors, which – together with other fledgling services such as finance and ICTs - today form the basis of the Maltese economy.

The Maltese economy is very open. Imports and exports are equivalent to around nine tenths of GDP. The EU is Malta's main trading partner, accounting for two-thirds of imports and two-fifths of exports, four-fifths of incoming tourists and ninety per cent of foreign direct investment. It has a nominal GDP of just under €5 billion and GDP per head in purchasing power standards of 69.7 compared to the EU 15 index of 100. By World Bank Standards, Malta is a middle income country and ranks 30th on the Human Development Index compiled by the United Nations.

Inflation has risen in recent years, ranging from 2.5 per cent to just under 4 per cent (NSO, 2006). A mechanism exists that indexes wages to inflation; wages are topped up every year with a nominal amount calculated by applying the rate of inflation of the previous twelve months to a reference average social wage. Expenditure on wages hovers around one half of GDP, low compared to developed countries which range between 60 per cent to 70 per cent. This reflects protectionist measures for local industry that boost profit margins, as well as reflecting the relatively low wages, and low wage differentials, in Malta.

In the early nineties, the Maltese economy was strong. Real GDP grew by 3 per cent on average, a major reason being the growth in trade due to liberalisation and stronger domestic demand. However, Malta's openness renders it vulnerable to global downturns, and the international slowdown since the late nineties has affected the local economy. Economic restructuring to decrease a marked growth in the public deficit has also negatively affected growth. Efforts are being made to attract investment, to increase exports and to enter higher-value added manufacturing and higher-technology services.

2.1 Key Labour Market Policies, Institutions and Instruments

This section provides an overview of labour market policies, institutions and instruments in Malta.

2.1.1 *The Policy Framework*

The most recent over-arching policy document issued in Malta is the National Reform Programme 2005 – 2008 (www.europa.eu.int/growthandjobs). This is a government-wide document detailing Malta's policy priorities in a number of key areas in the revised Lisbon Strategy that focuses on growth and jobs. The policies respond to the economic and employment guidelines issued by the European Council in Spring 2005. To summarise, Malta will focus on reducing its fiscal deficit, reforming the public sector and accelerating the privatisation programme. It will review the tax framework to encourage productivity while ensuring that wages and productivity rise in tandem. Malta will seek to promote investment on R&D, particularly in the private sector, and will facilitate innovation and a more effective use of ICTs. Malta will also seek to strengthen the competitiveness of its industrial base, especially in tourism and financial services and in the pursuit of foreign investment. It will also promote fair competition and reduce state aid. The local regulatory environment will be made less costly and complex, streamlining and simplifying administrative regulations and procedures and making the public administration more effective and efficient. The environment for SMEs is to be made more supportive through one-stop shops, guidance and assistance, as well as education for entrepreneurship.

With respect to employment policies, the National Reform Programme adopts those outlined in the National Action Plan on Employment (2004) which Malta submitted to the European Commission on the 1st October 2004 as a new member state. Having taken account of the European Council's recommendations for Malta (following pre-accession analysis of the Maltese labour market), the employment priorities include an increase in the employment rate, especially that of women; improving the tax-benefit interaction to strengthen work incentives and reducing undeclared work; and improving the quality of, and access to, lifelong learning with increased involvement of the social partners.

2.1.2 *Institutions*

The key institutions directly involved in the Maltese labour market are the following. The Ministry for Education, Youth and Employment is responsible for the articulation and

monitoring of employment policy, a function assumed upon membership of the European Union in May 2004. It is also responsible for education at primary, secondary and tertiary levels as well as for other labour market entities such as the following. The Malta College of Arts, Science and Technology was re-opened in 2000 (after a twenty year closure) to give new life to vocational education and training in Malta. The Employment and Training Corporation is Malta's only public employment service, keeping administrative data on employment and unemployment, offering a job brokering service and adult training, and operating a number of employer subsidy schemes. The Department for Industrial and Employment Relations also falls under this Ministry and is responsible for collective bargaining, resolving industrial disputes and for conditions of employment regulations. The Occupational Health and Safety Authority promotes health and safety awareness and good practice in the private sector.

The Ministry for the Family and Social Solidarity has within its portfolio the Department of Social Security, which administers the social security scheme including unemployment benefits. It is also to this Ministry that the newly appointed Commission for Equality between Men and Women belongs.

The Ministry for Competitiveness has a Small Business Efficiency Unit within its portfolio, the main aim of which is to keep small businesses informed and to strive to lessen the administrative burden upon them. The promotion and support of entrepreneurship, however, falls under Malta Enterprise which in turn is part of the Ministry of Foreign Affairs.

Other key players in the Maltese labour market are the social partners. On the one hand, the two major trades unions are the General Workers' Union, traditionally associated with the Labour Party and representing largely blue-collar workers of whom the Drydocks workers are the 'élite'; and the *Unjoni Haddiema Maghqudin*, typically associated with the Nationalist Party and representing both white- and blue-collar workers. On the other hand, there are a number of employer associations, including the Federation of Industry, the Chamber of Commerce, the General Retailers Trade Union and the Malta Employers' Association.

2.1.3 Instruments

The key instruments that may be mentioned in connection with the labour market include various laws and regulations. The *Employment and Industrial Relations Act (2003)* governs these issues, and replaced the former conditions of employment regulations that had been in

place since before Independence. The *Act to Promote Equality between Men and Women* (2004) defines discrimination and provides redress. The *Employment and Training Services Act* (1990) establishes the public employment service and mandates it to promote equitable employment and training opportunities through various programmes, schemes and subsidies, to maintain a register of employment and of unemployment, and to provide policy advice to government. The *Business Promotion Act* (2002) was promulgated to support Maltese industry in its start-up, development and export efforts, and provides for various schemes and subsidies. The *Social Security Act* (1987) provides for the administration of social security benefits and social assistance schemes. The *Occupational Health and Safety Act* (2000) lays down employer responsibilities with regard to the welfare of their employees. The *Equal Opportunity (Persons with Disability) Act* (2000) defines discrimination and provides for redress. The *Income Tax Act* empowers the Commissioner of Inland Revenue to collect income tax, corporate tax and value added tax as well as national insurance contributions.

2.2 Small Firms in the Maltese Labour Market

This section provides an overview of labour market data, in general and with respect to small firms in particular. The first part discusses sectoral change while the second presents employment data. The third section presents data on training. Data is taken from the administrative records of the Employment and Training Corporation (ETC) unless otherwise indicated. ETC records are based on the obligatory engagement and termination forms submitted by employers when recruiting or releasing staff. Though this system has been operative since the early eighties, the recoding of ETC data into NACE format in 2005 has meant that comparable data is only available from 1992 onwards. Therefore the trends described below indicate changes in 2006 over 1992. Labour Force Survey (LFS) data is used when referring to employment and unemployment rates; the LFS has been implemented in Malta since May 2000.

2.2.1 Sectoral Change

The past fourteen years have seen a number of sectoral changes in the Maltese labour market, notably a decrease in public sector employment and a rise in the employment share of services. In respect of the public sector, its share of employment has decreased by 15.5 per cent in absolute terms, and by 10 per cent in terms of its share of total gainful employment. In September 2006 the public sector took up 31 per cent of all employment.

In respect of economic activities, employment in manufacturing is today at 86 per cent of the level in 1992, compared to a 131 per cent increase in services. Manufacturing today takes up 31 per cent of all employment while services take up 69 per cent. The table below illustrates the ten sectors which have shown the greatest change in their share of employment since 1992. As may be noted, there has been a dramatic increase in the manufacture of radio, television and communication equipment, due to the establishment in Malta of a large foreign firm in this sector. One may also note that there has been a marked increase in the employment share of certain service industries, most notably education, business, wholesale and retail, and hospitality. On the other hand, there has been a decline in three principal manufacturing sectors, namely furniture, transport equipment (principally the shipyards) and clothing.

Table 2: Sectoral change, 2006 over 1992

	per cent change in employment numbers: 2006 over 1992	per cent change in employment share: 2006 over 1992
Manufacture of radio, television and communication equipment	1252.36	1.87
Education	493.61	7.92
Other Business Activities	386.32	6.24
Retail Trade	161.39	2.88
Hotels and Restaurants	121.04	4.26
Wholesale trade and commission trades	93.31	1.78
Construction	1.74	-1.71
Manufacture of furniture	-23.65	-1.26
Manufacture of other transport equipment	-62.45	-3.48
Manufacture of wearing apparel	-77.08	-3.49

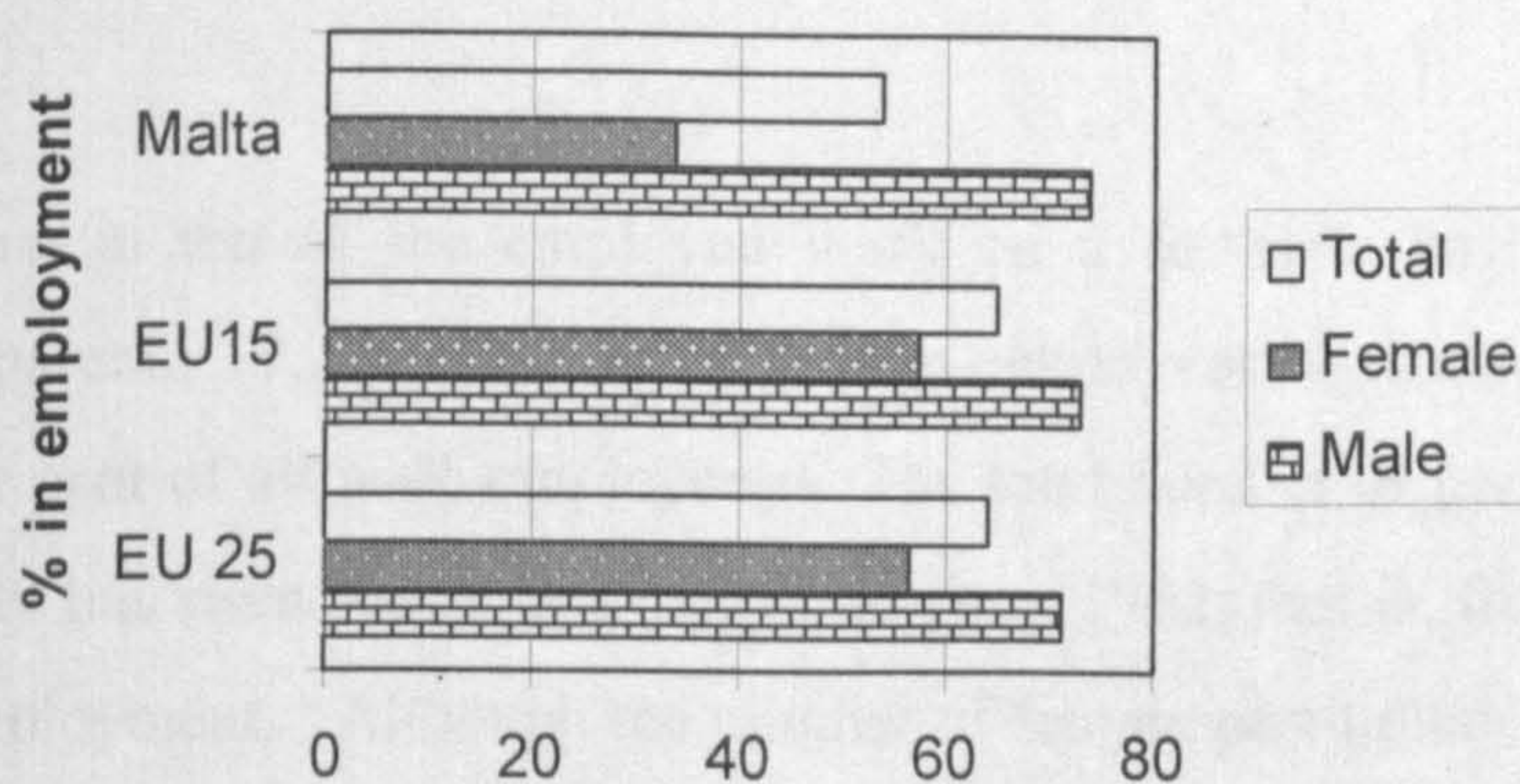
Source: Employment & Training Corporation

In terms of small firms in particular, there has been a rise in the number of employers with less than twenty employees. This has risen from 25,880 in 1992 to 34,207 in 2006, a rise of 32 per cent. In terms of its share of total employment, however, the rise has been smaller, standing at six per cent. There was a higher increase (of nine per cent) in the employment share of firms with between 20 and 50 employees, and a decrease of eight per cent in the share of firms with 50 or more employees. In terms of economic activities, small firms have grown in the sectors tabled above.

2.2.1 Labour Market Participation

According to the Labour Force Survey of July to September 2006, 55.5 per cent of the working age population are actually employed. The male employment rate is 74.3 per cent while that of women is 36.5 per cent. While female employment has shown a slow but gradual rise over time, Malta still has the lowest rate among the EU 25. The Lisbon target of 60 per cent female employment rate set for 2010 is unlikely to be met in Malta. In fact, the National Action Plan (2004) states that Malta will aim to achieve a 41 per cent employment rate by this date. The chart below illustrates the employment rates by gender in Europe at the end of 2005, for the 25 member states.

Chart 1: Employment rates in Europe, 2005

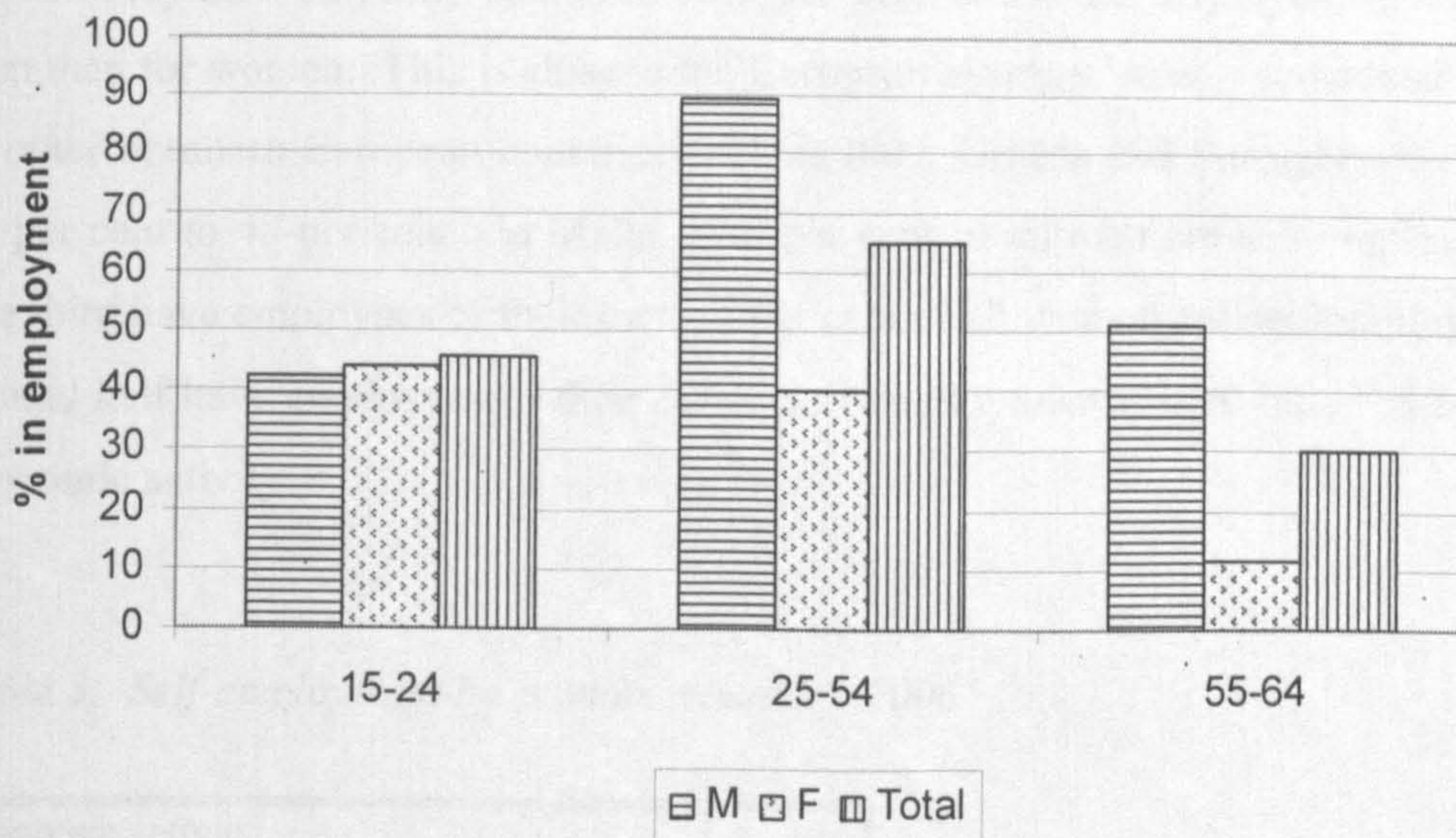


Source: CEC 2006a

In terms of its employment rate, it is interesting to note that Malta does not necessarily share the same profile as other small states in Europe; for instance, Cyprus and Luxembourg have considerably higher overall rates than Malta (plus 15 per cent and 10 per cent respectively). Malta is closest in profile to the larger countries of Italy and Poland who share Malta's relatively low female employment rate.

With respect to differences by age group, young Maltese women are as likely as young Maltese men to work. However, a gap quickly emerges among men and women in their mid-twenties and increases across the age groups. This is likely to be due to the fact that a marriage ban was in place until 1981, prohibiting women from working after marriage; furthermore, the virtual absence of formal childcare facilities and strong cultural norms still militate against young mothers returning to work.

Chart 2: Employment by Age and Gender, 2006



Source: LFS July to September 2006

Nine in ten of the employed work on a full-time basis, though a gender difference is apparent. 17.2 per cent of all female employees work on a part-time basis compared to 5.2 per cent of all male employees. The total number of persons working on a part-time basis only has risen four and a half times from 1992; that is, from 2 per cent to 10 per cent of all employment. Although the number of female part-timers far outweighs the number of male ones, this rise has been of equivalent proportion for both men and women. While there has been a rise in part-timers in manufacturing (from 2.8 per cent to 7.4 per cent of all manufacturing employment), the rise has been far steeper in services, rising from 5 per cent to 22 per cent of all service employment. It has risen in particular in health and social work; hotels and catering; education; and retail.

To turn to the staffing profile in small firms, the number of women in small firms has more than doubled over the past fourteen years. The female share of small firm employment has risen by eight percent to reach 31 per cent in 2006, though still below the national female employment rate of 34 per cent. The shift in female employment to smaller firms is likely to be due to the decline of manufacturing since the eighties, as this sector traditionally employed mostly women in relatively large establishments. In fact, there has been a drop of one third in the manufacturing share of all female employment.

2.6 Self-employment

Self-employment currently stands at 13.5 per cent of all the employed, though higher for men than for women. This is close to the European average, though considerably lower than in other Southern European countries such as Italy, Greece and Portugal which range from 25 per cent to 45 per cent. In Malta, 17.6 per cent of all men are self-employed, of whom one third have employees of their own. 5 per cent of all women are self-employed, of whom around half have employees of their own. Self-employment is distributed as follows across economic activity:

Table 3: Self-employment by economic activity, 2006

Economic activity	per cent
Wholesale/retail/catering/transport	47.4
Manufacturing	12.6
Financial/real estate/renting	11.7
Construction	11.5
Other service activities	9.1
Agriculture	7.7
Total	100

Source: Employment & Training Corporation

2.7 Unemployment

Unemployment has risen since the mid-nineties and currently stands at 6.8 per cent. The rate is higher for women (8.1 per cent) than for men (6.1 per cent). This may suggest both a growing inclination among women to seek work, as well as a decline in manufacturing and clerical work which sectors traditionally recruited most of the women entering the labour force. The youth share of unemployment has risen markedly over the past five years, now representing just over half of all the unemployed. This suggests a polarisation of the youth cohort, as while there has been a steep rise in the number of young people pursuing post-secondary education, it has become harder for low-qualified school leavers to find work. Of the remaining unemployed, one tenth are aged over 45 while the rest are between 25 and 44.

2.8 Skill levels and Training

As regards the educational profile of the employed, a high proportion of the workforce has not attained upper secondary education (69 per cent). Having said that, as noted above, the level of participation in post-compulsory education (after completing secondary school) has risen over the past decade, as has participation in tertiary education. Today, two-thirds of all school-leavers continue with post-secondary education. According to the Labour Force Survey (2006), a relatively low proportion of the working age population had participated in some form of education or training in the weeks prior to the survey (3.2 per cent). In-work training is also low, with 6.1 per cent of persons having received training prior to the survey – 4.7 per cent of private sector employees and 8.6 per cent of public sector employees. Workers aged under 40 were twice as likely to receive training than those over forty; workers with tertiary education were five times as likely to receive training than those who had attained secondary or lower levels of education.

In 2000, the first Continuous Vocational Training Survey (CVTS) was carried out among a representative sample of 1683 Maltese firms that employ ten or more full- or part-time workers. The response rate was 83 per cent and *a posteriori* weighting by size and sector was carried out to address non-response. The CVTS excluded initial vocational training. Some of the findings are available by firm size and illustrate some interesting differences.

Anticipation of training needs is most likely to occur in financial, real estate, rental and business activity, and least likely in construction and hospitality, manufacturing and wholesale and retail. Small firms are only half as likely than larger ones to anticipate the skills and training needs of their employees. Of all firms with less than twenty employees, only 20 per cent said that they do so, compared to 40 per cent of firms with fifty or more employees. Training plans are formally written up in 8.8 per cent of smaller firms compared to 35 per cent of firms with 50 or more employees.

Table 4: Anticipation of training needs by sector

Sector	per cent of firms anticipating skills /training needs of staff
Financial Intermediation	56.00
Real Estate, Renting & Business Activities	34.38
Transport, Storage & Communication	28.69
Other Community, Social & Personal Service Activities	25.56
Electricity, Gas & Water Supply	25.00
Wholesale & Retail, Repair of Vehicles	24.87
Manufacturing	20.24
Hotels & Restaurants	19.68
Construction	18.48

Source: CVTS 2000

When it came to actually providing continuous vocational training to their employees, small firms – though less likely to provide such training and to spend less overall on training – actually spent significantly more on each participant trained. The survey showed that firms with less than twenty employees spent an average of Lm285 on training each participant, compared to Lm181 (firms with 20 – 49) and Lm103 (firms with fifty or more) spent by larger firms. Regrettably a sectoral analysis was not available, as it may be assumed that this higher spending in small firms is probably true of higher-skilled industries.

Table 5: Training and Expenditure by Firm Size

Firm size	Number of firms	Number of trainees	Lm spent per firm	Lm spent per trainee
10 – 19	780	868	317	285
20 – 49	589	1729	532	181
50 +	314	26108	8565	103

Source: National Statistics Office

When asked to cite three reasons for their non-provision of training, the following reasons were mentioned in descending order of priority. Most non-providers believed that their staff already possessed the skills needed by their firm (65 per cent) and that they had recruited people with the requisite skills in the first place (52 per cent). Time, cost and expertise were less important. Regrettably the data is not available by firm size.

2.9 Chapter Summary

This Chapter sought to set the context for the subsequent literature review and fieldwork. It was noted that Malta is a small, Southern European state with less than half a million

inhabitants. It has recently become a member of the European Union which is in fact Malta's main trading partner. A brief overview was provided of the key institutions and instruments in the Maltese labour market.

The focus then turned to the labour market as such, and a number of issues and trends were noted. The general shift away from manufacturing and into services has also occurred in Malta, except for the establishment of a handful of multinationals in high-skill manufacturing such as communications equipment and pharmaceuticals. Most of the growth in services can be accounted for by the lower value-added sectors of wholesale and retail as well as hotels and catering. There has, however, been a marked growth in the employment share of the education sector. Small firms have increased their employment share by 6 per cent over the past fourteen years, with particular growth in wholesale and retail which possibly reflects the removal of import levies.

In terms of employment, Malta has a very low employment rate of 54 per cent, particularly due to its low female employment rate of 34 per cent. This is the source of frequent country-specific recommendations from the European Union to Malta, to increase the labour supply of women. However, the number of women in small firms has risen in the last few years.

Self-employment is at the European average, though the female self-employment rate is only one third that of men. Unemployment rose in the early years of the millennium though has now stabilized at or just below the European average. Of particular note is the rise in youth unemployment. To turn to lifelong learning, it was noted that this is very low in Malta in general as well as among employees, of whom only around six per cent underwent some form of training prior to the survey. Small firms are in general less likely to anticipate, and provide for, training needs but when they do, they are likely to spend more per capita than their larger counter-parts.

This overview of the labour market in Malta provides a point of departure for the literature review and fieldwork that follow in the subsequent chapters.

CHAPTER THREE:

EMPLOYMENT AND INFORMALITY IN SMALL STATES

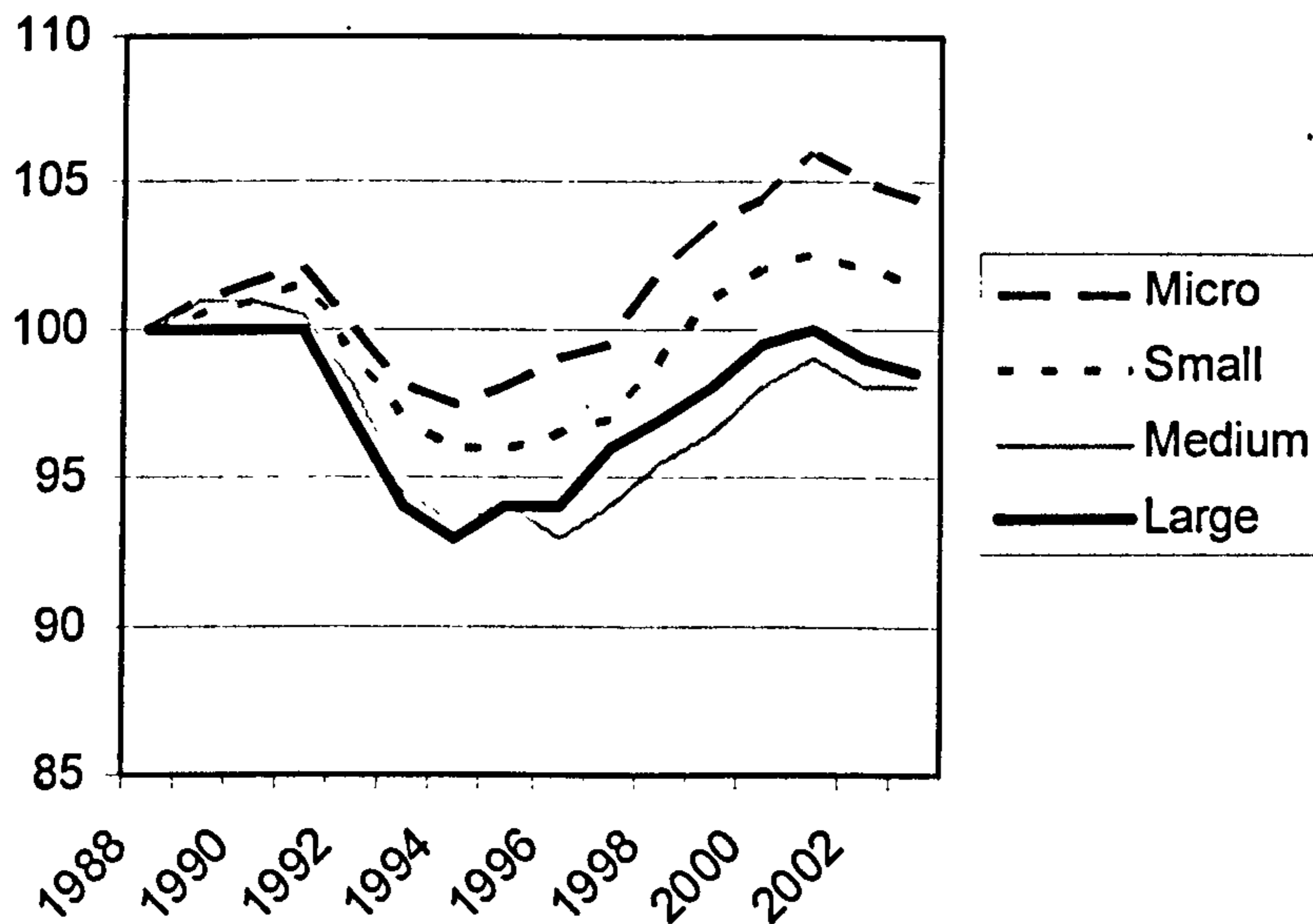
In this Chapter it is argued that small firms in a small state face particular challenges which impact upon their ability to grow and to find and retain labour. Many of these challenges are inevitable as they derive from the size of the country. However, policy and regulation remain within the 'jurisdictional' capacity of a country. The Chapter then looks at the effect of employment policy and regulation upon small firms, particularly in respect of recruitment, working conditions, training and representation. The Chapter summary relates the findings to the research questions in Chapter One.

3.1 Job Creation and Growth in Small Firms

The role of small firms in job creation has been discussed and disputed in recent decades. An early paper supporting their job creation potential was written by Birch (cited in Storey and Johnson, 1987), who argued that two thirds of all new jobs in the USA between 1969 and 1976 were created in firms with less than twenty employees. Birch's paper has since been criticized for failing to determine the net contribution to growth by small firms. The work of subsequent authors has not borne out Birch's claim for small firm job creation. Brown, Hamilton and Medoff (1990) suggest that the apparently higher growth rate in small firms is an "accident of birth – new firms happen to be born small" (p. 24). They claim that a good proportion of 'new' jobs are actually business start-ups, rather than small firm growth; small employers account disproportionately for firm death, and that the actual proportion of the workforce employed by small firms has, in the US at least, decreased. Another author reviews the OECD data for France, Germany, UK, USA and Australia in the seventies and eighties, to find that small firms' contribution to growth is about proportionate to their share of employment, except for the US where it is lower (Parker, 2001). Storey (1994) suggests that very few small firms – around four in a hundred – are likely to have significant job growth.

At a European level, it appears that small enterprises, particularly micro-firms, have been responsible for much of the job creation in the last fifteen years while employment has decreased in larger ones (CEC 2004a). This is illustrated in the chart below which covers the then fifteen Member States.

Chart 3: Employment Growth by Firm Size, 1988 – 2003



Source: CEC 2004

However, while the Commission notes that micro-enterprises have seen the greatest job growth, one must also bear in mind the higher real turnover and value-added growth in larger enterprises. These have increased their production and sales in relation to smaller ones. Large enterprises remain more efficient than smaller ones, and this is reflected in the fact that value added per employee is €55,000 in SMEs but €120,000 in large firms. Likewise, labour costs take up a higher share of value-added in small firms (56 per cent) than in larger ones (47 per cent). The Commission notes that this is probably due to the fact that small firms are over-represented in low productivity sectors.

The matter of job creation levels in small firms, and the meaning of these levels, is therefore complex. Deakins (1999) points out a number of methodological difficulties in estimating job creation in small firms. A main one relates to adequate and comprehensive sources of data. An estimation of start-ups, for instance, is sometimes drawn from VAT registrations; this may lead to over-estimation if failure rates are not also taken into account. It is not only in respect of measuring start-ups that estimation is difficult. It is hard to determine whether new jobs in small firms are actually 'new' or whether, for instance, they are jobs absorbed from the public sector or from large firms that have downsized. Reinnecke and White (2004) suggest that small firm employment increases during recessions rather than upturns, seeming to support the 'absorption' thesis. Also, 'new' jobs may also be temporary, created to draw benefits from some state subsidy scheme and eliminated once eligibility for such subsidies

comes to an end.

Even if it were possible to correctly measure employment growth in small firms, national differences are likely to prevail, reflecting the different configurations of industry, markets and policy across countries. The next section looks at the way smallness of state may affect job creation of small firms.

3.2 A Small State Perspective on Job Creation and Growth

Small states have traditionally been seen as economically 'sub-optimal' (Armstrong & Read, 2002), facing constraints of both a demand- and supply-side nature. On the supply side, small states face constraints such as restricted land and natural resources; labour shortages; and limited entrepreneurial ability. Limited land leads to ever increasing property prices, which make physical expansion very costly for all but the most successful small firms in a small state. Labour shortages in small states are common, both in terms of numbers but also in terms of skills. In general, a limited labour pool makes competitive, labour-intensive industry very difficult. For small firms in particular, it is difficult to find the right quantities of appropriately skilled labour that they need for growth, particularly when larger and/or foreign firms offer superior working conditions (Almeida, 2004).

The pool of talented entrepreneurs, and the capital available to them, tends to be limited in small states where, Ward (1975) suggests, local entrepreneurs are likely to prefer trading over more value-adding activities. Armstrong and Read (2002) highlight the need for small states to seek comparative advantage through specialist skills in high-value added sectors rather than trade or labour-intensive exports. A preference for trade may be lower risk, but it is not value-adding and its job creation potential is limited.

Small states also face demand-side constraints that affect small firms. The most significant one is the fact that the domestic market tends to be very limited and narrow. Domestic demand for most goods and services lies below the 'minimum efficient scale' of output (Armstrong and Read, 2002), leading to high unit costs particularly for small firms who may find it impossible to compete with larger or foreign ones. A high reliance on overseas manufacturing of most products means that the volume and variety of inter-industry transactions are limited. The absence of vertically integrated chains of economic activities may limit sub-contractual opportunities for small firms.

As noted in the introductory chapter, therefore, in small states the theory that big business is

bound to crowd out small firms is less applicable. The impetus to large-scale production is limited by the size constraint, and smaller firms take up a larger share of economic space in small states than in larger ones. Furthermore, as the market is fragmented, and inter-industry linkages far fewer, small firms are less likely to be dependent on larger ones for their survival.

These realities have led certain authors (for instance, Briguglio and Buttigieg, 2004) to argue that while in larger countries, inter-firm agreements are often restricted on grounds of anti-competitiveness, in smaller countries they are to be encouraged. The authors note that competition in a small state has particular characteristics, including a relative ease in achieving market dominance as well as the existence of natural barriers to entry. Furthermore, a culture of competition may be weak due to the possibly destabilizing effect of intense competition in a small and fragile market. This leads them to argue that it is the consolidation rather than the fragmentation of business that has social and economic benefits in a small country. Small jurisdictions can only accommodate a limited number of players, if excessive fragmentation is to be avoided. They also suggest that relatively large firms may bring about considerable instability when they enter – and even more when they exit – a small market. The authors argue that

“collaborative agreements (horizontal as well as vertical ones) may have positive effects on the consumers, due to the advantages of business consolidation, given the very high incidence of micro enterprises in such jurisdictions. Acting on their own, micro-enterprises are likely to face strong constraints in competing with larger foreign enterprises based in larger jurisdictions” (2004, p. 9).

Another demand-side constraint that affects small firms is that of a public sector which is at once too large yet too weak. On the one hand, public administration in small states tends not to have as many specialized services as in larger ones; the fact of a small clientele often fails to justify the introduction of new services. Furthermore, the limited labour pool referred to above means a shortage of specialists. It is hard to remedy this through training; the low spare capacity in small administrations may also mean that it is difficult to free civil servants for further training. On the other hand, in a small island, government is ‘ubiquitous’ (Sutton, 1987). It is often the largest employer in the country, as it seeks to replicate the range of services offered in large states, or to maintain a service inherited from colonial times, at a very high relative cost. Lowenthal (1987) claims that small state governments are both “meddlesome and burdensome” (p. 43). The smaller a country is, the larger its government will loom, because it needs an “irreducible minimum of infrastructure” (p. 43) to provide

basic services.

This reality affects small firms in a number of ways. They are affected through the high taxation that is necessary to maintain a relatively large public administration. They may also be affected by a regressive administrative burden compared to larger firms, if the administration has not been able to modernize and streamline its regulatory framework. Small states also tend to have fewer specialist services dedicated to assisting start-ups and to help small firms to grow. Also, small firms may be in competition with the public sector, as well as with larger and foreign firms, with respect to skilled labour. If, as is often claimed, employees in small states tend to be risk-averse, the public sector offers a more secure and often better-remunerated career path than do smaller firms in general.

There therefore seem to be considerable challenges to employment creation in small states, and particularly for small firms within them. Some authors have argued that the size factor inhibits or even prevents economic progress (eg Ward, 1975), with little scope for policy to overcome them. However, the growth rates of certain small states over the past thirty years and their disproportionate representation among the best economic performers (Baldacchino 2005), has led to a revision of this thesis. Armstrong and Read (2002) for instance, suggest that the openness of small states does not only – or necessarily – render them vulnerable but may in fact explain the ability of many to react rapidly to changes in world trade.

“There is a worrying element of fatalism attached to the concept of vulnerability which suggests that small states are highly exposed to economic, geographic and environmental factors beyond their control. The growth success of a significant sub-set of small states indicates that vulnerability, while disadvantageous, is not necessarily insuperable. It is virtually impossible for small states to circumvent their geography but greater consideration needs to be given to the critical role of endogenous policy formation. This can be used to at least partially assuage the adverse effects of small size.” (p. 452)

Likewise, Baldacchino (2000) recognizes the “strong diplomatic effort behind the vulnerability thesis” (p. 67) as structural weakness calls for structural aid. However, he argues that smallness can also be an advantage when it comes to governance. Small states are able to draw upon a distinct administrative unit with “lean, identifiable and accessible decision-making structures [and a] strong sense of common identity, to pursue durable, consensual and moderate politics” (p. 73).

Regulation is a critical instrument of governance and one which is repeatedly claimed to

have an effect on small firms. In the following section of this chapter, a closer look is taken at employment regulation and its possible effect on small firms. Although the focus here is on employment regulation, it must be noted that other forms of regulation impact upon small firms – including taxation, trade and competition – but will not be considered for the purpose of this thesis.

3.3 Regulation and Small Firms

Regulation affects small firms in various ways, having a possible impact upon job creation, on competitiveness and also upon business morale more broadly. It may be seen to have a positive impact, in terms of leveling up the quality of employment and the playing field more broadly. It may also be seen to have a negative impact, deterring employers from recruiting more staff, limiting their flexibility or imposing an administrative burden upon them. Regulation itself – even where it has no discernible effect on operations – may be perceived negatively by small firm employers who value their independence and resent what they perceive to be government intrusion.

In respect of employment in particular, Bannock and Peacock (1989) argue that “anything which increases the costs of employment will, everything else remaining the same, reduce the demand for labour” (p. 237). They distinguish between types of costs as follows. The first type is the direct cost, for instance, that of hiring temporary staff to substitute those on statutory leave; redundancy costs; and the costs of health and safety. The second type is the administrative cost, for instance, accounting for social security contributions, the keeping of detailed employee records and the keeping up to date with numerous legislative changes. The third type of cost is that which arises from the effort to ‘rearrange one’s affairs’ to minimise the cost of legislation, for instance, contracting out, or using part-time instead of full-time employees. They argue that costs tend to be greater for small firms as they do not enjoy economies of scale in dealing with legislation and administration; Bannock and Peacock refer to this as the “regressive nature of compliance burdens” (p. 243).

There are various aspects to the regulation of employment, including anti-discrimination, wages, protection against dismissal, atypical work, family-friendly measures, health and safety and representation to mention a few. Member States of the European Union now share a number of minimum requirements in these areas though, as Hart and Blackburn (2005) point out, the minimum standards goal is less stringent than the earlier goal to harmonise such regulations. While the European Commission believes that the regulation of

employment rights and relations may serve the goals of competitiveness and employability, some member states with a different tradition of economic philosophy have not been of the same opinion and hence a shift to a 'minimum standards' regulatory framework.

It is perhaps not surprising that the literature found on regulation and small firms was based on studies in the US and the UK. One recent study that looked at this impact in the United States is that by Crain (2005), who studied the differences in the cost of regulation per employee, across firm size and sector. Crain defines small firms as those having less than twenty employees; medium as having between 20 and 499; and large as having over 500. He distinguishes between the manufacturing, trade, services, health and other sectors (the latter being a residual one). Crain finds that small firms have an annual regulatory cost of \$7,647, which exceeds that of large firms by 45 per cent. The regulatory burden is particularly disproportionate for small firms in manufacturing, who face double the regulatory cost than large firms; though the difference is negligible in services. Crain also differentiates between four broad categories of regulation: economic, environment, taxation and workplace. As the table below indicates, it is taxation and environmental regulation that hit small firms hardest; when it comes to workplace regulation it is the medium sized firms that are hardest hit which Crain attributes to the possibility that in many states, small firms are exempt from a number of workplace regulations.

Table 6: Annual cost of regulation by firm size, USA 2005

	FIRM SIZE		
	Under 20	20 – 499	Over 500
	\$	\$	\$
All regulations	7,647	5,411	5,282
Economic	2,127	2,372	2,952
Workplace	920	1,051	841
Environmental	3,296	1,040	710
Taxation	1,304	948	780

While Crain's study is strictly financial, two studies based in the UK broaden the debate on regulation and small firms. The first study by Edwards, Ram and Black (2003) is based on qualitative research in eighteen small firms. The authors suggest that the law affects small firms through three main channels: through a direct response to legislation (such as minimum wage); and through indirect responses to experience of the law or alignment with public policy. Edwards et al note that the effect of regulation is mediated by a number of factors. Managers' perceptions of the law as intrusive or beneficial will shape their

compliance with it. The situation of the particular market in which the firm finds itself will also shape the extent to which they are able to absorb the regulation. The type of law varies too; while some are immediately applicable to all firms (such as minimum wages) others only come into effect in certain circumstances.

In respect of the perception of regulations, less than one third of respondents clearly articulated that employment laws were burdensome though, the authors suggest, this was more a matter of perception than concrete effect. With respect to particular laws, older regulations such as maternity leave were taken for granted and the tendency was for adjustment to be made in a flexible and informal manner. Experience of other laws had indirect effects, for instance, the formalisation of procedures in response to dismissal regulation and the transformation of home-working into regular employment in response to minimum wage regulations. The degree of competitive pressure faced by firms was an important factor in the experience of regulations, adding burdens to those already under pressure while prompting modernisation among those facing less pressure and able to absorb the costs.

A second study is that by Hart and Blackburn (2005) who look at owner-managers' awareness and knowledge of employment regulation and its effects upon them, based on a telephone survey stratified among 1071 small firms in 2000. They focus particularly on the Working Time Directive, family friendly regulations, and the National Minimum Wage in the UK. The authors note the increase in employment legislation over the past decade. They also note the fact that there has been little research into managers' awareness of employment rights, and that most research has been upon the impact of legislation. The authors provide an overview of studies which have shown the new legislation to be perceived negatively by employers, to be costly and to affect their competitiveness.

In their own research Hart and Blackburn (2005) focus more closely upon the issues of working time, minimum wage and family-friendly measures. They found respondents to claim awareness of the major pieces of employment legislation, particularly on issues with the greatest fiscal impact such as minimum wage, maternity leave, rest breaks and paid holidays. However, their detailed knowledge of these laws was patchy. The authors note that larger and younger firms are likely to be more knowledgeable than the smallest and oldest firms.

In respect of the impact of legislation on performance, Hart and Blackburn (2005) found that competitive pressure and labour market issues were felt by owner-managers to be significant

constraints on performance. An econometric test relating levels of awareness with changes in growth or turnover did not however show any relation between the former and the latter. However, a third of respondents did cite legislation as a constraining factor and among those who did, it was the increased administrative workload followed by the legal advice necessary, that were the most burdensome factors. Moreover, smaller firms were also more likely than larger ones to state that their understanding of employment rights has negatively affected their taking on more staff. The authors also find that respondents in different economic activities differ as to which regulations they find most burdensome. For instance, those in hotels and catering were negative about extending rights to part-timers (reflecting their high dependence upon these staff) while those in business and professional services about maternity rights (possibly reflecting the difficulty to replace these staff with skilled substitutes in the interim). Their differentiated findings lead the authors to caution against generalised conclusions on the impact of regulation on small firms. Furthermore, they caution against over-simplified arguments for or against the effects of regulation, stating that the impact of regulation on small firms – in the UK, at least – is probably quite neutral:

“The above analysis from the UK would tend to suggest that the increase in the intensity of the individual employment rights legislation recent years may *not* be having the detrimental effect upon business performance as suggested...However, neither was there any evidence to suggest that such a commitment to minimum standards has delivered greater productivity.” (p. 155)

3.4 Informality and Flexibility

One possible reason for the lesser impact than expected of employment regulations on small firms may be the tendency of the latter to manage in an informal and flexible manner. Unlike the bureaucratic rationality that underpins formal management in larger firms, smaller firms are characterized by negotiation that is informal and social in nature. While the influence of the market undoubtedly affects small firms, it is the

“particularistic social relations of production generated within a context of smallness and proximity [that] will facilitate differentiated degrees of negotiation between employers and employees regarding the terms and conditions of employment” (Marlow, 2005, p. 5).

In the remainder of this section, a closer look is taken at the ways in which informality is reflected in four areas of job quality in small firms – recruitment, family-friendly provisions, training and representation.

3.4.1 Recruitment

Regulation and policy in respect of employment generally requires that this is non-discriminatory, based on a person's skills and experience for a given post. Small business owners take recruitment very seriously, as the impact of making mistakes is possibly more significant for small firms than larger ones. Although recruitment is possibly "the HRM activity most highly regulated by the state" (Taylor, 2005, p. 30), it is also an activity that in small firms is strongly characterized by informality. It is a socially embedded process, with recruitment tending to occur through word of mouth, and often involving friends or relatives of current employees. The latter then take on the informal responsibility of appraising and to some extent, controlling the performance of the employees who were recruited on their recommendation (Taylor, 2005).

In small firms, the importance of 'good fit', or acceptability, often outweighs that of a person's technical competences, or suitability. The importance of 'fitting in' was also found in the studies carried out by Scott, Roberts, Holroyd and Sawbridge. (1989) and Holliday (1995). In her ethnographic research, Holliday found that a candidate's family status is probably just as important as his or her skills in swaying an employer's mind. Interviews in small firms tend to be conducted by the owners themselves, rather than candidates' prospective superiors or technical experts, despite the fact that the owner's recruitment skills may be weak, and his or her intuition not always the best basis for assessing candidates.

This focus on acceptability over suitability may lead to discriminatory recruitment practices, if a better suited candidate is passed over for a more acceptable one. As Jewson and Mason (1986) point out, giving priority to acceptability tends to result in particularism and patronage which would seem less fair and efficient than rational-legal recruitment based on technical merit. Furthermore, as Carrol *et al.* (1999) argue, employment based on 'interpersonal fit' is somewhat precarious in that relationships change, which may lead to reassessment of employee worth. However, it evidently has benefits for the small employer, who can ill-afford to carry under-performing or nonconforming staff. There are benefits in terms of speed and cost; and of the likelihood that the staff who recommended the recruit will take some responsibility to 'socialise' him or her.

3.4.2 Family-friendly Provisions

Measures to make work 'family-friendly' or to enable work-life reconciliation, have assumed a growing importance in public policies both at European level and in its member states. It is recognised that these are necessary for a fuller utilisation of the labour supply, that is, to enable women to take up and retain work, and employers to retain experienced personnel. European directives on pro-rated benefits for part-time workers, on maternity and on parental leave have been transposed into most states' national legislation.

It may be thought that the small firm is less able or willing to comply with the requirements of family-friendly regulations than larger ones. The little evidence that exists as yet is mixed. A study by the European Foundation for the Improvement of Living and Working Conditions compared various aspects of employment in micro-firms and larger ones in France, Greece, Sweden and the United Kingdom in 1997. Taking maternity leave, parental leave, childcare and sick child leave as indicators of family-friendliness, the study found little difference between the availability of these measures in smaller and larger firms except in France where they are less prevalent.

Somewhat different findings were found in a UK study by Harris and Foster (2005) who conducted twelve case studies with small firms in five service sectors to examine their use – and experience - of flexible working arrangements. The authors note that while family-friendly measures are sometimes thought to be less feasible for smaller firms, the counter-argument may be made that smaller firms are more able to customise working arrangements to their employees' needs. In their study, the authors found that when it came to statutory maternity or parental leave, respondents reacted quite negatively to both the 'policy rhetoric' on these issues and about the serious difficulty in finding suitable replacement in cases of extended leave. Indeed, firms with a large share of female labour suggested that such legislation may affect their decisions to recruit more staff. However, in general respondents perceived flexible working arrangements to be a good thing, and often acceded to such requests even if "their approach was largely reactive, informal and organised at an individual level" (Harris and Foster, 2005, p. 36).

3.4.3 Training in small firms

Training is an important aspect of job quality, contributing to the competitiveness of both the firm and the economy more broadly as well as adding to employees' human capital. Yet

small firms are less likely to provide formal training for their staff than larger ones (Marlow, 2000; Holliday, 1995; Brown, Hamilton and Medoff, 1990). A number of possible reasons for this have been suggested (eg. Patton, 2005). Small firms may face greater uncertainty in respect of their market position than larger ones, leading to short-term investment decisions. They may also fear that training may make their employees more poachable or even that training may not result in improved performance. The cost of training as well as the time away from work may be other disincentives, as well as uncertainty over the suitability and quality of the training itself.

The need to distinguish between initial and continuous training has become more clear. In a two-stage survey involving a broad telephone survey and face-to-face interviews, Kitching and Blackburn (2002) found that most small employers were very likely to provide initial training on the job, though a slight majority of employers (52 per cent) saw no need for additional training. Others (43 per cent) claim to face real barriers such as the cost of training and lost working time, while a very small number (2 per cent) cited the fear of poaching as a barrier to training. Owner-managers themselves are even less likely to train, largely because their absence from work would be felt more strongly.

In this study, differences emerged in respect of sector and occupation when it came to further training, with employees in the services sector, and particularly those in other services and in professional and technical occupations, tending to receive more training. The most prevalent motivations for employers to train were to improve staff skills for their current job and to improve the performance of their business. The attainment of formal qualifications was far less important. The 'default' preference of small employers was for in-house training, as it is better tailored to their needs, more convenient and less costly; external training was resorted to when the in-house training capacity was lacking.

Therefore informal training is more frequent in small firms and may well be better suited to their needs. Furthermore, most training is likely to be offered at induction rather than as continuous development. Patton (2005) describes informal training as a diffuse process that "occurs throughout the organisation as individuals observe, imitate and learn from others on a fragmented and flexible basis" (p. 92). Patton points out that informal training is often described negatively, as 'unstructured' or 'unplanned', which mistakenly suggests that this is of lesser value than formal training. However, he points out that informal training may be an efficient way of passing on the formal learning acquired by one or more employees in a small firm.

Kitching (2007) concurs with the above and adds that there should be greater focus on the role of the employee (in acquiring learning) rather than solely on the employer as training provider. Employees may learn through various processes enabled by the employer, such as the design of work roles, access to significant others and to the tools and materials necessary for learning. In a study based on a telephone survey and face-to-face interviews, the author finds that in fact, employers do purposefully enable such learning for their employees. Like Patton, the author finds the induction period to be particularly important; a time when new recruits “learn their specific work obligations within the new workplace” (p.10), whatever prior learning they may have. Even where training is informal, therefore, employees do have control over the extent of their learning, though the degree to which they are motivated to exploit such opportunities often reflects the broader employment relationship of which they are a part.

3.4.4 Representation

Like family-friendly measures and in-work training, social partnership has received increasing attention at European level and member states are constantly exhorted to involve the social partners in all aspects of employment policy and regulation. However, the concerns of employees of small firms are unlikely to be well-represented in policy debates as small firms tend not to be unionised. In these firms, employers and employees negotiate working conditions in an informal manner. While this may make it easier for the small firm employer to differentiate rewards according to effort, such negotiation occurs under “disparate influences, from the market position of the firm to the nature of social and personal relationships” (p. 15); such influences are likely to have a discriminatory effect “and do not challenge underlying power disparities dependent as they are upon social ties” (p. 15).

If a small firm were unionised, this would lead to the formalisation of job descriptions, payment systems and other working conditions, considerably limiting the owner’s flexibility but also the prospects for discrimination, at least within the firm. Ryan (2005) holds that the small firm owner will resist unionisation as the involvement of unions has traditionally been seen as antagonistic rather than cooperative, and “is seen to dilute control from the owner to outside agencies” (p. 213). Ryan cites work by Guest and Rosenthal (1993) which suggests that some managers even keep their firms small to avoid attracting union interest. On the other hand, he also notes that low representation may also be due to workers’ choice. Some employees may be satisfied with their work and working conditions, and may even accept a lower wage for the familial environment of the smaller firm. Other workers may be too

scared to unionise, or may be apathetic in that they are just passing from one precarious job to another and do not come to identify with any collective interest.

That small firms are far less likely to be unionised than their larger counterparts does not mean that staff in small firms have less grievances, just that they are more likely to either put up with them or to leave. In small firms, labour turnover is probably a better expression of conflict than levels of unionisation; both labour turnover and dismissal rates tend to be higher in small firms (Westrip, 1986), because in a small firm, sometimes the most feasible response to a conflict may be to leave (Stanworth and Curran, 1989).

3.5 Chapter Summary

This Chapter opened by looking at small firms from a small state perspective. It was argued that while small firms may at face value be thought to be creating more jobs than larger ones, it is difficult to derive any definitive conclusions from numbers alone. Measuring what constitutes a 'new' job is fraught with difficulty, and official sources of data may be biased in various ways. Furthermore, it is important to take national differences into account. Firms in small states, for instance, face particular challenges to growth, which are compounded for the smaller firms within them by competition for scarce resources from the public sector and from larger and foreign firms.

However, even given this fact, small states do have room to manoeuvre in terms of their regulatory capacity. Employment regulation is an important aspect of and more and better jobs. Though small firms are frequently vociferous in their opinion of the regulatory impact of regulation, the actual effect of such regulation on job creation and quality is not that evident and differs across countries.

In this Chapter it is suggested that the main opposition of small firms to such regulation may be the perception that it impinges upon their prerogative, as managers, to resolve employment issues through informal negotiation. Four examples of this were provided, namely recruitment, family-friendly measures, training and representation.

In relation to the research questions, it has been seen that small firms, unlike larger ones, prefer to manage their staff on an informal basis rather than formalising procedures in line with regulation and policy exhortations. In the next chapter, a closer look is taken at the ways in which this preference for informality may, in Malta, be reinforced by the dynamics of a small, Southern European state.

CHAPTER FOUR:

SOCIAL CAPITAL IN A SMALL SOUTHERN EUROPEAN STATE

As seen in the previous Chapter, the quantity and quality of the labour supply is one of the few assets available to a small state without natural resources. While employment regulation may serve to improve access to, and conditions of, work, in small firms these issues are often resolved through informal negotiation between employer and employee. In this Chapter the concept of social capital is adopted, to help explore further the norms and networks that may shape the informality in small firm operations. The first section provides an overview of the concept of social capital. The subsequent three sections follow one particular approach which sees social capital as having three levels - bonding, bridging and linking. Each level is examined from the perspective of a small Southern European state, followed by an analysis of the relevance for small firms.

4.1 Social Capital – An Overview

The briefest definition of social capital is that “relationships matter” (Field, 2003, p. 1). This is particularly salient when discussing the dynamics in a small state and in small firms, where proximity, familism and multiplex relations prevail. Though a number of definitions have emerged as the concept gained in popularity in recent years, common to most is the theme that norms and networks can operate to mutual and collective advantage. Trust is seen to be a critical aspect of social capital, even a proxy for it (eg. Fukuyama, 1995).

High levels of social capital have been associated with various economic benefits which should contribute to the successful performance of small firms, such as reduced risk (and therefore transaction costs) in doing business; facilitating innovation and the sharing of knowledge; and promoting cooperative behaviour between firms. More narrowly, reciprocal trust may reduce employers’ need to supervise staff and may encourage them to introduce more flexible work arrangements, as well as making for more cooperative and behaviour between staff and therefore higher productivity (Productivity Commission, 2003).

Although the idea that relationships matter is at the heart of sociology, the concept of social capital as such was only popularized in recent years. As a number of authors point out (Field, 2003; Portes, 1998; Woolcock, 1998), the idea is not a new one. De Toqueville in the early 1800s described the associational life driving democracy and the economy in America;

a century later, Durkheim noted the shift from mechanical to organic solidarity where, under capitalism, interactions and connections multiplied for various purposes. Weber, too, discussed the role of shared values as a key factor defining status groups, and Marx saw the potential of class unity as a means to promote the class struggle. However, it has only been in the last fifteen years that the concept of social capital as such has taken a firm place on the sociological agenda.

The work of a number of authors is pertinent to the current study. First, James Coleman started in the 1980s to illustrate the value of social capital to educational achievement. Coleman (1988) outlined three types of social capital. The first is trust, and the acceptance of reciprocal obligations to which trust gives rise. The second are those channels which allow for the sharing of information and ideas. The third are those norms that serve as incentive, or sanction, for people to put the common good before self-interest.

Coleman studied educational achievement in private and public schools, and found that family background plays an important part. While financial capital and parental education are both important features in explaining their children's achievements, they are not enough. The quality of the relationships in the family, one's rootedness in one's community and the strength of community norms, are even more important; thus the relationship of social to human capital. In his study, Coleman found that pupils in Catholic schools perform better than those in non-religious schools. Coleman attributed this to the impact of community norms on parents and students, and argued that community norms were a source of social capital that could help overcome social and economic disadvantage. Unlike human or physical capital, however, which arise from purposeful choice, social capital was seen to arise as a by-product of other activities pursued by actors in their own self-interest. For Coleman, the family is the primary source of social capital, followed by religious participation (Coleman, 1988). A later study of the United States' National Educational Longitudinal Survey by Teachman, Paasch and Carver (1997) bears out Coleman's assertion that the human and financial capital of parents are important but not sufficient for the human capital development of their children; these assets must be "accompanied by social relationships that allow resources to be transmitted to and used by children" (p. 1356). However, they note the need for more rigorous measures of social capital to be developed, for a better specification of cause and consequence, and interaction effects.

Robert Putnam (2000, 1993) is one of the best known of the social capital theorists. In his earlier work, Putnam studied and compared institutional performance in the northern and southern regions of Italy. He based his study on indicators including policy processes (such

as policy coherence, cabinet stability and budget timeliness) and civic engagement (such as the quantity of cultural associations, electoral turnout and newspaper readership). He came to conclude that northern Italy is more successful because of its vibrant civil society which date back to cooperative habits in the time of the guilds and city states. Lacking such traditions, in the south institutions are weaker and a culture of mistrust rather than of cooperation prevails. The south was lacking those “norms of reciprocity and networks of civic engagement” (1993, p. 167) which improve social efficiency by making co-ordinated, cooperative action much easier.

While networks exist everywhere, they tend to be ‘horizontally ordered’ in more civic communities, and ‘vertically ordered’ in less developed ones – based on solidarity and mutuality in the former, and power and dependence in the latter. Horizontal networks include associations of various types, from sporting ones to voluntary, cultural and mutual aid ones. These associations foster reciprocity and the acceptance and observation of norms; they decrease opportunism and serve to “transmit and refine” reputations (1993, p. 174).

Putnam subscribes to the notion of path dependence, arguing that “social context and history profoundly condition the effectiveness of institutions” (1993, p. 182). He acknowledges the rationality behind the reluctance to cooperate in societies where social capital is lacking, and is almost fatalistic about the prospects of communities without it. He argues that “the civic community has deep historical roots. This is a depressing observation for those who view institutional reform as a strategy for political change” (1993, p. 183). In civic communities, citizens actively work for better government and get it, while in less civic communities, citizens take on the role of “alienated and cynical supplicants”. In turn, the performance of government is highly dependent upon the democratic values and behaviour of citizens and public servants.

It was in a later article entitled “Who Killed Civic America?” that Putnam (1996) defined social capital as such, as those “features of social life – networks, norms and trust – that enable participants to act together more effectively to pursue shared objectives” (p. 56). In his work on ‘Bowling Alone’ Putnam (2000) attributes the decline of social capital in America to the decrease in political and social involvement and a decline in newspaper reading, even if educational levels are rising. He holds that the rise in television viewing is a key source of the decrease in social capital.

Putnam’s work has been criticized on a number of counts, particularly for underplaying the darker side of social capital; for ignoring the role of politics and of power relations in

determining the value of social capital to different groups; and for circularity, or failure to differentiate adequately between the sources and consequences of social capital.

With respect to the first criticism, Portes (1998) discusses the darker side of social capital. He points out that while strong ties may benefit some groups, they may also serve to exclude others. Another darker side is the possibility that a 'closed' community where strong ties prevail may stifle autonomy and initiative, and may give rise to expectations of free-riding. Portes speaks of successful immigrant entrepreneurs who change their name, or their religion, to distance themselves from the claims upon their resources of fellow immigrants. Another negative aspect is the possibility that the norms that bind are not always positive ones, for instance with respect to gangs where norms serve to prevent members becoming upwardly mobile. Sociability, claims Portes, can cut both ways.

With respect to the second criticism, numerous authors have taken exception to Putnam's depoliticised view of social capital. His path-dependency approach sees social capital as the outcome of long-term historical processes and leaves little room for political or human agency. Fine (1999) for instance, suggests that it is yet another tool to detract attention from the proper role of the state in development, placing as it does so much emphasis on civil society and making unjustified extrapolations from micro- to macro- levels of analysis. It is, he says, all about "how the non-economic, or non-market, makes the economic work or work better" (p. 13), ignoring the proper analysis of conflict in explaining development. Similar arguments are made by Harris (2001).

Another author also warns against an uncritical use of social capital, this time referring to the power relations underpinning gender. Molyneux (2002) illustrates that despite a vibrant civil society in Latin America, the failure to address the gender inequality underpinning this system means that the norms and networks upon which civil society is based may serve to reinforce women's inferior status in these countries. Like Fine, she suggests that social capital is yet another tool in the post-Washington consensus to attempt to address issues of development without bringing the state back in. However, norms and networks reflect and reproduce power relations; if social capital is to be a vehicle for change, political agency cannot be avoided. As Molyneux asks,

"Who decides what particular forms of social capital need strengthening, which associations to support, which norms and principles of co-operation are to be upheld, and through the intervention of which agencies?" (p. 176).

With respect to the third criticism, that of circularity, Putnam's work has been criticised for failing to differentiate the sources from the consequences of social capital. As Woolcock (1998) cites Edwards and Foley (1997) as saying, "Defining social capital functionally makes it impossible to separate what it is from what it does" (p. 156). Portes (1998) too, puts it succinctly when he notes that social capital is simultaneously a cause and an effect. He advises on certain logical cautions:

"first, separating the definition of the concept, theoretically and empirically, from its alleged effects; second, establishing some controls for directionality so that the presence of social capital is demonstrably prior to the outcomes that it is expected to produce; third, controlling for the presence of other factors that can account for both social capital and its alleged effects; fourth, identifying the historical origins of community social capital in a systematic manner." (p. 21)

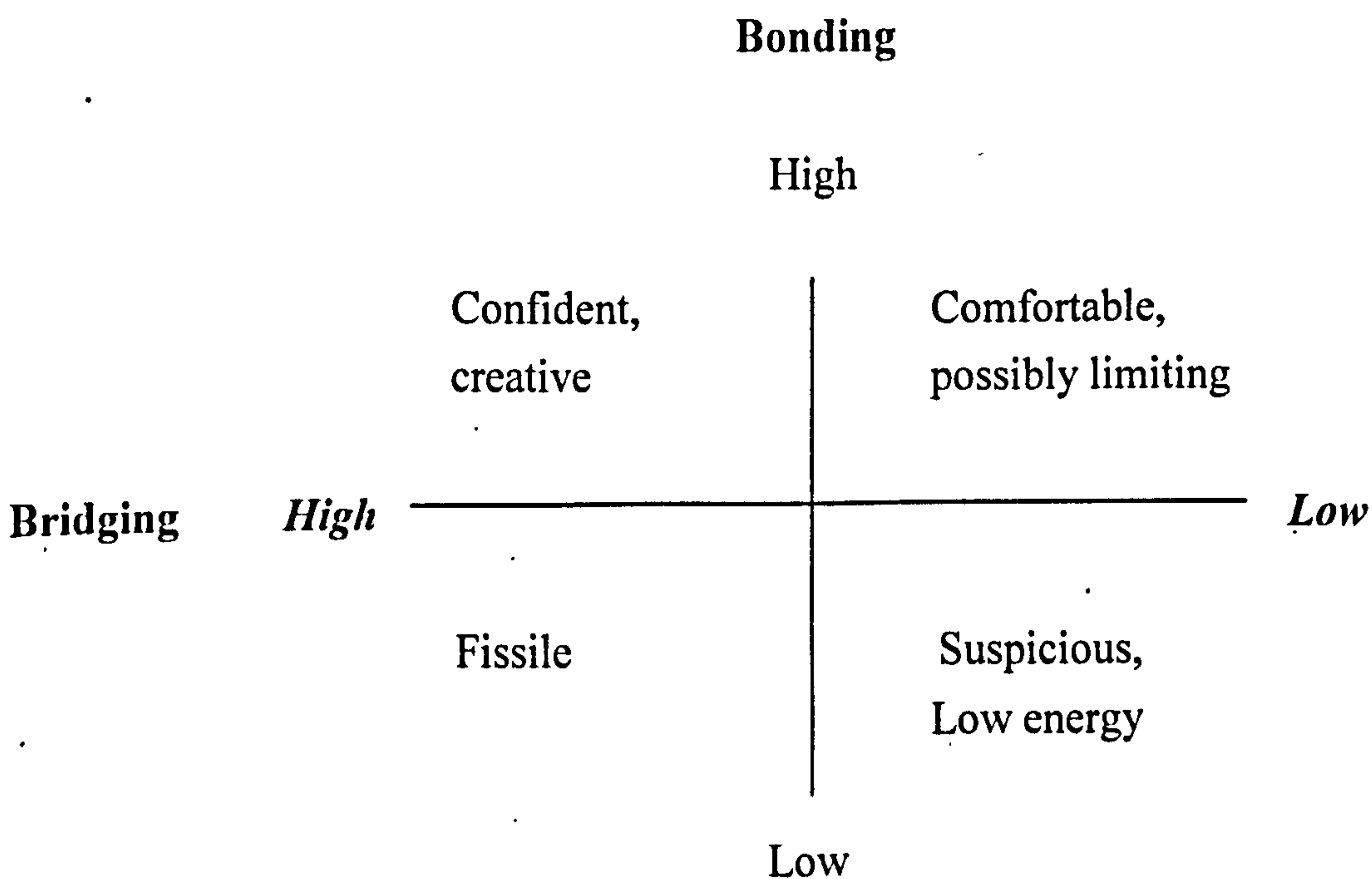
Woolcock (1998) seeks to redeem the concept of social capital by strengthening its conceptual rigour, stressing the need to study social capital as a source rather than a consequence. He discusses two sources – embeddedness and autonomy – that have emerged from the sociology of development. The notion of embeddedness illustrates that opportunities and constraints are shaped by the social, cultural and political context in which an individual finds himself. Embeddedness brings benefits and costs, the calculus of which changes as development proceeds. For instance, while a high degree of density in small-scale village markets may once have been beneficial, it becomes restrictive as the community attempts to move to more complex exchange networks. Embeddedness must be complemented by autonomous social ties such that community members may also access resources beyond their immediate group:

"To overcome the numerous collective action problems entailed in coordinating developmental (as opposed to predatory, rent-seeking or other inefficient) outcomes, actors – and the groups of which they were members – had to be able to draw on both "embedded" and "autonomous" social ties" (1998, p. 164).

This leads Woolcock to reiterate that social capital theory should focus on its sources rather than its consequences, as the consequences differ over time as a result of the different types of social relations. While consequences may indicate the combinations of social capital that are present, they should not be confused with social capital itself.

In a later paper, Woolcock (2000) differentiates between three types of social capital – bonding, bridging and linking (a categorisation also later used by Putnam 2000). Bonding social capital refers to relations between family and friends, while bridging social capital refers to less primary relationships such as colleagues and acquaintances. Linking social capital refers to alliances with positions of power that enable one to leverage information and resources outside one’s community.

Like Woolcock, Schuller (2007) points out that social capital is context-dependent and may be most useful when “viewed over time, in flux and in interaction with other elements of analysis or policy” (2007, p. 13). Schuller goes further, however, to note that bonding and bridging may combine in different ways, not always with positive effects, and posing a ‘complementarity conundrum’ which is reflected in the matrix below.



Source: Schuller, 2007, p. 16

Schuller discusses how bonding and bridging might ideally complement each other, suggesting that “a unit that has high levels of both bonding and bridging would presumably be secure in its own identity and internally cohesive but manages this without closing itself off to new ideas and acceptance of others’ values” (2007, p. 16).

On the other hand, low levels of both bonding and bridging would make for a low-trust, closed system in both social and intellectual senses. Such a system, Schuller suggests, would

be characterized by anomie and bigotry. High bonding and low bridging might be comfortable and possibly effective at one point in history but not at others, making for a “risky degree of closure” (p. 17) when adaptation to change is needed. Low bonding and high bridging suggests a group that lacks a core or uses it only for instrumental purposes. As noted above, this author asserts that the relative importance of either form of social capital differs over time. He states that

“the interesting empirical question is at what point(s) in the life of the unit does bonding social capital begin to need to be complemented by bridging social capital and then whether the growth of bridging social capital leads to a transformation in the identity of the network” (p. 17).

Importantly, the author argues that the value of social capital derives from the way it links to other forms of capital. He argues, for instance, about the importance of studying the links between social and human capital. Social capital may enhance educational outcomes both at school and in terms of their labour market power; social capital may also however diminish the relevance of educational outcomes in settings where networks are more important than technical skill in acquiring a job.

In the sections that follow, each form of social capital is discussed, in the context of Southern Europe and with its possible implications for small firms.

4.2 Bonding Social Capital

As noted above, bonding social capital refers to relations between close groups such as family or friends. An understanding of this issue is important to this study if, as Coleman and others have suggested, the quality of bonding social capital shapes such outcomes as educational achievement and work ethics. It may be argued that the nature of bonds is shaped by their context, which in turn has relevance for the functioning of small firms.

4.2.1 Bonding in Context

The literature on small states, and on Southern European culture, suggests a number of issues relevant to the type of bonds in this context. These may be grouped into the three overarching themes of multiplexity, conservatism and dependency. Their relevance to small firms will be illustrated in the subsequent section.

Living in a small state, and particularly a densely populated one, means that one experiences many lasting relationships in different roles. Benedict (1967) calls this 'multiplexity'. He draws upon the work of Talcott Parsons to suggest that social roles in small societies are particularistic; judgements are made on the basis of who people are and not on what they do. In larger societies, individuals tend to have more impersonal, single-role relationships which is more conducive to the development of universal rather than personal criteria of judgement. A heightened personalism is therefore characteristic of smaller societies.

Also characteristic of small states is a tendency to conservatism and preservation of tradition. This has often been linked to a greater awareness of vulnerability in small states. As the effects of change, even those that may be positive, may be felt to upset the equilibrium to a higher degree than in larger states, people in small states tend to be risk-averse in both social and economic ways. Lowenthal (1987) states that

"Small-state conservatism encourages resource diversification in place of monoculture, keeps open many possible occupational options against the failure of some, inhibits specialisation in favour of all-round competence, maintains economic and social resources in long-term balance and celebrates the virtues of stability and tradition" (p. 38).

So the pursuit of equilibrium is apparent not only in the stricter social norms in small states, but also in the occupational norms of hedging one's bets and seeking all-round competence rather than specialization. From an educational perspective, the more personalized nature of social life in small states together with strong social bonds has a double effect. On the one hand, social control often serves to promote a sound basic education as children are closely supervised by parents and other significant adults (Anckar, 2002). On the other hand, particularism and the importance of personality over competence may lead people to aspire to rise through connections rather than through the pursuit of specialization.

The avoidance of uncertainty has also been linked to certain organizational outcomes. His research on employees' values and attitudes as captured in a standardized questionnaire in fifty countries led Hofstede (1983, 2001) to identify five statistically distinct aspects of culture. One of these is uncertainty avoidance. Hofstede found that while some societies socialize their members to accept uncertainty, risk and difference, other societies seek to avoid uncertainty and to 'outwit the future'. These societies tend to have a proliferation of laws and rules, and to pursue religious or ideological belief with fervour. In an organizational sense, job mobility is low; job preference tends to be for larger organizations

or for self-employment; leadership is hierarchical, task oriented and pessimistic about employees' abilities. Employees, too, have less belief in their ability to influence their own life and the world. Confidence in the rule of law and in authority is low. Hofstede finds that all the Mediterranean and Latin countries, in Europe and America, tend to have strong uncertainty avoidance. This Hofstede suggests is a legacy of the absolute authority of the emperor in the times of the Holy Roman Empire and the traditions of ritual and dogma that took hold in Catholic countries.

A related feature is that of traditional gender roles. The maintenance of strong family bonds in a small state may be seen as part of the pursuit of social equilibrium, and is further strengthened in Southern European culture and its Catholic heritage. Catholicism (and its political expression, Christian Democracy) holds the family to be the basis of society. Man, by working, is the centre of public life while woman, by caring, is the centre of the family and community. Each worker is entitled to a just wage that should suffice for him and his family. Social policies in Southern Europe have generally promoted the male breadwinner model and reinforced the traditional domestic role of women (Pascall and Lewis, 2004; Castles, 1994; Esping Anderson, 1990).

Dependency, too, may be seen to have roots both in a country's size and religious heritage. A number of authors contend that a dependent mentality characterizes small states, and attribute it to the fatalism that is born of limited economic power. Selwyn (1975) for instance suggests that high dependence upon external trade erodes the basis of a nation's self-confidence. This is exacerbated in countries with a colonial past, especially those without the collective experience of mastering their own development. Selwyn cites a Commonwealth 1972 report which says that the "most powerful legacy of economic colonialism...has been the creation of a dependent, mendicant mentality towards development" (p. 18). Fatalism has also been given a cultural, or religious, interpretation. According to Weber (2001) for instance, the rise of the Protestant Ethic put Protestant and Catholic adherents on different economic paths. The former, particularly Calvinists, came to believe in pre-destination where one could show that they were 'elected' through success in worldly matters. Weber contrasts the hard work and restricted consumption that arose from this belief, with the transcendental 'other-worldliness' of Catholic theology where salvation appeared to depend upon magical means.

However, Weber's work has been widely criticized, not least by the Catholic scholar Novak (1993). Novak stresses the need to bear in mind that Northern Protestant countries were more heavily industrialized than Southern ones at the time of writing, which goes quite some

way in explaining the rise of capitalism in the North; he also points out that Catholicism is not inimical to the self-discipline and respect for order required for capitalism to be successful. Novak refers to one hundred years of papal encyclicals to illustrate that Catholic social doctrine has in fact sought to uphold the conditions under which a socially responsible capitalism can flourish.

4.2.2 *Bonding and Small Firms*

The above analysis of the nature of bonds in a small, Southern European state has implications for various aspects of small firms. These are considered in turn.

With respect to the supply and selection of labour, two issues may be pointed out. On the one hand, the importance of 'good fit' – or of acceptability over suitability – in small firms is strengthened by the small state dynamic. The multiplexity of relations in a small state, and possibly the heightened need for clear loyalties and trustworthiness, makes it even more likely that a person will be chosen for who he or she is rather than on grounds of more technical competence alone.

On the other hand, the social conservatism and male breadwinner model characteristic of small and Southern European states respectively may be seen to reduce the secondary labour market upon which small firms are said to draw their labour. The labour supply available to small firms may, therefore, be more limited than it is in a larger or different cultural context.

With respect to the issue of employment conditions, it may be argued that smallness of state reduces rather than reinforces the use of atypical contracts by small firms. This differs from the literature account of smaller firms being more likely to use atypical contracts to 'pass on' the firm's vulnerability to their employees. In a small state, employers' awareness of the limited availability of labour may make them less ready to put at risk the allegiance of acceptable employees. Social norms in a small state are generally conservative and slow to change, perpetuating the use of indefinite contracts. Furthermore, employers' personal reputations may matter more to them in a 'multiplex' context, making them reluctant to be seen as 'poor employers'. This would be reinforced if the employer and employee were connected not only through work, but also through kinship or other close ties. Given all these factors, it would seem more probable that employers in a small state would seek functional flexibility within the firm rather than numerical flexibility, particularly in smaller firms.

With respect to employment relations, small state dynamics would seem to support harmonious employment relations in small firms. As Lowenthal (1987) notes, people in small states need to 'manage intimacy'; they share a history and a future and simply have to get along, and therefore

“minimise or mitigate overt conflict. They become expert at muting hostility, deferring their own views, containing disagreement, avoiding dispute, in the interest of stability and compromise” (p. 39).

Of course this need not mean the absence of latent discontent, yet the avoidance of open conflict that characterises small states may be seen to reinforce the 'get along' imperative of small firms. Furthermore, the strength of the family metaphor in a small Southern European state may also serve to uphold the paternalistic authority said to characterise small firm management.

The pressure to avoid rocking the boat is not only upon employees but also on employers. To return to the concept of multiplexity, Benedict (1967) points out that in smaller states, “impersonal standards of efficiency, performance and integrity are modified by the myriad relationships connecting the individuals concerned” (p. 48). Employers may think twice before upsetting, disciplining or firing an employee, even where this may be warranted, due to complicated social repercussions.

Baldacchino (1999a) describes the mutually reinforcing pressures of both small firm and small state dynamics as a 'double dose of unitarism'. At an organisational level, the small firm is 'unified by common purpose', and “any conflict is pathological, the result of misunderstanding or mischief, and must invariably be weeded out” (p. 107). Power is generally uncontested and resides in one authority, and loyalty to this authority is person-specific. The use of discretion is common, and seen as necessary in a context where social reciprocities must be met and where bureaucratic impersonality is a remote context. The author states, in fact, that “nepotism and discrimination are not dirty words here but basic criteria for employment” (p. 111).

With respect to continuous development, or training at work, small firms were seen above to generally tend more to informal learning than to formal training. This tendency may be stronger in societies with dense social ties. Field and Spence (2000) suggest, like Coleman (1988) that strong bonds may be closely related to high educational achievement amongst children. On the other hand, they suggest that later in life these strong ties displace the need for ongoing formal education in favour of learning informally through one's networks. In a

society that is less based on meritocracy than upon whom one is and who one knows, it may be assumed that one may enter or progress in employment – or even retain one’s job – through one’s contacts rather than one’s qualifications. The perceived need for formal training, therefore, would seem to be lesser in small and tightly knit societies and any learning that is necessary, is more likely to be obtained through one’s networks on and off the job.

4.3 Bridging Social Capital

While bonding social capital refers to norms and networks between closely-related groups of people, bridging social capital is looser in its reference to relationships between colleagues, associates and groups of relatively equivalent peer status. This is closer to Granovetter’s (1973) conception of ‘weak ties’ and how these may actually bring about greater benefits than the close ties usually associated with bonds. Granovetter contends that

“whatever it is to be diffused can reach a larger number of people, and traverse greater social distance...when passed through weak ties rather than strong” (p. 1366).

People with a number of weak ties are more likely to have access to information different from that which they already possess, than those with dense ties within the same community. ‘Intermediaries’, or persons to whom we possess weak ties, are important for spreading the radius of trust and opportunity beyond one’s immediate network. Work settings and formal organisations are two key examples of weak ties which act as ‘bridges’ between what would otherwise be any number of isolated cliques. As Granovetter says, “Weak ties are more likely to link members of different small groups than are stronger ones, which tend to be concentrated within particular groups” (p. 1376). He uses his findings to argue that one cannot study individual experience while ignoring social structure, as

“weak ties, often denounced as generative of alienation...are here seen as indispensable to individuals’ opportunities and to their integration into communities; strong ties, breeding local cohesion, lead to overall fragmentation” (p. 1378).

Granovetter’s work is often cited as a corrective to the more narrow emphasis in some of the social capital literature upon the primary bonds of family and one’s immediate community. The bridging form of social capital may be seen as particularly important to small firms in a small state if these are likely – as the literature predicts – to be fragmented and to suffer

various diseconomies of scale which could be overcome through stronger networking and cooperation.

4.3.1 Bridging in Context

This section examines the issue of bridging social capital from the perspective of a small Southern European state. Two key issues arise, both pertaining to civil society.

The first is the apparent paradox in small states with respect to the co-existence of high levels of civil order yet high degrees of factionalism. In numerous accounts, small states do well on civil rights, exhibiting low levels of civil disorder and discrimination (eg. Sutton, 1987; Anckar, 2002). It is often suggested that the clear national boundaries and dense social ties in a small state reduce alienation and promote a sense of community and shared values. Yet the sharp sense of boundedness that applies at the national level replicates itself in various internal cleavages. Seeking to explain factionalism in small states, which is often of a political nature, Richards (1982) attributes it to particularism:

“In small states people are more likely to consider each other as friends or enemies according to whether they agree or disagree on politics. In larger states, where individuals are less concerned with the full range of interests and opinions of their fellow citizens, they are less likely to judge others as friends or enemies on this basis. The paradox is explained by the depth of feeling involved over divisions in small-scale communities; it is the other side of the same coin. Just as friendships run deeper then so do enmities, involving many aspects of life.” (p. 160).

The second issue relates to the alleged tendency in Southern European states to have limited ties beyond close friends and family, often referred to as familism. Familism is an emotive term. While some argue the centrality of family stability to the high levels of civil order in smaller states, others have argued for the need to extend trusting and reciprocal relations beyond the family.

This argument was discussed in detail in the work of Banfield (1958) on the ‘amoral familism’ he observed in Southern Italy, where people were ‘unable’ to act together for any good beyond that of their family. As noted earlier in this chapter, Putnam (1993) also made this observation about Southern Italy, contrasting it with Northern Italy which he found to have far stronger traditions of civil society than in the South. Unlike the North, which developed cooperative habits in the time of the guilds and city states, the South lacked such traditions resulting in weaker institutions and a culture of mistrust. Fukuyama (1995) refers

to the Protestant Ethic in explaining cultural differences. He claims, like Weber before him, that Protestantism has fostered an entrepreneurial spirit which required the creation of trustworthy relations in networks outside the family in order for capitalism to flourish; Catholicism, on the other hand, has tended to over-emphasise the family bond "at the expense of other forms of sociability" (p. 336). Again, however, the religious interpretation of economic phenomena has been criticized by Catholic authors among others. Fanfani (1935) for instance, once Prime Minister of Italy, links Protestantism with individualism and utilitarianism and claims that unbridled capitalism may undermine rather than build communities. Novak (1993) on the other hand, seeks to avoid prejudice on either part. While he refutes the strict determinism where Catholicism itself is linked to weak civil society, he concedes that

"Protestant cultures are not notably lacking in immense capacity for association, a respect for law and common orderliness; nor are Catholic cultures, including Italy and Spain (and even France) notably bereft of strong expressions of rampant individualism, social divisiveness, resistance to law (as if it were an impediment to liberty) and a certain contempt for pragmatic cooperation across ideological lines." (Novak, 1993, p. 21)

4.3.2 *Bridging and Small Firms*

The case for increased cooperation among small firms in a small state is a strong one, given the constraints arising from size; that is, in respect of land, labour and access to capital. Armstrong and Read (2002) speak of the Minimum Efficiency Scale, or the minimum level of output of a good or service at which production is feasible. Small economies are highly dependent on imports because unlike larger ones, they are less able to exploit economies of scale in import-substitution activities. This also means that the volume and variety of inter-industry transactions is weak, as small economies rarely have vertically integrated chains of economic activities. Domestic production in small states has high unit costs; given the small market, production is likely to be uncompetitive unless export is feasible. Small firms tend not to grow, and therefore take up a larger share of economic space than in larger countries.

Small states are unlikely to have the type of trusting cooperation between the small producers in Pyke's (1988) account who cooperated within vertical chains, and are more likely to have forced cooperation between a more powerful (generally foreign) firm and smaller indigenous ones. It is with respect to cooperation among peer firms that the greatest challenge, and potential, would seem to arise.

One could envisage cooperation of two types. In the first scenario, the merging of smaller firms may increase their economies of scale and strengthen their market position, particularly with respect to export prospects. In the second scenario of a looser form of alliance, small firms could cooperate in ways such as passing on orders and customers, and sharing resources such as premises, expertise and equipment.

However, if the contextual perspective is accurate, such inter-firm cooperation may prove difficult to bring about. Although proximity and dense social ties prevail, weak ties beyond one's family or political factionalism may militate against it. Likewise, the pursuit of equilibrium and the avoidance of risk, coupled with the awareness of cut-throat competition in a limited market, may serve to strengthen a territorial rather than cooperative approach. Small state size which makes cooperation so apparently necessary may actually give rise to the conditions that limit its prospects.

4.4 Linking Social Capital

While bridging social capital refers to loose horizontal ties, linking social capital refers to more vertical ones, where a power distance exists between the two parties involved. Like the previous two sections, linking social capital is examined below in terms of the way it is shaped by the small, Southern European state context, followed in turn by an analysis of the relevance for small firms.

4.4.1 *Linking in Context*

Three types of 'links' that small firms may have within their environment will be considered in this section: with foreign firms, with government, and with the region.

With respect to foreign firms, and as noted in the previous chapter, many small countries are anxious to attract as much foreign investment as possible to compensate for their limited access to capital and ability to export. There tend to be proportionately far more foreign firms in smaller states than there are in larger ones (Dolmen, 1985). Governments in small states may become beholden to foreign firms for fear of the firm pulling out and issuing collective redundancies. The wish to appease these firms may limit government's power to act positively for the whole country's benefit, on matters for instance like employment conditions or subsidies of various sorts.

To turn to government, good governance is an essential part of the context of small firms. A swift, rational and impartial bureaucracy as well as a fair and progressive regulatory framework may both be seen to strengthen 'linking' social capital. This is particularly so for small firms, whose relations with government appear, across the literature, to prove a significantly greater administrative burden than is the case with larger ones. Good governance therefore takes on particular salience for smaller firms.

Small states, however, tend to have a public sector which is at once too weak yet too large. As noted in Section 3.2, the smaller a country, the larger its government will loom because it needs an "irreducible minimum of infrastructure" (Lowenthal, 1987, p. 43). Government's

"aggrandised roles make it a party to every significant enterprise. As it controls access to most skills and funding, no one can move far up any ladder of enterprise without bumping into government. A small state government can thus veto any undertaking that clashes with its own overweening prerogatives. Every entrepreneur must play ball with its leaders. This closes off many potentially attractive avenues of innovation." (Lowenthal, 1987, p. 43).

It is not only the ubiquity of government that may characterise a small state, but also the possibility of less impartial authority. The judiciary and civil service may occasionally find it impossible to escape the influence of other authorities. Speaking of an 'exaggerated personalism', Sutton suggests that "in small states, refuge in anonymity is not possible and pressures toward partisanship are all too palpable" (1987, p. 15). Politicians exert more influence over administrators; bureaucracies are less aloof because those holding office have greater contact with a public whom they may know in other contexts; and public criticism tends to be muted and informal, though often personalised where it does appear. Government is thus less constrained by lobby groups or NGOs due to the greater tendency to 'get along' in closely-knit societies. Conflict tends to be reduced to conflict between persons rather than groups, as group conflict polarises the whole community in a more intense way than in larger countries. For many, it may be difficult to distinguish between different levels of reality, knowing that action in one sphere may closely affect relations in another:

"economic, political, religious, kinship and other systems in small states tend not merely to overlap but to coincide; people expect every social act to have economic and political consequences and vice versa" (Lowenthal, 1987, p. 34).

Two Maltese public policy scholars have discussed the effects of politics and polarisation in their work. Political polarisation has been a feature of Maltese political life for many decades now, and while it may have decreased since the more violent years of the 1980s it remains palpable. Warrington (1995) points out that although the Maltese Constitution is modelled on the classic Westminster/Whitehall ethos of a public service bound by political neutrality and anonymity, this has not prevented an “historically difficult relationship between ministers and public servants” (p. 12) arising from partisan pressures. Pirotta (1997) discusses the ways in which politicisation has aggravated the difficulties of administrative reform. He asserts that appointments to top posts in public entities are not often based on technical excellence, and in any case, those appointed may feel obliged to tow the party line. Pirotta also speaks of the way that independent authorities charged to oversee neutrality in the public service are given negligible resources and then criticised for being inefficient.

The Southern European literature also adds another dimension to the governance issue, that of patronage. Patronage has been said to be more prevalent in Southern European than in northern countries for historical and cultural reasons. Historically, Southern Europe lacked the feudal traditions of the north, which eventually evolved into parliamentary structures; patrimonial authority based on the ‘father-son’ relationship emerged in Southern Europe as the ‘masterless men’ of the South were forced to seek out patrons in the absence of a feudal structure (Kurth and Petras, 1993). These men were coopted into vertical networks of privilege in return for support during turbulent political times; horizontal association and class organization were discouraged, and governance was based on the use of privileges rather than the rule of law.

Boissevain (1977) agrees that patronage may be due to a weak state, but also stresses the importance of the “world of ideas and concepts in which patronage and the brokerage function has all but been ignored” (p. 81). Catholicism, he suggests, is particularly conducive to patronage because it provides an ideological world view based on a “range of benevolent patron saints intermediate between God and favour-seeking, dependent humans” (p. 81). Speaking of Malta in particular, Boissevain notes the central role played by the parish priest in recent decades, when many were illiterate and dependent upon him for housing, credit, employment and access to government officials. This may have fostered the legitimacy of a brokering system, though Boissevain believes that modernization has undermined this dependence and replaced to some extent the power of patrons by a demand for specialized brokers such as trade unions or members of parliament.

In addition to foreign firms and governance, a third aspect of 'linking' social capital is that of regionalism. Early writers on small states did not hold out much hope for the survival of such economies (Dolman, 1985; Ward, 1975) given their vulnerability in a world economy. However, more recent authors such as Armstrong and Read (2002) say that their openness may in fact be an explanation of why small states are disproportionately found in the highest World Bank income bands. Like Armstrong and Read, Baldacchino (2005, 2000) argues that the potential for endogenous policy formation in small states is too often underestimated. Political economy can make a small state resilient by gearing the market to respond rapidly to external opportunities, especially given the fact that small states find it easier to develop "lean, identifiable and accessible decision-making structures [and a strong sense of common identity], to pursue durable, consensual and moderate politics" (Baldacchino, 2000, p. 73).

One policy tool is that of regional integration. Demas (1975) argues that economic integration provides a crucial answer to the dependence and vulnerability of small states, widening the market in various respects and improving the bargaining power of small countries with respect to trade, aid and foreign investment. Others, however, are less positive about the potential for regional integration. Dolman (1985) for instance, speaks of the South Pacific when he compares integration to

"eating spinach: everyone likes it in theory because it is good for you and makes you strong, but few like it in practice... Their hope has been a hollow one. The benefits that have accrued have gone mainly to the bigger islands and countries in the region" (p. 50).

Payne (1987) agrees that one cannot automatically assume that more trade leads to better development prospects. He refers to an earlier work by Viner (1950) which outlines two outcomes of customs union – trade creating or trade diverting:

"Trade creation occurred if a union caused a member to replace its own high-cost production of particular commodities with imports from other members of the union which had lower costs. On the other hand, trade diversion was said to occur when the effect of the union was to cause members to switch their purchases from low-cost sources external to the union to high-cost sources within the union" (Payne, 1985, p. 59).

Both of these may plausibly affect small states in a negative way; the former by displacing indigenous manufacturing and the latter by forcing local producers to purchase more expensive raw or intermediate products from within the union instead of cheaper ones previously purchased from outside it. Payne also suggests that while integration in a union may make small countries more attractive to foreign capital, this may increase the small state's dependence upon multinationals and large foreign firms.

4.4.1 *Linking and Small Firms*

The three issues addressed above – foreign firms, governance and regionalism – all have relevance for small firms.

The presence of relatively powerful foreign firms may affect small local firms, as the former may offer working conditions that local firms find impossible to match. For instance, they may force up wages, undermining the capacity of less efficient, local firms to compete and grow, and employ more labour. Small firms, then, tend to take 'third place' in small states, competing for resources not only with larger local firms where these exist, but also with foreign ones.

The pursuit of foreign direct investment by small states often means that foreign investors tend to be favoured over small local ones, benefiting from government incentives or exemptions to which smaller firms are either ineligible or unable to apply because of procedural or administrative barriers (Reinecke and White, 2004).

The issues pertaining to governance in a small Southern European state also have implications for small firms. If even a minimum administrative infrastructure is to be maintained, then government poses a real challenge to small firms in terms of its absorption of employees from a limited labour supply. The administrative requirements of regional integration places further demands on the competence and breadth of an administration which in turn leads to greater absorption of possibly more qualified job candidates. The arm of government in a small state also has a longer reach, making it more difficult for small firms to evade government's regulatory requirements. If it is true that administration in a small state tends to be less specialised than in larger ones, these regulatory requirements are likely not to distinguish between the situations of smaller and larger firms respectively and therefore to impose a regressive burden upon smaller firms. At the same time, small firms in a small state have been seen to be more dependent upon government, whether – in a general sense – out of the dependence said to characterise small states more broadly, or whether due

to a limited availability of non-governmental sources of funding, training and expertise. Lastly, if it is true that small states tend to be politicised and prone to patronage, small firms may experience uneven access to government assistance or to impartial authority.

To turn to small firms and regionalism, it was seen in the previous chapter that while small firms may benefit, this cannot be automatically assumed. Although regionalism may open up markets for all firms, this brings with it more competition to which smaller firms may be less able to respond due to fewer professional and other resources. If belonging to a region does have the effect of attracting more foreign firms, the impact – particularly of better working conditions in the latter – may not be positive on small ones.

Small firms are also less likely to be able to cope with the administrative procedures involved in exporting and importing within the region. It is often the larger export firms – which are often foreign in small states – that benefit from greater export and related incentives. In the European Economic Area, only 15 per cent of micro-enterprises actually export, compared to 38 per cent and 51 per cent of small and medium-sized firms respectively (CEC 2004b). Based on a survey of 8000 SMEs in the EEA, the European Commission found SMEs to face a number of barriers to internationalisation, most frequently the costs involved (18 per cent) such as market analysis, legal services and translation costs; and the uncompetitive price of their product and service (12 per cent). Environmental factors such as laws and regulations in one's own or the destination country also served as a deterrent though less so than the cost and price issues mentioned above.

4.5 Chapter Summary

This Chapter contributed to the research questions by exploring the ways in which the small, Southern European context may affect the informal relations that characterise various aspects of small firm employment. It was noted that while the importance of relationships is definitely not a new theme in sociology, the concept of 'social capital' as an economic resource has gained in popularity in recent years and may offer a useful explanatory framework. Its downside was also explored, in that dense ties may be exclusive or stifling, and the concept of social capital may disguise the need for political agency or to analyse power relations. Bearing these issues in mind, Woolcock's typology of three possible levels of social capital was adopted for its utility in exploring the ways in which the local context may affect small firms.

At the first level, that of bonding, it was seen that bonds in a small state are likely to be characterised by multiplexity and personalism; conservatism and gender traditionality; and dependency. In respect of small firms in particular, it was hypothesised that these features may further strengthen the tendency of small firms to prioritise the acceptability of recruits over their suitability. It was also suggested that given the personalised nature of life in a small state, the need for lifelong learning may be felt less than it is in larger states where technical merit is more central to occupational progress.

At the second level, that of bridging, it was seen that relations in a small state tend to feature factionalism and the avoidance of uncertainty; to these were added the tendency in Southern European states to familism, or aversion to forming cooperative relations beyond one's family. This makes it particularly challenging to small firms to establish cooperative networks that seem so necessary to help them overcome the diseconomies of scale and competitive pressures from larger and foreign firms.

At the third level, that of linking, it was seen that firms in small states face particular issues in relation to the relatively greater power of foreign firms and also in relation to a relatively overwhelming government infrastructure. In relation to the latter, the literature suggests that the personalism and patronage that are somewhat inevitable in a small and multiplex society may be reinforced by the social effects of a religious heritage that has valued the concept of 'broker-patrons'

CHAPTER FIVE:

METHODOLOGY

This chapter describes the methodology for this work. A definition of the small firm is followed by an overview of, and rationale for, the approach taken. Subsequent sections describe the research design, sampling and analysis used in each of the three sequential phases of fieldwork: the postal survey on employers' perceived responsibilities; the quantitative survey on job creation and job quality in small and larger firms; and the qualitative survey to obtain a grounded understanding of the small firm experience in Malta.

5.1 Defining the Small Firm

Small firms are distinct in terms of the research challenges they present (Curran and Blackburn, 2001; Burrows and Curran, 1989). There are disciplinary difficulties in that small firm research cuts across academic boundaries. There are methodological difficulties in that small firms are hard to capture in a representative sample, and often prove hard to access. Perhaps above all, there are definitional difficulties; it is hard to define a small firm in a way that reflects the realities of different sectors and different countries.

There are no perfect, universal definitions of the small firm. As Burrows and Curran (1989) point out, much research has typically understood the small firm to be a small manufacturing enterprise. This is puzzling, especially as the manufacturing sector provides less than a third of employment in the UK, and the services sector has been steadily growing for years. Whether or not small service firms differ in any meaningful way from small manufacturing firms has not received the attention it deserves. Burrows and Curran (1989) warn against size-reductionism, whether measurement occurs in respect of number of staff, market share, turnover and so on. For a small firm to be considered as such, it should first and foremost be a legally independent entity, as this status "implies a set of real economic and social relations which does lend at least some specificity to such organisations" (p. 530). This legal status should ideally be combined with a grounded notion of size, that is, a measurement relevant to the particular industry being studied. While this may make it somewhat harder to compare small firms across sectors, in reality it is not so much an issue as the boundaries of 'smallness' do not differ greatly, at least not in terms of the number of employees. Burrows and Curran also deal with the issue of the self-employed, and note that because a number of self-employed are really 'quasi-employees', this category should be treated separately from

small businesses. Other factors to be borne in mind when studying small business includes the locality, and the type of social relations prevailing in the group(s) of which the business is a part.

Bearing the above in mind, an attempt was made to find a workable and context-sensitive, definition of small firms. The number of employees was found to be the most useful indicator. Ideally, this would have been combined with financial turnover; however, for the purpose of this thesis, the latter had to be disregarded because this data is only held by the Commissioner of Inland Revenue, is not available for public scrutiny and would therefore have made sampling on the basis of turnover impossible. Employment size was thus chosen to define small firms. In this work, small firms are defined as private sector enterprises with more than two but less than twenty employees. This cuts across the standard EU definition of micro firms (with less than 10 people) and small firms (between 10 and 49 people) but is believed to capture the notion of 'smallness' in the Maltese microstate. Those firms with one or two employees were excluded as they are likely to be quasi-employees or sole proprietorships for whom job creation and job quality are not so relevant, and including them would have skewed the sample.

Recognising that numerical definitions are "semi-arbitrary" (Curran and Blackburn, 2001), an attempt was made to define the small firm in a 'grounded' way that reflects the small scale of economic activity in Malta and the perceptions of enterprises themselves. In Malta, the average firm size is 4 (compared to six in the EU and the UK). 94% of all firms employ less than 20 people (this figure would rise to 99% if the self-employed were included); these small firms represent 60% of all employment. In the EU (EC, 2004a) and the UK (Curran and Blackburn 2001), this proportion of employment is found in small enterprises of up to 50 people. Furthermore, when respondent firms were asked, in the preliminary postal survey described below, what they perceived to be a small firm in their respective sector, they were largely consistent in their replies that around 20 employees constitute a small firm.

5.2 Overall Research Design

In this thesis, a mixed methods approach was taken to study the attitudes and behaviours of small firm employers and to seek grounded explanations for them. This method was chosen in order to address both research questions. The first question, intended to measure whether small firms in Malta differ from larger ones, requires a quantitative approach. The second question, intended to explore aspects of the Maltese context that affect small firm functioning, requires a qualitative approach. The choice of both quantitative and qualitative

approaches was intended to offer not only a snapshot of small firm employment in Malta but to add depth to the findings by situating them in the social, historical and economic context of Malta.

This immediately generates the issue of the 'paradigm debate', or whether mixing the paradigms that are implicit in each of these research approaches is permissible. Using a quantitative design implies a positivist worldview, while a qualitative design implies a constructivist one. Tashakkori and Teddlie (1998) review the history of the positivism versus constructivism debate since the mid-twentieth century and identify core differences between the two paradigms. Positivists believe in the possibility of value-free enquiry into a single reality, where cause and effect are clearly separate and enquiry should be based on prior theory. Constructivists believe that enquiry is shaped by values and that there are multiple, constructed realities that cannot be considered extraneously to the enquirer himself. Cause and effect are hard to determine.

Whether quantitative, positivist research and qualitative, constructivist research can both be included in a single work is often a source of controversy. Purists argue that they are fundamentally incompatible in a philosophical and therefore a methodological sense, and pragmatists argue that they can be fruitfully if carefully combined to complement each other (eg. Ritchie and Lewis, 2003; Punch, 1998; Tashakkori & Teddlie, 1998; Creswell, 1994). These authors agree that the important issue is that method is guided by, and suitable for, the nature of the research questions.

In this work, a pragmatic approach is taken, in view of the fact that the purpose of this study is both to identify behavioural differences between smaller and larger firms (which requires a quantitative approach) and to understand them in local context (to which a qualitative approach is better suited). A useful distinction is that made by Punch (1998) between the 'variable' and the 'case' approach. In the quantitative phase, the focus will be on variables – of firm size, sector and so on – with a view to studying statistical relationships. In the qualitative phase, the focus will be on cases, to gain a deeper contextualised understanding that cannot be obtained through standardised measurement.

The purpose of mixing methods in this thesis, therefore, is not to triangulate in a classic sense, but to "give a fuller picture of phenomena, not necessarily a more certain one" (Ritchie and Lewis, 2003, p. 44). The qualitative study is conducted independently of, and sequentially to, the quantitative one and is intended to add depth to it. While the quantitative element is intended to measure employer behaviours, the qualitative element is

intended to understand employers' perceptions and values. An ontological position of 'subtle realism' is adopted in the qualitative phase (Ritchie and Lewis, 2003 after Hammersley, 1992). That is, it is accepted that there exists a labour market reality in Malta independently of the understanding of respondents, but that may be experienced and interpreted differently by respondents.

With respect to the literature, a deductive approach was taken with a view to developing hypotheses for the fieldwork. The review at the start of the thesis has three parts. The first part provides a brief overview of the Maltese labour market. In the subsequent chapter, a small firm perspective was taken in the review of the literature on job creation in small states and job quality in small firms. The following chapter drew upon the social capital literature more broadly, and analysed it from the perspective of a small state in Southern Europe.

With respect to research questions, these are directional in the quantitative phase. Hypotheses are developed to state and test differences between firm sizes and sectors, and relationships between variables, in the light of the literature review. On the other hand, research questions in the qualitative phase are open-ended and descriptive, seeking to develop a respondent-defined account of small firm employer experiences in the local context. The research questions for both phases are spelled out in the sections below.

With respect to research methods, the quantitative phase consists of a highly structured, closed-ended questionnaire administered during face-to-face interviews with a representative sample of 400 employers in Malta. The results of the questionnaire are analysed statistically on SPSS v.12 and the findings used to confirm or refute the hypotheses. In the qualitative phase, face-to-face interviews are used with 28 small firm employers, with open-ended questions being used to loosely structure the interactions. The interviews were recorded, transcribed and subjected to qualitative analysis on Atlas.ti v 5.0. The findings of both research phases are presented in Chapters 6 and 7, and discussed in Chapter 8.

The forthcoming sections will describe each phase in turn.

5.3 The Preliminary Phase: The Postal Inventory

In Autumn 2003, a questionnaire was designed to determine the issues of greatest concern to employers in small and non-small firms in Malta. When this questionnaire was piloted among ten employers, it was found to be far too long with a number of questions appearing to be redundant. It was therefore decided to design and administer a postal questionnaire

aimed at reducing the number of questions to a more relevant, manageable amount. A Likert-scale inventory of various employer responsibilities was drawn up, consisting of 45 issues. This inventory was sent to 500 employers together with a covering letter. The English versions of both are at Appendix A and B. The sample of 500 firms was taken from the business register on the Employment and Training Corporation's database (ETC). ETC is the public employment service of Malta and holds administrative data on companies as regards their sector, the number of staff, and whether their staff are male or female and work on a full- or part-time basis. This data is based on the mandatory engagement and termination forms that employers must submit to ETC with respect to hiring and releasing staff. At this point of the survey, the inventory was sent to a sample of firms with up to 50 employees, proportionately stratified by manufacturing and services. By the end of November 2003, 132 valid responses were received, as well as 9 invalid ones where only half the inventory had been marked. The 132 responses were put into SPSS and analysed.

Respondents were asked what, in their opinion, constituted a small firm in their sector, in terms of the number of employees. The mean response for the 132 answers was 20.15. The mean was higher for respondents in manufacturing (24.55) than for those in services (18.69). On the basis of these findings, it was decided that, for the purpose of this study, the definition of 'small' would be taken to be 25 in manufacturing and 19 in services.

Respondents were asked to indicate the strength of their agreement or disagreement with a list of 45 employer 'responsibilities'. Responses were coded from 2 (strongly agree) to -2 (strongly disagree) with 0 signalling indecision. The mean scores on the 45 items are tabulated overleaf, ranked in descending order of agreement. Cronbach's *alpha* was also calculated, to test for the level of consistency among the items. *Alpha* was 0.85 indicating an acceptable level of reliability.

Table 7. *Employers' perceived responsibilities*

Employer Responsibility	No.	Min	Max	Mean	Std. Deviation
To be honest and keep his word	132	1	2	1.80	.399
To create trusting relations with clients	132	-1	2	1.75	.484
To produce goods or services of high quality	132	0	2	1.74	.488
To improve the firm's competitiveness	132	0	2	1.74	.456
To protect workers' health and safety	132	-1	2	1.69	.526
To avoid harming the environment	132	1	2	1.60	.492
To increase profits for investors	129	-1	2	1.59	.554
To develop teamwork among employees	130	0	2	1.55	.572
To improve the organisation of work in the firm	132	0	2	1.48	.531
To abide by employment regulations	130	-1	2	1.42	.680
To pay national insurance contributions	131	-2	2	1.40	.910
To create a family atmosphere at work	132	-1	2	1.40	.652
To treat male and female employees equally	131	-2	2	1.37	.758
To recruit on the basis of qualifications and skill	131	-1	2	1.35	.722
To reward those staff who work well	131	-1	2	1.35	.567
To help staff to develop their potential	132	-1	2	1.32	.646
To train employees on-the-job	131	-2	2	1.30	.698
To reward staff for loyalty and long service	130	0	2	1.28	.623
To have a clear hierarchy of authority in the firm	127	-1	2	1.25	.666
To join in the day-to-day work of employees	132	-1	2	1.19	.857
To pay a wage that provides a family a decent standard of living	131	-1	2	1.18	.650
To provide employees with clear job descriptions	131	-1	2	1.17	.776
To relate to one's staff as equals	131	-2	2	1.08	.945
To involve employees in work-related decisions	131	-2	2	1.02	.836
To give part-time employees pro-rated benefits	121	-2	2	.98	.846
To avoid preferential treatment of family members	130	0	2	.96	.720
To employ professional managers	124	-2	2	.92	.925
To adapt one's facilities for disabled employees	120	-2	2	.91	.944
To make contributions to charity	128	-1	2	.88	.819
To pay for courses related to employees' work	124	-1	2	.80	.846
To negotiate salary with employees	131	-2	2	.79	.886
To create new jobs	128	-2	2	.78	.939
To trust employees	130	-2	2	.77	.961
To participate in a sectoral association	130	-1	2	.70	.841
To abide by religious teachings in one's work	123	-2	2	.70	1.016
To offer flexitime to employees	123	-2	2	.59	.999
To offer maternity leave to female employees	128	-2	2	.53	1.019
To participate in an employers' association	129	-1	2	.53	.858
To recruit through open calls for application	126	-2	2	.43	.967
To allow employees trade union representation	126	-2	2	.33	1.138
To recruit persons from disadvantaged groups	116	-2	2	.25	.903
To offer indefinite contracts of employment	125	-2	2	.22	1.062
To offer parental leave to mothers of young children	122	-2	2	.15	1.018
To retain staff even when the business is doing badly	128	-2	2	-.01	1.076
To offer parental leave to fathers of young children	123	-2	2	-.12	1.076

As may be noted, respondents agree more or less strongly with the 'classical' employer responsibilities as well as with those pertaining to rational management methods and with a paternalist approach to employees. However, taking a mean score of 0.8 or less to signal employer disagreement with the responsibilities in question, the following issues arise:

- Recruitment that is open and socially inclusive
- Job creation
- Job security
- Staff training
- Family friendly measures
- Trade union recognition
- Participation in social dialogue

It was therefore decided to focus on these core issues in the main questionnaire to be used in the quantitative phase.

5.4 The Quantitative Phase - More and Better Jobs?

This section sets out the approach taken as regards research questions, design, instrument, sample and analysis with respect to the quantitative study. The purpose of the quantitative study is to test the theory that small firms differ from large firms on various aspects of employment. Firm size is taken to be the main independent variables, and refers to the number of full-time and part-time employees (where two part-timers are considered to constitute one full-timer). Dependent variables include job creation and loss; contract type; staff training; family friendly measures; trade union representation; participation in social dialogue; and attitudes to social policy. Sector is taken as an intervening variable and will be controlled in the study; sector refers to high- or low- skill manufacturing and high- or low-skill services. The quantitative study involved a cross-sectional survey with a structured questionnaire administered through face-to-face interviews with a representative sample of 400 employers, 200 of whom were from small firms and the other 200 from larger firms.

5.4.1 Use of the Literature

The quantitative study was based on a broad-ranging literature review, which included a review of the following bodies of literature: The European Employment Strategy and the various Communications and policy documents issued by the European Commission; the

literature on small states; and the literature on small firms. This review – and the results of the postal inventory - provided direction for the research questions outlined below. An extensive search was conducted for books and journals that address this issue. Most of the literature located was based on the UK. This gave rise to the decision to conduct a second, qualitative phase that would help locate the quantitative findings in local context.

5.4.2 Research Questions

The quantitative study was intended to answer a number of research questions concerning job creation and job quality in small versus nonsmall firms. The null hypotheses stipulate that there is no relationship between the number of employees in a firm and:

- the number of jobs created;
- the number of jobs lost;
- the relative importance of market versus regulatory factors on job creation;
- the proportion of female employees;
- the proportion of definite employment contracts used;
- the use of informal recruitment methods;
- the training of staff;
- the provision of family friendly measures;
- staff representation by a trade union;
- openness to disadvantaged groups;
- employer participation in social dialogue;
- attitudes to government's role in the labour market.

The intervening effect of sector was taken into account in examining the above relationships.

5.4.3 Research Instrument

Bearing the results of the postal inventory in mind, the draft questionnaire was revised and the Maltese version was piloted with a further five employers who were chosen on a 'convenience' basis as follows: 2 in low-tech manufacturing; 1 in high-tech manufacturing; 1 in low-knowledge services; and 2 in high-knowledge services. After the pilot, the questions were simplified and reduced from 32 to 25, and where relevant, it was made possible for respondents to give different answers to the same questions for different occupational categories. The final version is attached at Appendix C. It consists of a number of categorical scales, rating scales and rank-ordered scales that are intended to test the hypotheses outlined above.

The questionnaire requires approximately forty five minutes of respondents' time. A first meeting was held with MISCO International, a reputable survey firm in Malta, to ask them to conduct the fieldwork. An agreement was drawn up with MISCO and the author's employer, the Employment and Training Corporation, kindly agreed to fund the fieldwork. MISCO's sole involvement in this study was to contact interviewers, conduct the interviews and enter the responses in Excel format. The design of the questionnaire and analysis of the interviews were carried out by the author.

It was agreed that MISCO would write to the selected sample and follow up with a telephone call requesting an interview. In the meanwhile, it would train its experienced interviewers in administering the questionnaire. As is their customary practice, a random back-check was carried out on 15% of all respondents to ascertain that the interview took place and that it was of the expected duration.

5.4.4 Sampling

The following table illustrates the number of employers on the ETC database:

Table 8: Private sector employers in Malta

	Less	Total
December 2003		31,257
Less Self-employed without employees	20,050	
Less Government and public entities	637	
Private sector employers of >2 employees		10,570

94% of private sector employers employ less than twenty persons and 60% of all employees. To break these firms down into manageable and meaningful sectors, it was decided to use the EU classification of high- and low-tech manufacturing and high- and low-knowledge intensive services. Dividing the 10,570 employers into these sectors provides the following table:

Table 9: All firms by size and sector

Sector	<25	25 +	Total	% < 25	% 25+	% Total
Low-tech manufacturing	1915	130	2099	93.64	6.36	100
High-tech manufacturing	680	100	830	87.18	12.82	100
	< 19	19 +	Total	% < 19	% 19 +	Total
Low-knowledge services	4900	240	5200	95.33	4.67	100
High-knowledge services	2231	160	2441	93.31	6.69	100
Total	9726	630	10570	93.92	6.08	100

The sample size itself was dictated by affordability and was set at 400 respondents. The size of 400 is one by which the major gains of increasing sample size have been obtained (Blaikie, 2003). Also, at a 95% confidence level, a sample size of 400 has a margin of error between 4 and 5 per cent (Rachad, 2003), a level considered acceptable for the study in question.

Thought was then given to whether to use proportionate or disproportionate stratification to select the sample. A decision was taken to use disproportionate sampling due to the fact that the sectors as outlined above are of considerably different sizes, and the research questions require a sufficient sample size for both 'size' and 'sector' variables to obtain estimates of adequate precision for both these 'subpopulations'. As the primary purpose is to compare on the basis of firm size, and sector, (rather than to derive total population estimates) the decision was taken to use similar subsample sizes both for firm size categories and for firm sectors (Kalton, 1983).

Therefore, the ETC employer database was divided into eight groups (reflecting the possible combinations of size and sector strata), and a sample was drawn from each group using a table of random numbers. After having consulted with MISCO, who informed that they generally have a response rate of 75%, a random sample of 100 respondents was drawn from each group and passed on to MISCO, to complete 50 interviews in each category in total, as follows.

Table 10: Sample composition

	< 25 employees	25 + employees	Total
Low-tech manufacturing	50 (6)	50 (8)	100
High-tech manufacturing	50 (9)	50 (5)	100
	< 19 employees	19 + employees	Total
Low-knowledge services	50 (14)	50 (12)	100
High-knowledge services	50 (5)	50 (6)	100
Total	200 (34)	200 (30)	400

MISCO informed selected respondents in writing of the exercise and of the forthcoming contact, and interviews were held between mid-January and mid-March 2004. By mid-March the data was received, with a response rate of 84% and 400 completed questionnaires as per above categories. That is, in total, 464 respondents were approached. The 64 who refused to participate were spread quite evenly across all categories, suggesting a low response bias. The spread of non-respondents is indicated in brackets in the table above.

5.4.5 The Analysis

Data was received in Excel format and imported into SPSS version 12. The dataset was examined and minor cleaning was undertaken. A descriptive analysis of all independent and dependent variables was carried out. This was followed by the use of bivariate and multivariate tests and factor analysis according to the hypothesis being tested. Effort was made to ensure that the data met the assumptions of the statistic being used, using both parametric and nonparametric tests where appropriate (Blaikie, 2003; Bryman and Cramer, 2001; Miles and Shevlin, 2001). Tests used are tabulated below, followed by an overview of the use of each:

Table 11: Statistical tests used

Type of Data	Relationship between Variables	Differences between Groups
Interval/ordinal	Pearson correlation r	t-test for independent samples
	Factor analysis	ANOVA
	Regression analysis	
Ordinal/nominal	Spearman's rho	
	Chi-square test	
	Phi, Somer's d and Gamma	

- T-tests were used to determine whether the mean number of jobs created, and jobs lost, differed by firm size; Somer's d was used to measure the influence of size on whether or not jobs are lost or gained; Gamma was used to measure the correlation between size and job creation and loss. Bivariate regression was used to determine how much of the variance in job creation and loss is explained by firm size; multiple regression was used to determine the relative influence of other variables in this regard.

- Exploratory factor analysis with oblique rotation was used to collapse a range of variables suggested by the literature review to affect job creation into two broad variables. T-tests were used to determine whether a difference exists between firm size and mean influence of these variables. Partial correlation was used to determine whether the differential influence remains when sector is controlled for.

- An index was created, and correlation was used, to determine whether there exists a relationship between firm size and preference for informal recruitment methods.

- T-tests were used to determine whether the mean proportion of female employees differs in small and nonsmall firms. Bivariate regression was used to test how much of the variance can be explained by firm size. Multiple regression was used to test whether other factors were more or less influential than size in determining the proportion of female staff.

- Correlation was used to determine whether a relationship exists between firm size and the proportion of definite contracts used.

- Indices were created, and t-tests were used, to determine whether a difference exists in the mean scores of (a) incentives offered to employees, (b) family-friendly measures offered to employees; (c) staff training offered to employees, and (d) trade union representation, in small and non-small firms. Results were differentiated by occupational category.

- Factor analysis was used to extract three categories of 'disadvantaged' groups from a longer list, and t-tests were used to determine whether small and nonsmall firms differ in the extent to which they are reluctant to employ persons from these groups.
- Correlations were used to determine whether firm size is related to the extent of participation in a social dialogue forum.
- An index was developed, and correlation was used, to determine the relationship between firm size and attitudes to government's role in the labour market.

The findings are described in Chapter Six.

5.5 The Qualitative Phase

As noted above, a decision was taken to complement the quantitative findings with a qualitative study to situate the findings in local context. There are numerous approaches to qualitative research; Miles and Huberman (1994) set out the recurring features of this approach. Qualitative research involves prolonged contact with a field situation; the search for a holistic understanding of the context under study; effort to capture the perceptions of local actors; extraction of certain themes which must however be maintained in their original forms; little standardised instrumentation; and the use of words as an analytical medium.

The following analytical practices are found across a range of qualitative approaches (Miles and Huberman, 1994).

- Affixing codes to a set of field notes drawn from observations or interviews
- Noting reflections or other remarks in the margins
- Sorting through materials to identify similar phrases, relationships between variables, patterns, themes, differences between subgroups and common sequences
- Isolating these patterns and processes, commonalities and differences, and taking them out in the field in the next wave of data collection

- Gradually elaborating a small set of generalisations that cover the consistencies discerned in the database
- Confronting those generalisations with a formalised body of knowledge in the form of constructs or theories

5.5.1 Use of the Literature

As noted above, a literature review of the literature on social capital and on Southern Europe was undertaken to learn more about the social context in which small Maltese firms operate and the way in which social norms and networks may shape employment issues in their firms.

5.5.2 Research Questions

The qualitative research was guided by the principal question as to how norms and networks in the Maltese environment affect employment in small firms. The interview guide included the following broad questions:

- In what ways does the Maltese environment affect employment in your firm?
 - (explore: market, competition, governance...)
- How has accession to the EU affected you?
 - (explore: policies, regulation...)
- What are the key issues you face in relation to finding staff?
 - (explore: competitors, skill levels, conditions...)
- What are the key issues you face in managing staff?
 - (explore: training, family-friendly, representation)
- What is your vision for the future of your firm?

5.5.3 Sample

Non-probability, stratified purposive sampling was used, where a sample of twenty eight small firm employers was selected. Purposive sampling was used as the purpose of the qualitative phase is to illustrate rather than to measure, so an attempt was made to capture as many respondents as possible from an array of strata. These strata were the skill level of the firm (whether operating in a high- or low-skill sector) and gender (male or female owners).

Respondents were chosen from the Employment and Training Corporation's database on the basis of these strata. This sampling frame was believed adequate because it represents all employers (who are bound to notify their details to ETC), and because it provides the details necessary for the purposive sampling in this study.

The sample size is relatively small, as is the case in most qualitative research, for a number of reasons. Qualitative research does not aim to make statements about prevalence or incidence. Rigorous analysis of the data produces significant detail, and brings the researcher to a point where no new evidence emerges. As Ritchie and Lewis (2003) point out, phenomena only need to appear once to be part of the analytical map. The choice of sector as stratifier was chosen as it was believed important to employers' experience of the labour market and their approach to their staff. Gender as a substratifier was chosen as the literature suggests that the female experience is psychologically and socially different, whether for essentialist or structuralist reasons, than that of men. Equal numbers were chosen from high- and low-skill services and high- and low-skill manufacturing; further, in each of these strata, five men and two women were selected. Interviews were held with the owner-managers of the firms below.

Table 12: Qualitative Survey respondents

Interview	Firm	Staff	Reference Code in Chapter 7
July 2004	Real Estate	5 + self-employed	R8
July 2004	Supermarket	19	R14
July 2004	Design and Printing	14	R17
July 2004	Insurance Agency	12	R2
July 2004	Technical Services	21	R11
July 2004	Retail DIY	9	R26
July 2004	Business consultancy	2 + part-timers	R13
July 2004	Auditing	12	R20
August 2004	Aluminium services	11	R5
August 2004	Guest House	3	R7
August 2004	Souvenir manufacturing	11	R10
August 2004	Retail - photographic equipment	5 + 2 part-timers	R4
August 2004	Beauty Services	14 + 4 part-timers	R12
August 2004	Financial services	7 + 20 part-timers	R18
August 2004	Woodwork	10	R1
August 2004	Biscuit factory	7	R16
August 2004	Electronic equipment factory	15	R28
August 2004	Web design	15	R23
September 2004	Confectioner	8	R24
September 2004	Vintner	19	R25
September 2004	Woodwork	6	R3
September 2004	Wholesale: food & beverages	12	R21
September 2004	Wholesale – import of clothing	9	R9
September 2004	Restaurant	15	R15
September 2004	Financial consultancy	8	R22
September 2004	Travel agency	8	R19
September 2004	Recruitment agency	14	R27
September 2004	Cleaning services	6 + 16 part-timers	R6

5.5.4 Data Collection

The author held one interview with each respondent. Initially, thought was given to whether in-depth interviews or focus groups would be best suited to the research question. However, it was decided that in view of the highly competitive nature of the local labour market and the fact that focus groups would inconvenience very busy respondents, in-depth interviews conducted at a time and place suitable to respondent were more appropriate.

After identifying potential respondents, these were sent an email explaining the purpose of the study, the expected duration of the interview, the use to which results would be put, an assurance of confidentiality and a request for an appointment at a time convenient to them.

Thirty seven employers were contacted, and twenty-eight agreed to be interviewed. The nine who refused were spread evenly across the four categories of high-skill manufacturing and high-skill services; low-skill manufacturing and low-skill services.

The author conducted the interviews between July and September 2004 at the employers' premises. Each interview lasted between 1¼ to 1¾ hours. All respondents consented to the interview being recorded, on the understanding that the focus was on themes rather than cases, that they would remain anonymous and that the recording would be destroyed after transcription.

The interviews were loosely structured around an interview guide; the number of questions was kept small and they were not pursued in the same order to allow for more responsiveness to individual respondents.

During the interview, a balance was sought between allowing the respondent to express him/herself fully and to define his/her experiences and concerns; and ensuring that each of the above themes was explored in sufficient depth. This involved minimum intervention on the researcher's part though with occasional probing to encourage respondent to clarify, amplify or explain further. Efforts were made to use non-leading, clear and open questions, to encourage a fuller expression.

5.5.5 Data Management and Analysis

Each interview was transcribed and then translated into English with careful attention being paid to retain semantic and conceptual equivalence during translation (Behling and Law, 2000). The transcriptions were done in Word, and then imported to Atlas.ti v. 5.

Early on in the fieldwork, the issue arose as to which analytical framework should be used. Grounded theory was explored, to see if it would be a suitable approach to generate an explanation of the particularities of small firm employers. However, as the work progressed, it became evident that the search for a central explanatory perspective would force the data and lead to a loss of information. The decision was taken to utilise 'Framework', a matrix-based method to manage and analyse data that was developed by the National Centre for Social Research, UK. It is a

“matrix-based analytical method which facilitates rigorous and transparent data management such that all the stages involved in the analytical hierarchy can be systematically conducted. It also allows the analyst to move back and forth between different levels of abstraction without losing sight of the raw data.” (Ritchie and Lewis, 2003, p. 220).

The steps involved in managing and analysing the data are detailed below.

The first step involved the identification of initial themes under which the data would be labelled, sorted and compared. The transcription and translation of each interview was followed by coding of key themes. An initial thematic index was then drawn up, using Atlas.ti v. 5 to identify and retrieve themes. This initial index was developed into a higher-order framework with smaller, broader categories. In identifying themes, efforts were made to remain close to the terms and language used by respondents, in some cases using in-vivo codes.

The framework themes were then re-applied to a fresh set of interview transcripts. The data was sorted to locate material with similar properties together. This was intended to allow a focus on each subject in turn. Data was sorted electronically, in a new file so as not to lose each interview in its original format. The next step was to reduce the data into main themes and subtopics, each theme on a separate chart. Each respondent was allocated a row in the matrix, with each subtopic entered into separate columns. The first column was reserved for identification of respondent subgroup while the last was reserved for researcher's observations. Page numbers were entered in each cell to allow for easy reference to transcripts; where valuable quotations existed, these were referred to with an asterisk and page number.

After the charts were constructed on joined-up sheets of A3 paper, a descriptive account was developed. A reading took place of each subtopic across all cases, to determine the range of views, behaviours and experiences of respondents falling under that theme. Higher level categories were once again identified, and data assigned to them. This involved a move beyond original text towards a higher conceptual order, and therefore involved a degree of interpretation.

5.6 Chapter Summary

This Chapter presented the methodology utilised for this work. The difficulties in researching small firms were discussed, and this was followed by an overview of the overall research design. A mixed methods approach is adopted, to address both research questions as to whether or not a size effect is visible even in a small state, and as to those factors in the Maltese context that are seen to affect small firm functioning. The first question is addressed through a quantitative study, while the latter question is addressed through a semi-structured qualitative study.

The numerical definition of small firms was derived from a postal questionnaire sent to firms in the manufacturing and services sector, who perceive small firms to have around 24.5 persons in the former and 18.7 persons in the latter sectors. This postal inventory also served to identify the most pressing concerns of respondents versus their staff, which helped to focus the subsequent quantitative questionnaire.

The quantitative study was based on face-to-face interviews with four hundred Maltese firms, stratified by size, skill and sector. Areas examined included job creation; type of contract; staff training; family friendly measures; trade union representation. and social dialogue. This Chapter outlined the nature of the statistical tests used. The subsequent qualitative phase was based on face-to-face in-depth interviews with twenty eight employers in different sectors, and the transcripts were analysed to arrive at ten higher-order categories and five strategies. The findings of both the quantitative and qualitative chapters are discussed in the two forthcoming chapters.

CHAPTER SIX:

EMPLOYMENT IN SMALL MALTESE FIRMS – THE QUANTITATIVE FINDINGS

This chapter presents the findings of the quantitative survey carried out among four hundred Maltese employers, with a view to addressing the first research question as to whether a size effect is still evident among small firms in a micro-state like Malta. Thus, the work in this Chapter seeks to answer whether smaller and larger firms in Malta are distinct on a number of employment characteristics.

The Chapter is divided into five sections and a summary. The first describes the characteristics of respondent firms, with respect to their age, turnover, gender profile and whether or not they are more likely to be family firms. It also examines the educational levels of respondents, and the different motivations for founding the firm, amongst those respondents who were founders.

The second section looks at differences in job creation and job loss by firm size, for the year 2003, taking sector into account. The third section looks at differences in job quality by firm size, while the fourth looks at differences in approach to social inclusion. The fifth section examines differences by firm size in respect to participation in social partnership. The sixth and last section is a summary of the chapter.

6.1 Respondent Characteristics

As described in the methodology chapter, the data was collected from a disproportionately stratified random sample of 400 employers, drawn from the database of Maltese employers held by the Employment and Training Corporation. The sample was disproportionately stratified to allow for comparison between firm sectors. Fifty employers were drawn by means of a table of random numbers from each of the following categories:

- High-knowledge services, between 2 and 19 employees
- Low-knowledge services, between 2 and 19 employees
- High-skill manufacturing, between 2 and 25 employees
- Low-skill manufacturing, between 2 and 25 employees

- High-knowledge services, 20 and over employees
- Low-knowledge services, 20 and over employees
- High-skill manufacturing, 26 and over employees
- Low-skill manufacturing, 26 and over employees

The interviewed firms have been established for a mean of 26 years (*minimum less than one year, maximum 300 years*), or a median of 17 years.

Table 13: Age of firm

	Frequency	Per cent	Cumulative per cent
< 10 years	106	26.5	26.5
10 – 49 years	242	60.5	87.0
50 – 99 years	36	9.0	96.0
> 100 years	16	4.0	100.0
Total	400	100	100

Small firms in Malta have been established for less time than non-small firms. The mean number of years established for small firms is 19.6 while that for non-small firms it is 31.4. These means are significantly different ($t=4.27$, $df\ 323$, $p<0.001$).

Respondents differed in terms of turnover. 50.2 per cent of firms interviewed had a turnover, in 2003, of below Lm250,000 (*lira maltija*; in total, approximately £Stg 400,000). The largest category of firms had a turnover of more than Lm1,000,000. The distribution of firms' turnovers is skewed at the lower and upper ends. As may be expected, there is a significant and strong relationship between turnover and firm size; the larger the firm, the higher the turnover (Cramer's $V=0.74$, $p<0.001$).

Table 14: Respondents' turnover

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	< Lm10,000	41	10.3	13.4	13.4
	Lm10,000 - Lm49,999	44	11.0	14.4	27.9
	Lm50,000 - Lm99,999	22	5.5	7.2	35.1
	Lm100,000 - Lm149,999	21	5.3	6.9	42.0
	Lm150,000 - Lm199,999	14	3.5	4.6	46.6
	Lm200,000 - Lm249,999	11	2.8	3.6	50.2
	Lm250,000 - Lm499,999	48	12.0	15.7	65.9
	Lm500,000 - Lm999,999	33	8.3	10.8	76.7
	> Lm1,000,000	71	17.8	23.3	100.0
	Total valid	305	76.3	100.0	
Missing	Don't know/no answer	77	19.3		
	Did not have full financial year	16	4.0		
	No turnover	2	.5		
	Total missing	95	23.8		
Total		400	100.0		

On average, the mean number of employees per firm was 43, though the median of 19 is probably a better indicator (minimum 1, maximum 2307, standard deviation 132). In the small firm category, the mean number of staff is 6 (median = 4); in the non-small category it is 81 (median = 40).

Table 15: Firms by Number of Staff

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Under 10	169	42.3	42.9	42.9
	10 to 49	156	39.0	39.6	82.5
	50 to 249	60	15.0	15.2	97.7
	250 and over	9	2.3	2.3	100.0
	Total	394	98.5	100.0	
Missing	System	6	1.5		
Total		400	100.0		

If one looks at staff profile by size, small firms have a higher proportion of male staff, and a correspondingly lower proportion of female staff, than non-small firms. In small firms, the mean female share of employment is 23.6 per cent while that in non-small firms is 34.4 per cent. This difference is significant ($t=-3.6$, $df=398$, $p<0.001$).

This finding differs from the claim in the literature reviewed, that small firms are more likely to employ female staff from the peripheral labour market. It is quite possibly explained by the fact that the female employment rate in Malta is very low, standing in 2005 at 33 per cent of working age women compared to the EU average of 54 per cent. Small firms in Malta have a smaller labour pool from which to draw staff. It is also probable that small firm employers are wary of the recently promulgated family-friendly legislation which may affect their willingness to recruit women. These issues will be explored further in the qualitative study.

If one examines the spread of occupations across firms by size, it may be noted that managerial/professional staff make up the largest group in small firms while elementary level staff make up the largest proportion in larger firms. At face value this is surprising, as the literature predicts that small firms do not use professionals or professional managers to the same degree as larger firms. However, it may be quite easily explained by the fact that the owner-managers classify themselves in this bracket. There is also a slight difference in the technical grade, with a higher proportion of technical staff in larger firms. However, the proportions of clerical and crafts/trades employees are similar across firm sizes.

Table 16: Average proportion of staff in each occupational category

	Number of firms	Overall Mean	Means by firm size		T-test
			%		
			Small	Non-small	
Managerial/professional	398	29.45	40.07	18.6	$t=9.33$, $df=395$ ***
Technical	398	6.62	5.15	8.13	$t=-2.34$, $df=398$, **
Clerical/sales	398	16.35	15.09	17.65	$t=-1.19$, $df=398$, NS
Crafts/trades	398	20.24	19.84	20.64	$t=-0.30$, $df=398$, NS
Elementary	398	19.85	10.66	29.22	$t=-7.95$, $df=398$, **
Total	398		100	100	

*** significant at the 0.005 level, ** at the 0.05 level, NS not significant

As regards the legal form of interviewed firms, 66.3 per cent were companies, 19.8 per cent were self-employed with employees, 7 per cent were partnerships and 7 per cent were other types of organization, primarily schools, health associations, Church associations and a co-operative.

Over half of the firms interviewed (56.5 per cent), described themselves as family firms. Of these, 95 per cent said that the family owns more than half the firm, and 70 per cent said that more than half the management are family members. Size is significantly correlated to being a family firm; while 65 per cent of small firms are family firms, this is only true of 48 per cent of non-small firms (Cramer's $v=0.17$, $p<0.005$). Likewise, the mean number of staff in family firms is much lower than that in non-family firms (28.4 compared to 62.3). These differences are statistically significant ($t=-2.3$, df 193, $p<0.05$). This may suggest that family firms are reluctant to grow or may lack the resources to expand significantly to enter the larger firm category.

Almost half the respondents (43.3 per cent) said that they had founded the firm. While 62 per cent of small firms were managed by the founder, this was only true of 24 per cent of non-small firms. Being small is moderately and significantly correlated to being managed by the founder (Cramer's $V = 0.38$, $p<0.005$). Altogether, therefore, we have a picture of the smaller firms being considerably younger in age than the larger ones, more likely to be managed by the founder and to be a family firm.

The 173 founder-respondents indicated the following reasons for having founded the firm. The question allowed for multiple responses. Independence and income were the most common replies and were important factors for over four in five founders. Two thirds mentioned the creation of work as an important factor, while one third said that they had no other choice at the time. If one distinguishes, however, between small and non-small firms (125 and 48 respondents respectively), one finds a major difference. The only factor regarded by a higher proportion of smaller firms than larger ones to have been relevant in their founding the firm, was that they had no other choice at the time.

Table 17: Reasons for founding the firm

Factor	% Respondents Regarding this factor As important in founding their firm		
	Small firm founders	Non-small Firm founders	All firm founders
	%	%	%
The ability to work independently	83.2 (104)	89.6 (43)	85.0 (147)
To increase one's income	80.0 (100)	87.5 (42)	82.1 (142)
To produce a particular good or service	73.6 (92)	83.3 (40)	76.3 (132)
For the sake of challenge	72.8 (91)	77.1 (37)	74.0 (128)
To create work	59.2 (74)	75.0 (36)	63.6 (110)
No other choice at the time	36.8 (46)	31.3 (15)	35.3 (61)
To follow a family tradition	23.2 (29)	31.3 (15)	24.0 (42)

(N italicised in brackets)

These responses are somewhat different from those found by Spence (2000) in her interviews with small firm, British owner managers. These differences are most apparent on the issue of working independently, which was clearly the favourite reason for small-firm Maltese owner managers (83.2 per cent) but less so for the British ones (50 per cent). Also, increasing income was more important to Maltese respondents which, at 80 per cent is double that found among British respondents (41 per cent). The provision of the actual good or service was also more important in Malta (73.6 per cent compared to 53 per cent) although the attraction of 'challenge' was rated the same (72.8 per cent compared to 72 per cent). The Maltese respondents were almost three times more likely to cite 'the creation of work' as a reason for starting the business (59.2 per cent compared to 23 per cent in the UK). Around one third of respondents both in Malta and the UK started their business as they had no other choice.

It is difficult to interpret these different motivational profiles with any certainty, yet one may speculate that the greater importance given to independence and to income in Malta may indicate a reactionary approach to setting up business, perhaps branching out on one's own after less than satisfactory incomes in someone else's employ. If this is true, it may support the thesis of Wennekers *et al* (2002) who claim that starting a business in the poorer Mediterranean countries may be due more to 'push' factors than to 'pull' ones as in richer countries with better employment and industrial relations more generally. Having said that, the relatively high importance given by one-third of the Maltese respondents to creating work is positive, and may reflect the Maltese reality where founding and running a firm is very much a family affair and one likely to involve the employment of spouses and children, siblings and their children too.

When respondents were asked about their position in the firm, 49.3 per cent said that they were the firm's owner; 29.9 per cent were senior management; 20 per cent were the general manager or chief executive officer, while 1 per cent were presidents or directors. 80.3 per cent of respondents were male and 19.7 per cent were female. Most were aged between 35 and 54 (56.3 per cent) followed by those under 35 (24.3 per cent) and by those over 54 (19.5 per cent). Just under a third had attained secondary level education (31.3 per cent), 44.3 per cent had attained post-secondary certification while just under a quarter had tertiary qualifications (24.6 per cent).

As the table below illustrates, the educational levels of owner-managers of small firms is significantly lower than those of larger firm owners. 43 per cent of small firm respondents only have secondary level education or lower; the comparable percentage for larger firm respondents is 19.2 per cent with the rest having achieved post-secondary or tertiary levels of education (*Somer's d=0.24****).

Table 18: Educational level of respondents

Educational level	Small firms	Non-small firms
	%	%
Primary	5.4	1.5
Secondary	37.6	17.7
Post-secondary	39.1	49.5
Tertiary	17.8	31.3
Total	100	100
	N=200	N=200

To sum up this section, therefore, it was seen that small firms are younger and have a lower turnover than larger ones. The median number of employees in small firms is four while in larger ones, it is 40. Small firms have a lower share of female employees than larger ones. They are more likely to be family firms and to be managed by the founder. The most important reasons to setting up one's firm were greater independence and a higher income. Small firm employers have lower educational attainments than those in larger ones.

6.2 Job Creation

This section presents the findings about the numbers of jobs that were created and lost by firm size in 2003. It also presents the relationship between occupational skill and the creation and loss of jobs, then goes on to explore the impact of market and regulatory factors on respondents' decision to create a job.

6.2.1 Job Creation and Loss in 2003

The year 2003 was the most economically challenging one that the country has experienced in two decades, with unemployment rising to a high of 5.7 per cent and GDP (at constant 1995 prices) decreasing by -1.7 per cent (after growing by an annual average of 3.76 per cent between 1995 and 2003). Respondents were asked about the number of jobs they created and lost in this year, in each occupational category.

One third of all firms reported having created jobs in 2003. Small firms created less jobs than their larger counterparts (means of 0.52 and 2.85 jobs respectively). A t-test indicates that this difference is significant ($t=4.5$, $df\ 215$, $p<0.005$).

One fifth of all firms report having lost jobs in 2003. Small firms lost less jobs than larger ones (mean job losses of 0.3 and 4.1 respectively). These differences are significant ($t=2.46$, $df=197$, $p<0.05$).

Table 19: Net change in firm size in 2003

		Firm size		Total	
		Small	Non-small		
Change in 2003	Lost jobs	Count	23	37	60
		%	11.4%	18.7%	15.0%
	Status quo	Count	139	77	216
		%	68.8%	38.9%	54.0%
	Gained jobs	Count	40	84	124
		%	19.8%	42.4%	31.0%
Total	Count	202	198	400	
	%	100.0%	100.0%	100.0%	

Somer's $d = 0.14$ **, Gamma = 0.23 **

As may be seen, small firms were more likely to have remained stable in size in 2003 than non-small firms; a smaller proportion of small firms were likely to have lost jobs, and a smaller proportion was likely to have created jobs in 2003. It is clear that size has an influence on whether or not jobs are lost or gained ($d=0.14$, $p<0.05$), and that there is a weak positive correlation between size and job creation ($G=0.23$, $p<0.05$). Measures for association and influence between net change in firm size, and (a) firm sector and (b) firm skill level, were not significant, suggesting that size acts relatively independently on the number of jobs lost or gained.

Bivariate regression of firm size and jobs created in 2003 produced an R^2 of 0.027; that is, firm size explains 2.7 per cent of the variance in the number of jobs created in 2003. Multiple regression was then carried out to check for the effect of a range of other variables that may plausibly have affected the number of jobs created in 2003. The variables entered below explained 13.9 per cent of the variance, which is a definite improvement. However, the standardized *Beta* coefficient is highest, and only significant, in the case of firm size.

Table 20: Regression - Jobs Created in 2003

	Unstandardized Coefficients		Standard-ized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.453	2.041		.222	.825
Number of staff	.024	.005	.277	4.518	.000
Mean influence of regulatory factors	-.482	.495	-.059	-.975	.330
Mean influence of market factors	.481	.510	.057	.943	.347
Whether participates in social dialogue	.989	.700	.087	1.412	.159
Age of firm	-.183	.479	-.023	-.381	.703
Proportion of female staff	-.014	.012	-.078	-1.231	.219
Proportion of low-skilled staff	.009	.014	.043	.648	.518
Whether family firm	.266	.692	.023	.384	.702
Whether managed by founder	.027	.705	.002	.039	.969
Whether high turnover	.278	.707	.025	.393	.694
Whether high skill firm	-.798	.705	-.071	-1.132	.259
Whether services sector	-.464	.728	-.041	-.638	.524
N=400 R=0.373 R ² =0.139 Std error of the estimate 5.37					

The same exercise was carried out for jobs lost in 2003. Bivariate regression of firm size and jobs lost in 2003 produced an R^2 of 0.293; that is, firm size explains 29.3 per cent of the variance in the number of jobs lost in 2003. Thus, firm size is far stronger in its ability to

explain jobs lost than jobs gained. Multiple regression was then carried out to check for the effect of a range of other variables that may plausibly have affected the number of jobs lost in 2003. The variables entered below explained 36.8 per cent of the variance, which is a definite improvement. However, once again, the standardized *Beta* coefficient is highest, and only significant, in the case of firm size.

Table 21: Regression – Jobs lost in 2003

	Unstandardized Coefficients		Standard-ized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.552	4.118		.377	.707
Number of staff	.069	.005	.607	13.062	.000
Mean influence of regulatory factors	-.779	1.108	-.035	-.703	.483
Mean influence of market factors	-1.092	1.169	-.046	-.934	.351
Whether participates in social dialogue	.424	1.561	.013	.271	.786
Age of firm	-1.087	1.098	-.047	-.990	.323
Proportion of female staff	.016	.026	.031	.623	.534
Whether family firm	.129	1.552	.004	.083	.934
Whether managed by founder	2.556	1.582	.080	1.616	.107
Whether high turnover	-.113	1.561	-.004	-.072	.943
Whether high skill firm	-1.970	1.575	-.063	-1.251	.212
Proportion of low skill staff	.013	.030	.023	.444	.658
Whether manufacturing	2.029	1.614	.064	1.257	.209
N=400 R=0.607 R ² =0.368 Std error of the estimate 12.76					

6.2.2 Creation and loss of jobs by occupational skill level

Of the 669 jobs created by respondent firms in 2003, 20.5 per cent were high-skill and 79.5 per cent were low-skill.¹ A weak correlation was found to exist between the number of high-skill jobs created and firm size ($r=0.228$, $p<0.001$). This was more true in services, where high-skilled jobs accounted for 40 per cent of those created, compared to 20 per cent in manufacturing. The correlation between sector and the proportion of new jobs that were high skilled was weak though significant ($\rho=0.213$, $p=0.001$). A significant correlation also exists between family firm and the proportion of high-skilled jobs, where family firms were less likely to create these than non-family firms ($\rho = -0.218$, $p<0.05$).

¹ Low-skill include clerical, services and sales workers; crafts and trades; plant and machine operators; and elementary occupations. High-skill include managerial, professional and technical jobs.

The above suggests that – in 2003 at least – larger firms were more likely to create additional jobs, and more likely to create high-skilled ones, than were smaller firms. While firm turnover is positively related to the number of jobs created, it does not affect whether these are high- or low-skilled ones. On the other hand, while sector does not affect the number of jobs created, a higher proportion of jobs created in services are high-skilled. Family firms are no less likely to create jobs, but when they do, these are less likely to be high-skilled ones.

Of the 867 jobs lost in 2003, 8.4 per cent were high-skill and 91.6 per cent were low-skill. A modest correlation was found to exist between the number of low-skill jobs lost and firm size ($r=0.547$, $p=0.001$). Far more of the jobs lost in manufacturing were low skill (95.5 per cent) than in services (73.7 per cent); the correlation between sector and the proportion of lost jobs that were low-skilled is low but significant ($\rho=0.269$, $p<0.005$). Neither turnover, nor firm skill or whether a firm was family run or not were correlated to the proportion of lost jobs that were low skill.

The above indicates that, in 2003, larger firms were a lot more likely to lose jobs than were smaller ones. While the manufacturing sector was no more likely to lose jobs, the proportion of low-skilled jobs that it lost was higher than that in the services sector. The European Commission, in its Observatory report on SMEs in Europe 2003, also shows that smaller enterprises tend to hoard labour in downturns, unlike larger firms which shed labour, because the loss of even one person in a small firm is far more likely to affect production capacity in a small firm. Besides, the Commission says, the stronger personal ties in small firms often make it harder for the owners to discharge staff (CEC, 2004).

However, the above finding that larger firms were more likely to lose jobs may mask a respondent bias. While large firms who have lost staff were still likely to be open and therefore to appear in the sample, small firms who lost staff may well have disappeared altogether and therefore not appeared in the sample. For this reason, data was obtained for the last thirteen years (1990 to 2003) on change in Gross Domestic Product (at constant 1995 prices) and unemployment, to check for correlations between firm size and the latter two factors.

Correlations were highly significant. That is, the small firm share of employment decreases

when GDP goes down; it also decreases when unemployment rises. Both these correlations suggest a greater vulnerability of small firms in times of economic downturn and rising unemployment.

Table 22: Small firm share of employment and GDP Change

		Small firm share	GDP
Small firm share of total employment	Pearson Correlation	1	.661(**)
	Sig. (1-tailed)		.005
	N	14	14
GDP change	Pearson Correlation	.661(**)	1
	Sig. (1-tailed)	.005	
	N	14	14

** Correlation is significant at the 0.01 level (1-tailed).

Table 23: Correlation between Small Firm share of employment and unemployment

		Small firm share	Unemployment
Small firm share of total employment	Pearson Correlation	1	-.705(**)
	Sig. (1-tailed)		.002
	N	14	14
Unemployment	Pearson Correlation	-.705(**)	1
	Sig. (1-tailed)	.002	
	N	14	14

** Correlation is significant at the 0.01 level (1-tailed).

However, caution must also be taken when interpreting this data. Disaggregating small firms into sizes 1 to 4, and 5 to 19 employees respectively, shows different trends. Thus, when GDP decreases, the firms with 1 to 4 staff decrease ($r=.728$, $p<0.005$) while those with 5 to 19 actually increase ($r=-.824$, $p<0.05$). One possible interpretation here is that larger firms downsize when GDP decreases, inflating the 5 to 19 category. The 5 to 19 category also increases when unemployment rises, which may support the downsizing thesis. However, the 1 to 4 category decreases when unemployment rises, suggesting that the very smallest of firms probably cannot survive in a poor economic climate and go onto, or return to, the unemployment register.

To conclude this section, one may note that – as may be expected – larger firms recruit a

higher number of staff than small firms. While they may lose more in absolute terms, it is an open question as to whether they lose proportionately more or less than small firms. The survey could not determine this, as small firms that disappeared in 2003 would not have appeared in the sample, and the aggregate correlations above could not determine it either due to possible confounding effects of downsizing.

6.2.3 Factors influencing job creation

Respondents were asked whether a number of variables influenced their decision to employ people, and whether these factors influenced them strongly, moderately, slightly or not at all. Responses were coded as 3, 2, 1 and 0 respectively.

Exploratory factor analysis was conducted on responses to the seven variables, which resulted in two components. Oblique rotation was used in view of the moderate inter-correlation of the factors. The table below shows the unique variance each factor contributes to the variables. The variables clearly grouped into regulatory factors and market factors.

Table 24: Factors influencing job creation

N=398	Factors	
	1 Regulatory	2 Market
Minimum wage	.831	.184
Subsidy on low-skilled wages	.783	.153
Restrictions on dismissal	.725	.253
Social security contributions	.665	.368
Demand for your product/service	.233	.826
Economic conditions in country	.342	.654
Availability of skilled workers	.106	.568

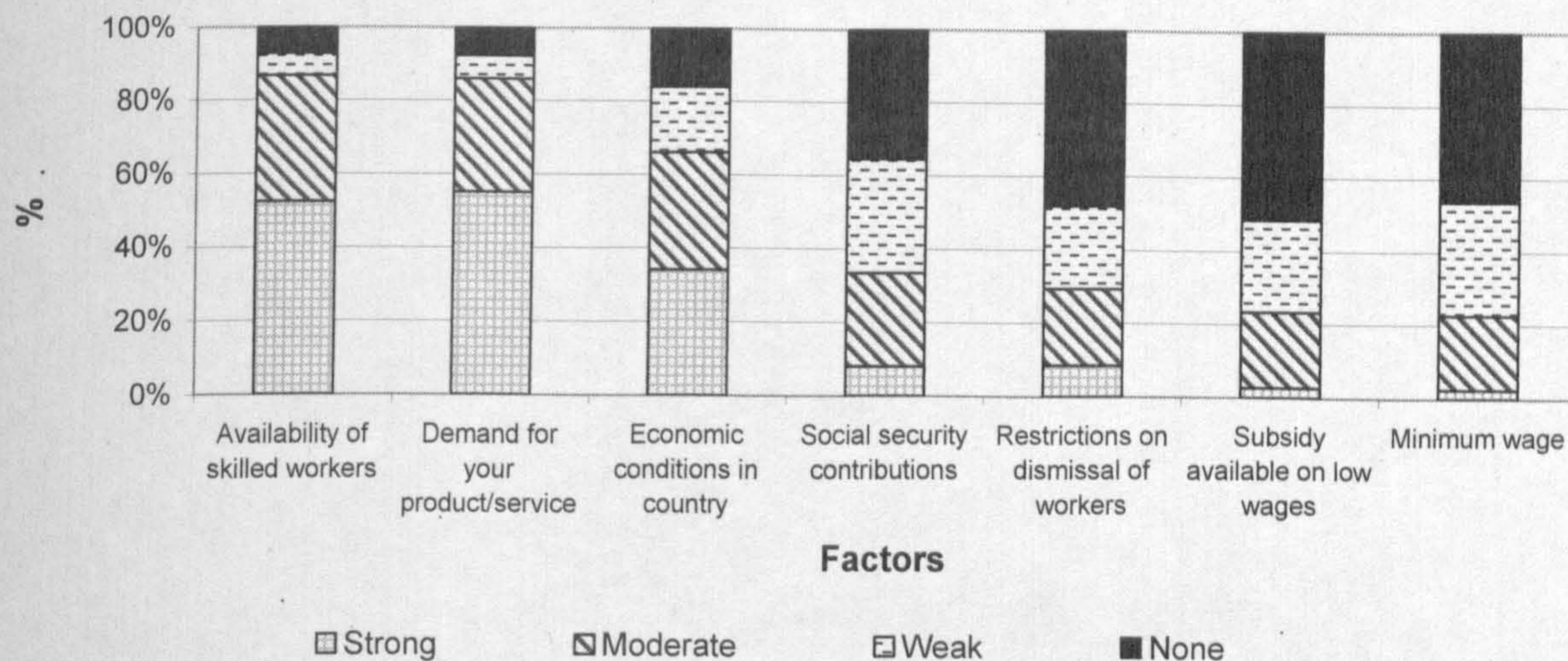
Extraction Method: Principal Component Analysis.

Rotation Method: Oblimin with Kaiser Normalization.

When examining the responses to each variable, it becomes clear that respondents feel most influenced by market factors. In descending order, respondents felt strongly or moderately influenced in their decision to employ someone by the availability of suitable workers (86.7 per cent were strongly or moderately influenced), demand for their good or service (86.1 per

cent), and by the economic conditions prevailing the country (66.1 per cent). Regulatory factors had far less impact. Again in descending order, respondents felt strongly or moderately influenced by social security contributions (33.1 per cent), restrictions on the dismissal of workers (29.4 per cent), available subsidies on low-skilled workers' wages (23.3 per cent) and by minimum wage regulations (22.7 per cent).

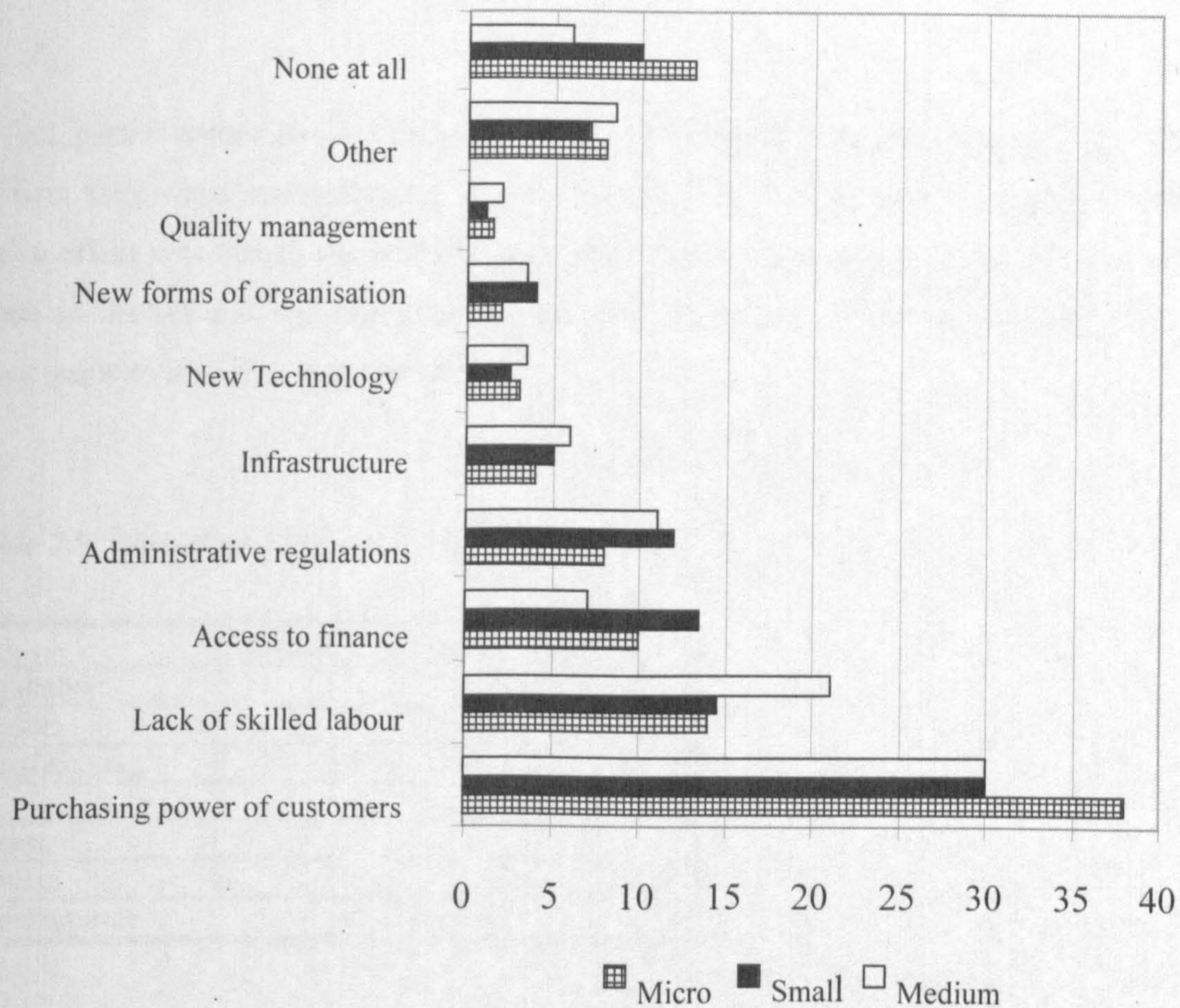
Chart 4: Influences on Decision to Recruit



Responses were recoded to create two new variables: the mean influence of the four regulatory variables and the mean influence of the three market variables respectively (scores ranging from 0 'not affected' to 3 'strongly affected'). The mean for regulatory influence was 0.87 and the market mean was 2.16, illustrating the far greater impact that market factors are perceived to have on job creation.

This finding is very much in line with the literature review, for instance, that by Rienecke and White (2004) and Scase and Goffee (1980) who hold that small business owners are far more influenced in their recruitment decisions by their perceptions of the market for their good or product. The impact of regulation as such – despite small firms' avowed opposition to it – has little evident impact. This finding can also be compared to those reported by the European Commission in its survey of the business constraints faced by European SMEs (CEC 2004). A stratified sample of these European firms was chosen, and respondents were asked about the major business constraints they had faced in the two previous years. The purchasing power of customers, and the lack of skilled labour, came out firmly on top as is illustrated in the chart below.

Chart 5: Business constraints faced by European SMEs, 2001 – 2003



Returning to the data for Malta, Pearson's correlation between firm size and the regulatory / market means, was not significant. This suggests that small and non-small firms do not differ in terms of the degree to which they are influenced by either market or regulatory factors. However, when each variable was taken separately, a weak significant correlation was found between (a) size and social security contributions, where smaller firms feel more strongly influenced by the latter ($\rho = -0.156, p < 0.01$); and (b) size and the availability of suitable workers, where larger firms feel more strongly influenced ($\rho = 0.137, p < 0.01$).

When considering differences in the mean influence of regulatory and market factors in different sectors, it results that the manufacturing sector feels more strongly influenced by both factors than the services sector. T-tests determine that there is a significant difference in the degree to which regulatory and market factors affect manufacturing and services. Manufacturing is more strongly influenced by regulatory factors than is the services sector ($t = -3.12, df = 342, p < 0.005$); manufacturing is also more strongly influenced by market

factors than is the services sector ($t=-2.24$, $df\ 392$, $p<0.05$). This may be easily explained in that the services sector is far less vulnerable to relocation of capital than is manufacturing at the moment, with various foreign and domestic manufacturing concerns relocating to nearby North Africa and even to China.

In fact, partial correlation was undertaken to test the impact of market and regulatory factors by firm size, while controlling for sector. The differences disappeared, suggesting that the above effect was due to sector rather than size. Small firms appear to be no more or less prone to market and regulatory factors than non-small ones; but manufacturing firms are more prone to both than are service firms.

Table 25: Market and Regulatory Influence, by sector

	Number	Mean	Std Dev
Regulatory:			
Services	173	0.76	0.68
Manufacturing	171	0.99	0.70
Market:			
Services	197	2.09	0.74
Manufacturing	197	2.24	0.54

6.3 Job Quality

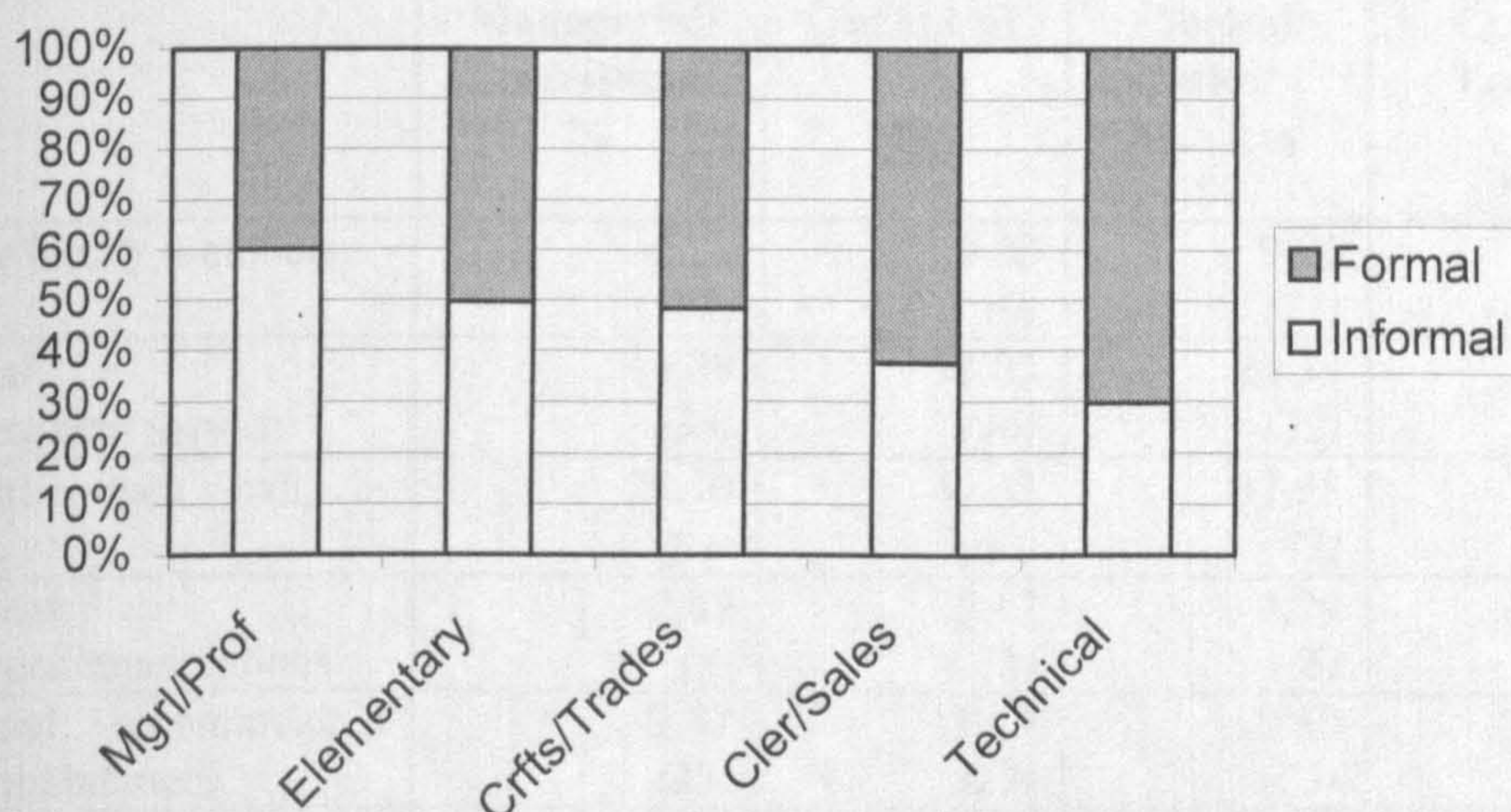
This section deals with those questions that address job quality issues, as per questions 4.0 to 10.0 of the questionnaire. These address job security, recruitment procedure, reward, family friendly conditions, training and representation. These questions are intended to measure whether small firms differ from larger ones on these measures of job quality.

6.3.1 Recruitment

As was seen in the introduction and the literature review, small firms tend to prefer informal methods of recruitment, requiring first-hand references on prospective employees and possibly also the informal supervision of these persons by the friends or family who recommend them. The prioritising of acceptability over suitability may be seen as discriminatory in itself, though from a small employer's perspective, it may well make business sense.

In the survey, all respondents were asked whether they prefer to use formal or informal recruitment methods when it comes to recruiting staff in different occupational categories. As may be seen in the chart below, preferences differ by occupational category. While informal methods are preferred when recruiting managerial or professional staff, respondents were split when it came to elementary and crafts/trades occupations. Formal methods are preferred when recruiting clerical/sales, and technical staff.

Chart 6: Recruitment preferences, by occupational category



As may be seen in the table below, small firms are more likely to use informal recruitment methods than non-small firms, across all occupational categories. Moreover, the majority of small firms are more likely to use informal recruitment for managerial, crafts and elementary workers. However, the majority of small firms would use formal recruitment channels for technical and clerical jobs, suggesting that where certifiable competencies are required, a more formal selection process is resorted to.

Table 26: Preference for informal recruitment, by size of firm

	% of firms preferring informal recruitment		Correlation Phi
	Small %	Non-small %	
Managerial/Professional	74.5% (n=149)	45.5%(n=61)	0.297***
Technical	34.9% (n=17)	25.2% (n=25)	0.094 ns
Clerical/Sales	42.7% (n=43)	34.6% (n=40)	0.08 ns
Crafts/Trades	67.0% (n=80)	41.0% (n=24)	0.26***
Elementary	56.9% (n=57)	46.3% (n=53)	0.10 ns

(N italicised in brackets)

*** significant at $p < 0.001$; ns = not significant

The table below provides detail as to the particular forms of recruitment preferred for each occupational category. As may be noted, when it comes to recruiting managerial or professional staff, the largest share of respondents prefers to recruit family members. The most popular method for recruiting technical staff was an open call in the media; the same was true for clerical, sales and services staff. When it came to crafts and trades workers, and elementary occupations, using the employment service referral system was the most popular method.

Table 27: Preferred Recruitment Methods, All Firms

	Managerial/ Professional %	Technical %	Clerical/ sales/ services %	Crafts/ Trades %	Elementary %
Prefer family members	37.22 (124)	0.00 (0)	9.76 (21)	6.10 (11)	1.92 (4)
Formal: employment service	11.39 (38)	31.03 (46)	24.39 (52)	26.76 (48)	28.46 (61)
Formal: open call in media	28.10 (94)	40.23 (60)	37.98 (82)	19.72 (35)	21.92 (47)
Informal: staff recommendations	2.53 (8)	5.17 (8)	2.79 (6)	14.08 (25)	10.38 (22)
Informal: recommended by acquaintances	9.87 (33)	11.49 (17)	10.80 (23)	18.31 (33)	17.31 (37)
Informal: recommended by politicians	0.25 (1)	0.57 (1)	0.35 (1)	0.80 (1)	1.92 (4)
Direct application by jobseeker	9.87 (33)	10.34 (15)	12.89 (28)	12.68 (23)	16.92 (36)
Don't know/no answer	0.76 (3)	1.15 (2)	0.35 (1)	1.50 (3)	1.00 (2)
Total	100.00 (334)	100.00 (148)	99.30 (215)	99.95 (179)	99.85 (214)

(N italicised in brackets)

If one were to look more closely at the above in terms of firm size, one finds that small firms are twice as likely to recruit family members to management positions (49.5 per cent) than are larger firms (24.2). With respect to technical recruitment, small firms are more likely to use an employment service (32.6 per cent) while larger firms are more likely to issue a call in the media (43.5 per cent). Both small and large firms prefer to issue a call in the media for clerical staff (31.3 per cent and 41.4 per cent). With respect to crafts and trades staff, small firms prefer the informal recommendations of acquaintances (28.6 per cent) while larger firms use an employment service (34.4 per cent). Both small and larger firms use an employment service to recruit elementary staff (29.2 per cent and 28.2 per cent respectively).

6.3.2 Gender Equality in Staff Composition

Respondent firms show a markedly uneven staff composition in terms of gender, when it comes to full-time employment. The mean number of male full-timers per firm is 24, while that of females is 15. The profile of part-timers is relatively equal, with a mean of 2 male and female part-timers in each firm. While it would be interesting to establish whether the male and female part-timers worked on this basis as their main, or their secondary, job, this information was not collected. However, from the national profile of part-time work according to the Labour Force Survey, women are far more likely to work part-time as a primary job than are men.

Table 28: Average number of men and women in respondent firms

	No. of firms	Male full-time	Female full-time	Male part-time	Female part-time
Mean	400	23.99	14.55	2.24	2.37
Median	400	8.00	2.00	0.00	0.00
Std. Deviation	400	72.24	63.53	7.64	6.48

When examining the gender profile in terms of firm size, it becomes apparent that the gender disparity is even more marked in small firms. Question 16, which requested absolute figures for the various categories in the table above, was recoded into a new variable that denotes the respective proportions of each gender in each firm's workforce. This allowed for the overall differences in size to be controlled for. Then, a t-test was carried out to test the differences between the proportion of female staff in small and non-small firms. The mean proportion of female staff in small firms is 23.6 per cent while that in non-small firms is 34.4 per cent. These proportions are significantly different ($t=-3.6$, $df=398$, $p<0.005$). Small firms are less likely to employ women than are non-small ones.

Bivariate regression between firm size and the proportion of female staff showed that size explains 12 per cent of the variance in the proportion of female staff. When multiple regression was applied to test the influence of various other variables, firm size appears to be less relevant than initially apparent, to the proportion of female staff. The addition of numerous other variables raised the explanation of the variance to 28.9 per cent. The

standardised *Beta* coefficients that were significant, in order of magnitude, in explaining the proportion of female staff were as follows. First, it resulted that firms in the manufacturing sector are less likely to have a high proportion of women. It also resulted that the higher the proportion of low-skilled staff in a firm, the higher the proportion of women. Lastly, those firms that are most influenced in their decision to recruit by regulatory factors, are likely to have a lower proportion of female staff.

At first glance, the findings were surprising in that the literature suggests that small firms are far more likely to utilise female labour from the ‘peripheral’ labour supply. However, these factors may be explained in terms of developments in recent years. As manufacturing firms have been making layoffs, the tendency has been to lay off female factory workers first, possibly to uphold the still prevalent male breadwinner model that underpins policy and practice in Malta. This would serve to explain the somewhat surprising finding that manufacturing firms employ a lower proportion of women, together with the fact that in low-skill services such as tourism, women make up a large share of the workforce. The last finding - that firms most influenced by regulatory factors employ less women - is quite easily explained in that regulations such as social security and conditions of work are perceived to make women a more ‘costly’ option, particularly in view of maternity and parental leave and ‘sick’ leave taken to care for sick children, and this results in a preference for recruiting men.

Table 29: Regression – Proportion of Female Staff

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	46.802	8.770		5.337	.000
Number of staff	.039	.026	.085	1.527	.128
Mean influence of regulatory factors	-4.960	2.430	-.111	-2.041	.042
Mean influence of market factors	-1.573	2.521	-.034	-.624	.533
Whether participates in social dialogue	-4.655	3.451	-.076	-1.349	.178
Age of firm	-2.067	2.366	-.047	-.874	.383
Proportion of low-skilled staff	.156	.067	.140	2.340	.020
Whether family firm	-5.404	3.407	-.087	-1.586	.114
Whether managed by founder	-.671	3.485	-.011	-.193	.847
Whether high turnover	-.972	3.494	-.016	-.278	.781
Whether high-skill firm	5.552	3.471	.090	1.600	.111
Whether manufacturing	-17.513	3.455	-.284	-5.069	.000
N=400 R=0.537 R ² =0.289 Std error of the estimate 26.56					

6.3.3 Job Security

Respondents were asked the type of contract they generally offer to each of the five occupational categories referred to above. Contracts were either full- or part-time, indefinite or definite, or 'other'. As may be noted, full-time indefinite contracts are still the most commonly used for all occupational categories, though to a greater extent in the cases of managerial and professional jobs, as well as the crafts/trades and technical jobs, than in clerical/sales and semi/unskilled jobs. This may suggest a gradual polarisation of working conditions for 'core' skilled staff such as managerial, technical and tradespersons and for lesser skilled or easily substitutable staff like clerical, sales and elementary staff. This finding may support to some extent the possibility of a growing skill-based segmentation of the labour market.

Table 30: Type of contract, by occupational category

Occupation	Type of Contract						Total
	Full-time Indefinite %	Full-time Definite %	Part-time Indefinite %	Part-time Definite %	Other %	DK/NA %	
Managerial/Professional	88.3 (295)	4.0 (13)	5.5 (18)	1.0 (3)	0 (0)	0.5 (2)	100 (334)
Technical	78.9 (117)	4.0 (6)	8.7 (13)	6.9 (10)	1.2 (2)	0 (0)	100 (148)
Clerical/Sales	70.0 (151)	5.6 (12)	18.2 (39)	5.6 (12)	0 (0)	0 (0)	100 (215)
Crafts/Trades	79.3 (142)	5.2 (9)	9.4 (17)	6.1 (11)	0 (0)	0 (0)	100 (179)
Elementary	53.8 (115)	7.3 (16)	26.2 (56)	12.7 (27)	0 (0)	0 (0)	100 (214)

(N italicised in brackets)

A new variable was computed to denote the proportion of indefinite contracts offered, by firm size and occupational category. For each category except technical staff, small firms are more likely to offer indefinite contracts of work. Differences were only significant when it came to the managerial and the elementary categories. This finding is difficult to interpret. It may be that, as small firms prefer family members in management roles, they are unlikely to offer them definite contracts. It is less easy to explain when it comes to elementary staff. One plausible explanation may be that definite contracts may still be hard to reconcile with the 'familial' work culture in smaller firms. Another aspect may be that small firms are afraid of the penalties arising from the termination of a fixed-term contract – that is, the payment of half the unworked period – and consider that it is less risky to offer indefinite contracts that could be terminated through redundancy or dismissal if necessary.

Table 31: Firm size and type of contract

	% of firms offering indefinite contracts of work		Correlation Phi
	Small %	Non-small %	
Managerial/Professional	98.9 (198)	92.6 (124)	0.16***
Technical	93.1 (45)	95.7 (96)	-0.05 ns
Clerical/Sales	96.9 (97)	90.8 (104)	0.11ns
Crafts/Trades	97.3 (117)	95.5 (56)	0.12ns
Elementary	100 (100)	83.9 (96)	0.22***

*** significant at $p < 0.005$; ns = not significant

(N italicised in brackets)

6.3.4 Incentives Offered to Employees

In this question, respondents were asked whether or not they offer a range of incentives to their employees in various categories. The results were somewhat surprising, in that it was claimed that technical, clerical/sales and crafts/trades employees are offered more by way of incentives than managerial or professional employees. While the difference is not so surprising in the case of technical staff, who are in perpetually short supply and relatively highly rewarded in Malta, it is not the case for clerical, sales and crafts/trades staff. It is probably explicable in terms of owner-managers not reflecting on the incentives they may provide to themselves, and/or in terms of the possibility that the remuneration package for managerial/professional staff in larger firms compensates for this difference. This cannot be established as salary levels were considered to be too sensitive a topic to address in the questionnaire. It is also possible that these benefits are offered to top up low wages and to evade tax in some instances.

Table 32: Incentives offered, by occupational category

Incentives	Managerial/ Professional %	Technical %	Clerical/ Sales %	Crafts/ Trades %	Semi/ Unskilled %
Opportunities for Promotion	34.4 (115)	49.4 (73)	49.1 (106)	38 (68)	35 (75)
Opportunities for training or study	48.7 (163)	71.3 (106)	56.1 (121)	53.5 (96)	36.9 (79)
Performance Bonus	36.4 (122)	47.1 (70)	41.5 (89)	43.7 (78)	34.6 (74)
Private Health Insurance	41.5 (139)	45.4 (67)	41.1 (88)	43.2 (77)	38.8 (83)
Discounts on goods/service	46.2 (154)	56.3 (83)	54 (116)	57.7 (103)	53.1 (114)
Other	1.3 (4)	0 (0)	0 (0)	1 (2)	0.5 (1)

(N italicised in brackets)

Differences in firm size were then explored using an index of incentives. This was calculated by attributing a score of 1 in each instance where a firm offered an incentive, and then adding these to provide a score for each occupational category in every firm. The mean was then calculated. In each instance, only those firms with staff in the relevant category were considered; hence the difference in the number of firms per occupational category in Table 36 overleaf. It emerges that smaller firms are significantly less likely to offer these incentives to all categories of staff, even when sector is controlled for. Least likely to enjoy them were managerial and professional staff in small firms, followed by elementary staff in small firms; most likely were technical staff in non-small firms followed by managerial/professional staff in non-small firms. These findings are not surprising, and support the literature which claims that small firms offer lesser benefits than larger ones.

Table 33: Incentives by occupational category

	Number of firms	Overall Mean	Means by firm size		T-test
			Small	Non-small	
Managerial/Professional	398	2.0	1.4	2.8	t=-9.3, df=396 ***
Technical	175	2.68	2.2	2.9	t=-2.85, df=173***
Clerical/Sales	287	2.42	1.83	2.71	t=-4.97, df=285***
Crafts/Trades	214	2.36	2.01	2.62	t=-3.0, df=212***
Elementary	259	1.97	1.5	2.14	t=-3.2, df=257***

*** significant at 0.001 level

6.3.5 Family-Friendly Working Conditions

In this question, respondents were asked whether or not they would grant one or more of a range of family-friendly working conditions to male or female staff who requested them. The proportion of respondents who said that they would, was low across the range of measures. Employers appear to be most willing to grant a fourteenth week of maternity leave to women, and least willing to provide or subsidise childcare provision. In between, came flexitime, reduced hours and parental leave (for three years without pay). Very surprising was the fact that respondents say that they would rather give parental leave to men than to women, in all occupational grades. The opposite was true for reduced hours, flexitime and assistance with childcare. The following table indicates the percentage of respondents who agree that their firm would offer the following measures to staff requesting them.

Table 34: Family-friendly measures by occupational categories

	Managerial/ Professional %	Technical %	Clerical/ Sales %	Crafts/ Trades %	Semi/ Unskilled %
14 th week maternity leave	59.6 (199)	48.3 (71)	76.7 (165)	47.3 (85)	54.4 (116)
Parental leave for women	20.2 (67)	16.6 (25)	24.5 (53)	16.9 (30)	15.9 (34)
Parental leave for men	27.4 (92)	35.6 (53)	28.9 (62)	30.7 (55)	28.5 (61)
Reduced hours for women	28.8 (96)	19.9 (29)	38.8 (83)	20.8 (37)	25.1 (54)
Reduced hours for men	17.0 (57)	16.1 (24)	19.5(42)	16.1 (29)	16.4 (35)
Flexitime for women	30.5 (102)	21.9 (32)	38.2 (82)	20.8 (37)	22.0 (47)
Flexitime for men	24.9 (83)	24.1 (36)	27.2 (58)	26.8 (48)	20.3 (43)
Childcare aid for women	2.4 (8)	1.3 (2)	2.4 (5)	2 (4)	0.9 (2)
Childcare aid for men	0.8 (3)	0.6 (1)	0.7 (2)	1.0 (2)	0.4 (1)

(N italicised in brackets)

Differences by firm size were then explored. As in the case of incentives, an index was created. This time, however, responses were given different weights in terms of their 'cost' to the employer. The 14th week maternity leave was granted a weight of 1; parental leave for women and men were granted a weight of 2; reduced hours and flexitime for women and men were granted a weight of 3; and childcare services or allowances for men and women were given a weight of 4. These weights were chosen in terms of their respective cost to the employer, whether a direct cost (as in the 14th week of maternity leave and childcare allowances) or in terms of administrative cost (like sorting out replacements during parental leave and making the necessary accommodation for reduced hours and flexitime). Means were then calculated. In each instance, only those firms with staff in the relevant category were considered; hence the difference in the number of firms per occupational category.

Table 35: Family friendly measures

	Number of firms	Overall Mean	Means by firm size		T-test
			Small	Non-small	
Managerial/Professional	334	3.76	2.28	5.47	t=-6.02, df=271 ***
Technical	148	3.61	2.77	3.87	t=-1.18, df=146, NS
Clerical/Sales	215	5.32	4.22	5.90	t=-2.29, df=213 **
Crafts/Trades	179	3.23	2.34	3.90	t=-2.50, df=176 **
Elementary	214	3.46	2.58	3.82	t=-1.91, df=145 **

*** significant at the 0.005 level, ** at the 0.05 level, NS not significant

As may be seen in the table above, clerical/sales staff are the most likely to be offered family-friendly measures, followed by managerial/professional staff, technical staff, elementary and crafts/trades. This is not surprising, as there is a significant positive correlation between the proportion of female staff and the clerical/services category ($r=0.17$, $p<0.05$), and a significant negative one between female staff and the crafts/trades category ($r=-0.21$, $p<0.05$). Small firms are significantly less likely to offer family-friendly measures than are non-small firms, except in the case of technical staff. These results hold even when sector is controlled for.

6.3.6 Staff Training

Respondents were asked whether their firm offers a range of training opportunities to employees. This included seven types of training, with various degrees of firm commitment. As may be seen in the table below, between 43 per cent and 77 per cent of all categories of staff have the opportunity for on the job training by fellow employees. Opportunities vary for the other types of training. In general, technical staff seem to enjoy the greatest opportunity for training; this is true for on-the-job training by external trainers; paid short courses off-the-job and paid long-courses off the job; subsidies for workers who pursue a course; and short unpaid study leave. However, when it came to long unpaid study leave, technical workers do not seem to have an advantage over the others. Opportunities for the managerial/professional grade once again seem inferior to those of other grades, presumably because they are either owner-managers or have already completed their studies. Just over one third of all firms offer study opportunities to clerical/sales and crafts/trades, while just over one quarter offer these to staff in elementary grades.

Table 36: Training Opportunities by Occupational Category

	Managerial/ Professional %	Technicians %	Clerical/ Sales %	Crafts/ Trades %	Semi/ Unskilled %
On the job training by fellow employees	43 (171)	73.6 (121)	69.0 (195)	77.0 (159)	68.8 (171)
On the job training by external trainers	33.7 (134)	53.4 (88)	38.0 (107)	35.7 (74)	26.9 (67)
Pay for short courses off the job (a few weeks)	45.7 (182)	60.3 (99)	49.1 (138)	44.1 (91)	33.5 (83)
Pay for long courses off the job (a few months)	19.6 (78)	28.2 (46)	16.4 (46)	16.4 (34)	13.5 (33)
Part-subsidise a worker wishing to follow a course	31.4 (125)	41.4 (68)	37.3 (105)	29.1 (60)	24.2 (60)
Give short unpaid leave for workers wishing to study	33.9 (135)	46.0 (75)	38.7 (109)	34.7 (71)	28.1 (70)
Give long unpaid leave for workers wishing to study	13.1 (52)	11.5 (19)	13.2 (37)	13.1 (27)	10.8 (27)

(N italicised in brackets)

An index was then created to calculate an overall training opportunity score. Different opportunities were given different weights. The weight of 1 was given for the opportunities for on-the-job training by other employees, and for short unpaid leave for study purposes. The weight of 2 was given for on-the-job training by external trainers, for a part-subsidy for those wishing to pursue a course, and for unpaid leave for workers to follow a long course. The weight of 3 was given to a fully-paid short course. The weight of four was given to a fully-paid long course. Once again, the number of firms differs because the firms without any staff in a particular occupational category were de-selected.

Table 37: An index of training opportunities for occupational categories

	Number of firms	Overall Mean	Means by firm size		T-test
			Small	Non-small	
Managerial/Professional	398	4.49	2.32	6.68	t=-10.23, df=374 ***
Technical	164	6.04	4.19	6.69	t=-3.02, df=162 **
Clerical/Sales	282	4.52	2.91	5.35	t=-4.97, df=280 ***
Crafts/Trades	206	3.55	2.54	4.34	t=-3.92, df=203 ***
Elementary	248	3.46	2.41	3.88	t=-2.65, df=149 **

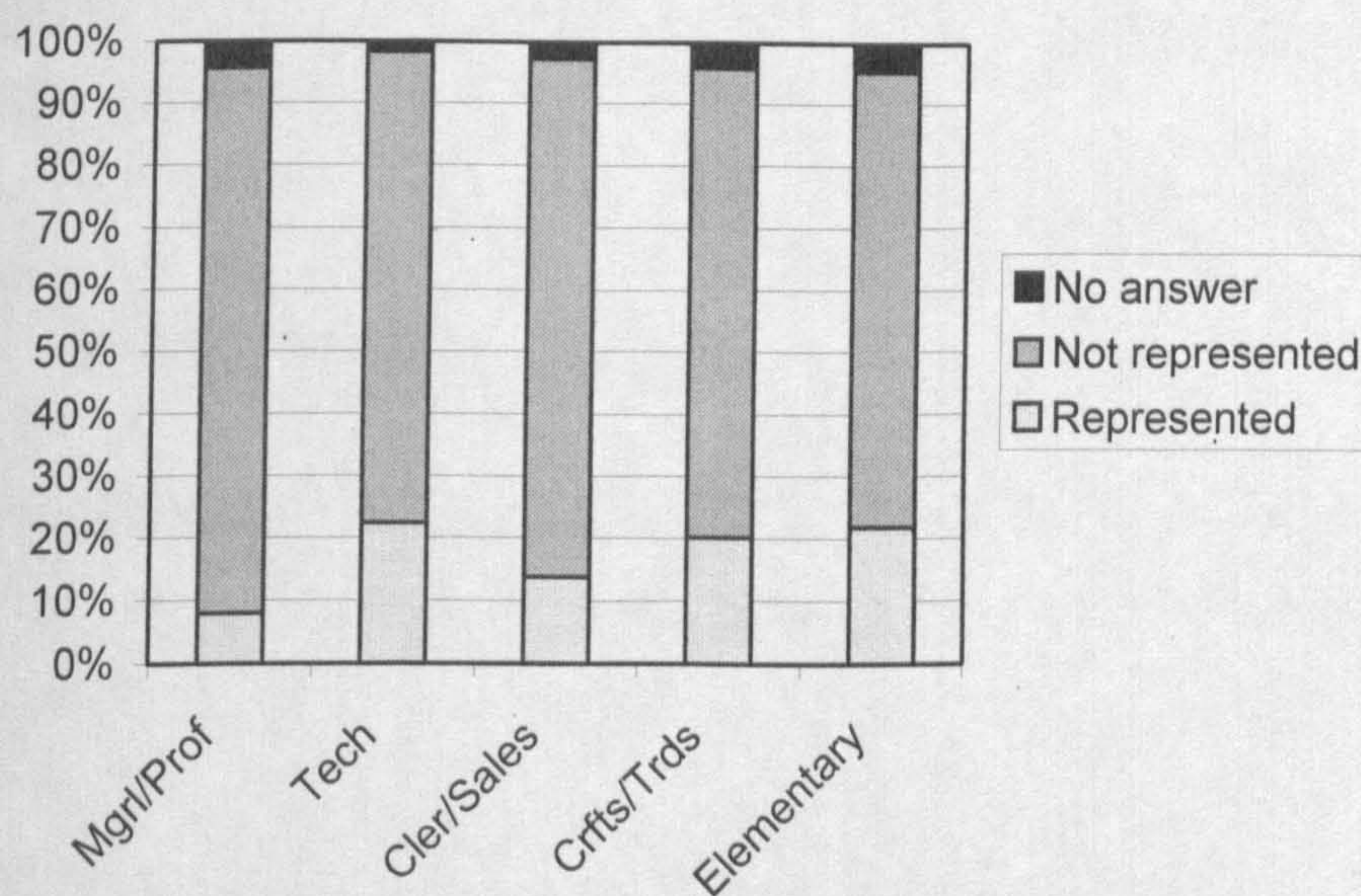
*** significant at the 0.005 level, ** at the 0.05 level

As may be seen, the weighted means show that technical staff have the highest opportunity for training, with opportunities descending in order of staff category except for the managerial/professional grade. In all occupational categories, t-tests show that small firms are significantly less likely to offer training than are non-small firms. These results held true even when sector was controlled for. However, it may be noted that even among small firms, technical staff are almost twice as likely as any other occupational category to be offered training opportunities.

6.3.7 Representation

When firms were asked whether employees in the five occupational categories were represented by trade unions or not, over three quarters of respondents replied that staff in each category are not represented. Representation is least likely in managerial and professional grades, and most likely in technical and semi/unskilled occupations.

Chart 7: Trade union representation, by occupational category



As may be noted in the table below, while levels of representation are low across firm size, there is a significant difference between the means of occupational categories in small and non-small firms (where 0 is not represented, and 1 is represented). Employees in small firms are significantly less likely to be unionised; this is true in all occupational categories and irrespective of sector. This supports the literature which indicates that small firms are rarely unionised.

This is also indicated in a recent publication by Baldacchino, Rizzo and Zammit (2003) which studies how industrial relations are evolving in Malta. The authors note the differences in the characteristics of representation among Maltese firms. On the one hand, the public sector is strongly unionised and characterised by “belligerent” industrial relations (p. 13); in the private sector, medium and large firms are also strongly unionised but enjoy harmonious relations, possibly reflecting the unions’ awareness that most of the large firms are foreign owned and would relocate quite quickly in the face of union intransigence. Small firms in the private sector, however, do not participate in industrial relations and, claim Baldacchino *et al*, are run along the lines of paternalist management.

Table 38: Representation by firm size

	Number of firms	Overall Mean	Means by firm size		T-test
			Small	Non-small	
Managerial/Professional	398	0.08	0.22	0.32	t=-2.25, df=350**
Technical	175	0.22	0.26	0.45	t=-3.77, df=131***
Clerical/Sales	287	0.14	0.22	0.39	t=-3.63, df=279***
Crafts/Trades	214	0.20	0.23	0.47	t=-5.32, df=185***
Elementary	259	0.22	0.26	0.45	t=-4.57, df=219 ***

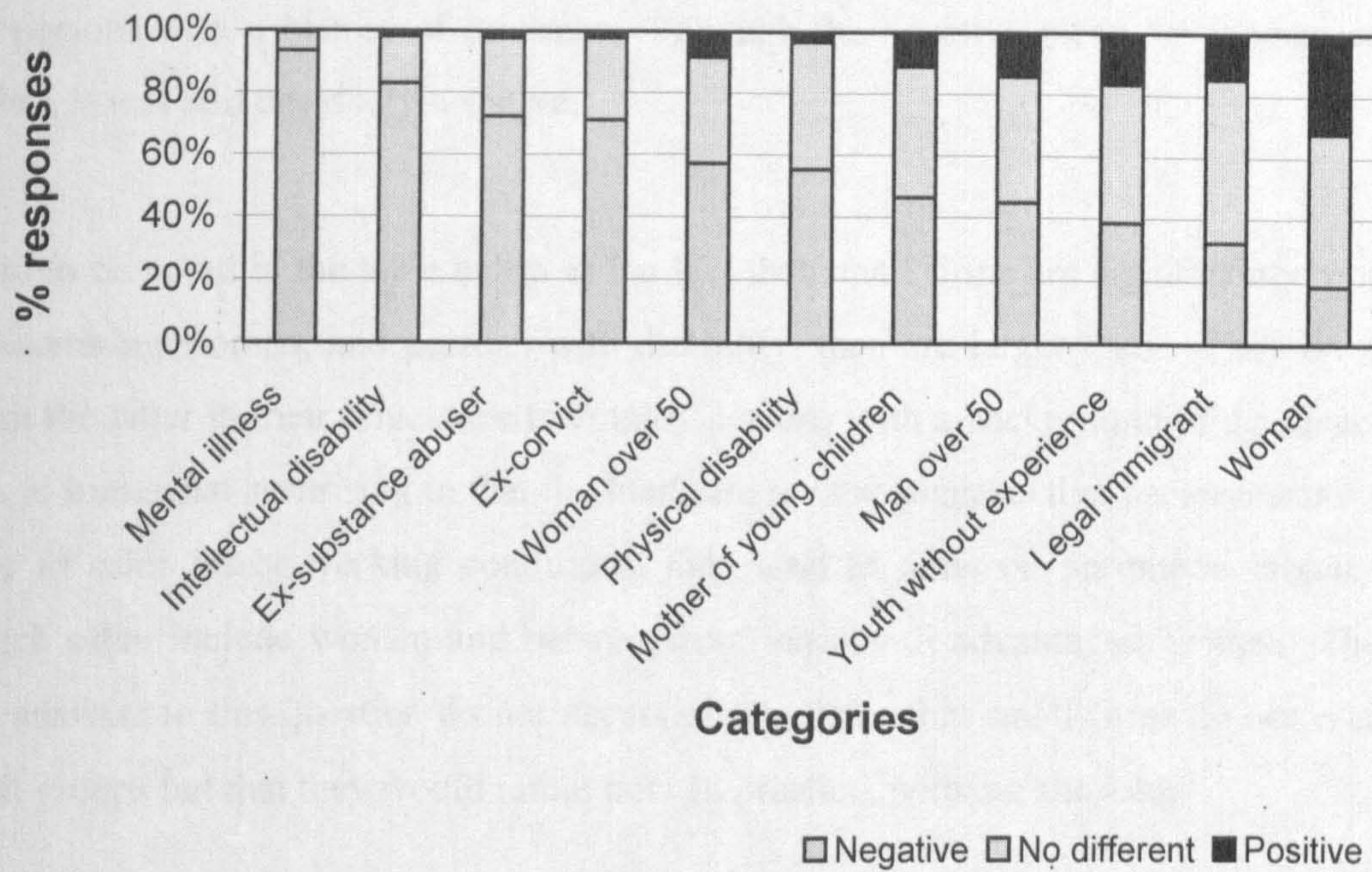
*** significant at the 0.005 level, ** at the 0.05 level

6.4 Social Inclusion

This section looks more closely at possible differences in firm size in respect of social inclusion, and in particular, to the willingness or otherwise to recruit persons from different walks of life.

In Question 6, respondents were asked whether they would perceive applicants coming from various ‘disadvantaged’ groups any differently from anyone else, if they were equally qualified for the job. Eleven groups were put forward, and applicants were asked if they would rate persons from these groups very positively; positively; no different to anyone else; negatively or very negatively. The categories most avoided by employers are those with mental illness and intellectual disability, followed by those with a history of substance abuse or a spell in prison. Results are shown in the chart overleaf.

Chart 8: Openness to different categories



Factor analysis was carried out on the eleven groups to establish if there were any underlying issues. Three factors emerged clearly, and may be termed the female factor, the disability factor and the deviance factor. Together, these three components explain 62.4 per cent of the variance.

Table 39: Rotated Component Matrix

	Component		
	Female Factor	Disability Factor	Deviance Factor
Woman	.826	.146	-.050
Mother of young children	.857	.154	.034
Man aged 50 and over	.319	.003	.330
Women, aged 50 and over	.823	.160	.256
Youngster without experience	.267	.321	.217
Person with physical disability	.232	.757	.142
Person with intellectual disability	.126	.858	.184
Person with mental illness	.051	.819	.259
Ex-substance abuser	-.055	.272	.800
Ex-convict	-.049	.269	.825
Legal immigrant	.180	.144	.404

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

Responses were recoded to obtain scores for each factor, with 'very positive' attributed a score of 2, 'positive' a score of 1, 'no difference' a score of 0, 'negative' a score of -1 and 'very negative' a score of -2. Mean scores were then derived. As may be seen in the table below, respondents were least inclined to consider persons with disability, followed closely by persons with a history of deviance. Though the negative mean for women was much lower, it was still decidedly negative.

Also to be noted in the table below is the fact that small firms are significantly more averse to recruiting women, and persons with disability, than are larger ones. They do not differ from the latter in their reluctance to employ persons with a background of deviance. Again, this is somewhat surprising in that the literature review suggests that because small firms are able to offer lesser working conditions, they tend to draw on peripheral labour markets, which often include women and persons from various disadvantaged groups. Then again, the answers to this question do not necessarily indicate that small firms do not recruit from such groups but that they would rather not. In practice, perhaps, they do.

Table 40: Firm size and inclination to recruit from marginal groups

Factor	N	Min	Max	Mean All firms	Small Firms Mean	Non-small firms Mean	T-Test
Disability	358	-2.00	1.00	-1.06	-1.20	-0.91	t=-4.93, df=351***
Deviance	377	-2.00	1.50	-1.03	-1.07	-0.99	t=0.98, df=374, NS
Gender	361	-2.00	2.00	-.34	-0.57	-0.23	t=-5.14, df=335 ***

*** significant at the 0.005 level, ** at the 0.05 level, NS = nonsignificant

6.5 Social Partnership

In the literature review, the diseconomies of scale in a small state were highlighted, and reference was made to the importance of inter-firm collaboration and networking in mitigating this. In this section, an attempt was made to gauge the extent to which small firms participate in social partner networks which may enable them to share information, ideas and best practices.

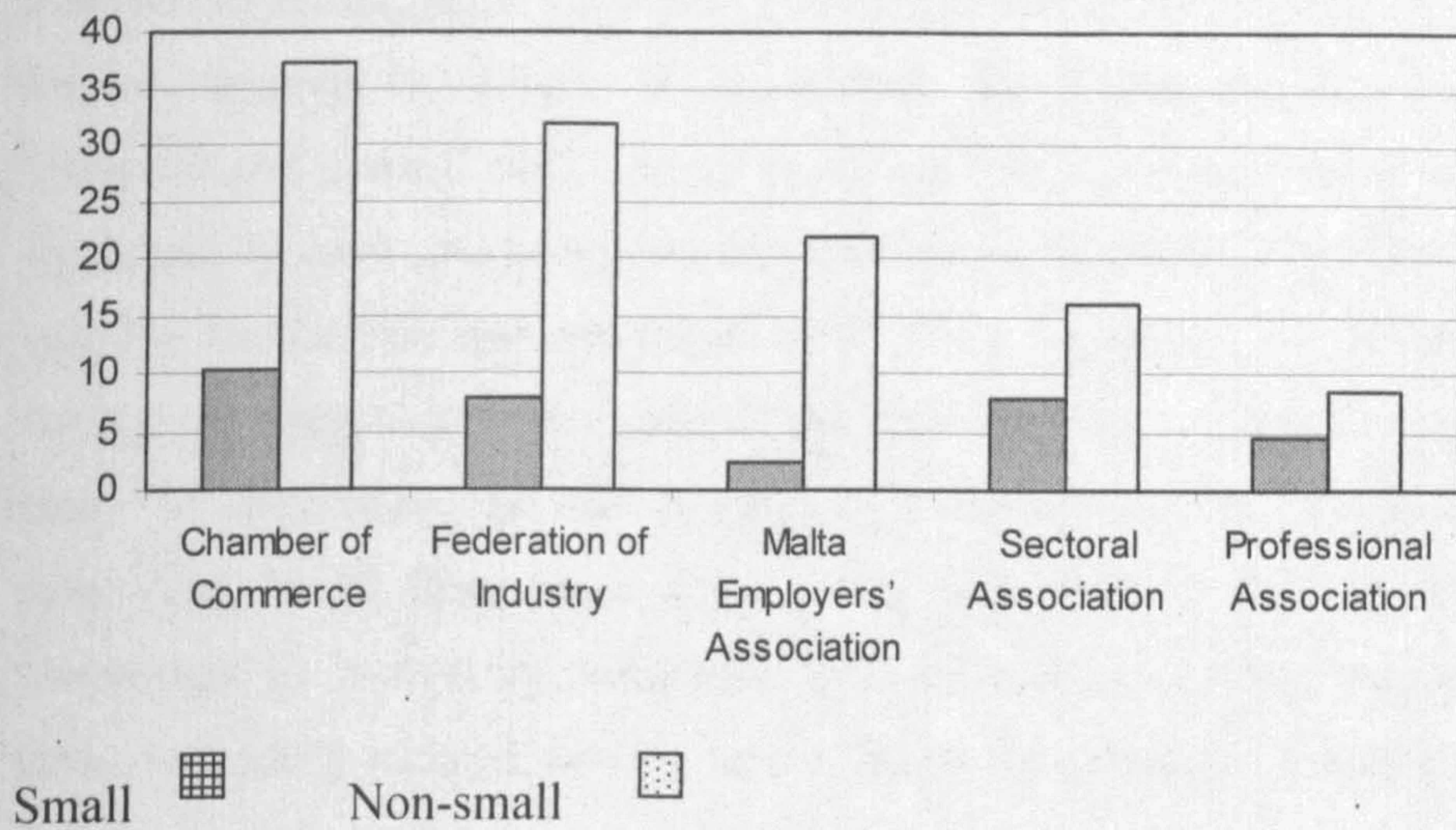
In Question 11, respondents were asked whether their firm participates in an employers' or sectoral association. 46 per cent replied that they do participate in one or more such association, while 54 per cent said that they do not. As may be seen in the table below, participation is closely linked to firm size. Small firms are far less likely to participate than are larger firms. Cramér's V, for nominal correlations, is moderate at 0.411 and highly significant ($p < 0.005$). This supports the literature reviewed, which indicates that time constraints often prevent owner-managers from associating beyond their firm.

Table 41: Participation by Firm Size

		Size Category		
		Small	Non-small	Total
Does not participate	Count	150	66	216
	per cent of size category	74.3%	33.3%	54%
Participates	Count	52	132	184
	% of size category	25.7%	66.7%	46.0%
Total	Count	202	198	400
	% of size category	100%	100%	100%

The Chamber of Commerce followed by the Federation of Industry are the most popular associations for both small and non-small firms, though levels of participation differ. The chart below shows the associations of choice, by their share of the respective size categories. One may note that while one fifth of non-small firms participate in the Malta Employers' Association, only 2.5 per cent of small firms do.

Chart 9: Associations of choice by firm size



6.6 Chapter Summary

This Chapter is intended to address the first research question as to whether there exist employment differences between smaller and larger firms in Malta, even in light of the fact that all firms face similar resource constraints pertaining to a small state and the fact that firms are small in their vast majority.

The findings in this Chapter confirm a number of these differences which, while sector and skill levels were taken into account, may be attributed to firm size. In general, it was seen that small firms are younger and have a lower turnover. They were more likely to have been founded as a reaction to having had no other choice at the time, and the owner managers of smaller firms have lower educational attainment than those in larger ones. Small firms are more likely to be family-firms and to have a lower proportion of female staff.

As may be expected, small firms – at least in the year under study – both created, and lost, fewer jobs than larger firms. It was seen that, when correlated to changes in GDP, the very small firms tend to decline in number when the economy is weak, while the larger small firms tend to grow in number though, as was suggested, this may be due to the downsizing of large firms. Exploring whether or not regulatory factors impact upon employers' decision to create jobs, it was found that for both smaller and larger firms, market factors are far more important than regulation to considerations of job creation. The only differences in this respect are due to sector rather than size.

In respect of job quality, a number of clear and significant differences emerged. In all occupational categories, small firms are more likely than larger ones to prefer informal methods of recruitment. However, it emerged that at least a third of small firms do resort to formal methods in respect of occupations for which certification is available, namely technical and clerical staff. Small firms are less likely to employ women, and in fact, are significantly more averse to recruiting women and persons with disability who are otherwise suitable for the job, than are larger ones. Only in one respect did job quality appear to be stronger in small firms, in respect of the lesser number of atypical work contracts. When it came to differences in the provision of family-friendly measures, training and other incentives, small firms were significantly less likely to provide these than larger ones. Employees in small firms were also far less likely to be unionised, and employers in small firms less likely to participate in any of the local networks of social partnership than larger ones.

These findings will be explored in greater depth in the qualitative findings presented in the Chapter to follow.

CHAPTER SEVEN:

OPERATING IN A SMALL STATE – THE QUALITATIVE FINDINGS

This chapter is based upon the twenty eight interviews conducted by the author with a purposive sample of small firm employers in Malta. The results of the qualitative survey are presented in two main sections. The first describes the ways in which operating in a small state affects respondents, particularly on employment issues, while the second describes differences in the strategies adopted by respondents.

7.1 The Ten Concerns

As indicated in the methodology, the transcripts of twenty eight respondents were analysed by the author with a view to identifying the core concerns that they expressed with respect to the creation and quality of employment in their firms. This section describes ten categories of concerns, with a number of subcategories in each. These categories – listed below- seek to portray as closely as possible the experiences expressed by respondents. Sectoral differences are noted, where they arise. In this Chapter, respondents are kept anonymous but are referred to by means of a code ranging from R1 to R28 which may be found in Section 5.5.3.

- Stifled by size
- Cut-throat competition
- Fretting over finance
- Pervasiveness of politics
- Reeling under regulation
- Burdened by bureaucracy
- Apprehensive about associating
- Feeling like family
- Searching for skills
- The question of character

7.1.1 *Stifled by size*

Practically all of the respondents felt that the size of the island is a serious restriction on their ability to profit and grow. This operated in different ways: through the scarcity and cost of land, market size, insularity and imitation, and the cost of imports and exports. Labour supply limitations were also noted, but these are addressed in a later section.

The rapid escalation in the price of scarce land was claimed by many to be a major reason for their inability to develop their business. Malta is in the top ten densest countries in the world and, with 1500 persons per square kilometre, is ten times as densely populated as the Netherlands that heads the European density league. It has proven practically impossible for respondents to relocate to more suitable premises when they grow past start-up or need to develop further, and the waiting list for Government-subsidised industrial land is infinite. One carpenter (R1) said that “I have given up waiting [for the Industrial Parks to be developed]. I have waited over eight years and I think I’ll take early retirement”.

However, land scarcity also operates through the effect of spiralling house prices on people’s consumption, significantly reducing consumer demand among those with a hefty mortgage; an affordability ratio of 4:1 (average house price to median wage) in 1975 had risen to 14:1 by 2003. An insurance broker (R2) expressed frustration at the fact that the only persons now making any profit at all are those who inherited land or who deal in the development and sale of real estate, crowding out investment in other more productive areas. The head of a furniture workshop (R3) claimed to find it very demotivating to

“see money being made with such little effort or skill, and without the hassle of managing staff but at least *I* provide wages for families...When [Mr X] left school with me twenty years ago, I did well, he was illiterate, today he passes through my street in his Mercedes just to mock me. And just because his grandparents were farmers.”

Many respondents, including all those in the manufacturing sector except one who exports to Germany, complained of the size of the domestic market where levels of saturation are soon reached. As a retailer (R4) pointed out, “it’s true the removal of levies has helped us, but it doesn’t change the fact that there are less than 400,000 consumers here”. Moreover, consumer demand – though having grown rapidly in the liberalising nineties – has decreased

markedly since 2000, due to inflation and efforts to bring wages back in line with productivity. Some manufacturing firms have sought to attract foreign investment but find that they lack the critical mass to deliver on foreign contracts; others have not even gotten that far because the cost of visits to other countries, for an uncertain return, is prohibitive. Most of those who are seeking new markets are looking to North Africa and the Middle East, despite Malta's accession to the EU in 2004. While they speak of the exciting potential of these markets, they also expressed concern over the rule of law and the difficulty of navigating the financial and institutional structures in these countries.

A recurring theme was that of the tendency for firms to imitate other successful ones, rather than innovate or diversify. They suggest that Malta's insularity has prevented a free flow or stimulation of ideas. Three respondents (R5, R17, R28) attribute it to the tendency for rote learning – whether at school or as an apprentice – which in turn inhibits the in-depth knowledge and love of learning necessary for development. Others (R11, R 19) said that Malta's size makes success clearly visible and therefore promotes imitation, as this contractor (R11) pointed out:

“In Malta we have the problem where, if you're successful, in no time they mushroom up like you. For instance, in the case of bathroom centres, there's one on every corner. But then again, luckily, in the case of bathroom centres, the demand is there, everyone needs bathrooms. So quality has not suffered. But look at cinemas, they're all closing. First imitation, then cut-throat competition, then the Banks call in. And everyone loses.”

Malta's insular and peripheral position also affects the manufacturing sector, as the costs of import and export are very high. All respondents in manufacturing complained about these costs, saying that it is not so much Malta's location that matters but the fact that a form of cartel operates among those responsible for cargo-handling such that it is cheaper to bring materials from China to Malta than it is from the cargo terminal to the stores which are never more than ten or twenty kilometres away. Respondents expressed strong resentment at this situation that has gone unchallenged for years, not least because of the way a major trade union benefits from these activities.

7.1.2 Competing in a cut-throat market

All respondents spoke of the unrelenting competition that they experience, irrespective of sector. They all expressed a sense of constant vigilance and struggle to ensure that their market share – which in many cases has remained constant or decreased – does not decline any further. Respondents spoke of many issues that affect their competitiveness; these may be grouped into three sub-categories: reduced consumer demand, effect of EU accession, and the inability to compete with large firms. However, an instance is also described where small firms are losing out even to very small firms through loopholes in the law.

The first subcategory is that of reduced consumer demand. All respondents noted that in the past five years or so, there has been a marked downturn in sales. They attribute this to a variety of reasons, most notably rises in personal income tax, the introduction of VAT in 1995 and its subsequent increase from 15 per cent (per cent) to 18 per cent, and the sharp rise in the cost of living. Most respondents spoke of price wars in their sector, and of the necessary levelling down effect that this was having on the quality of the goods or service they provide. One successful respondent, offering a variety of civil engineering and related technical services (R11), put it this way:

“Any regrets? That we didn’t achieve more. We could have, but the nature of competition, it’s cut-throat and quality is suffering so people just try to keep afloat. So what we have to do is to go down to their level, drop down a bit, and not give the client the support that we should. It’s negative competition. It’s supposed to work the other way, but not here.”

The only exception to this position was that of a young entrepreneur in the IT sector (R23), who claims to have retained an edge on competitors by always ensuring a quality service, and that even if it means a smaller clientele, this person makes sure to develop and maintain excellent relations with clients and a good reputation for the firm.

Almost all respondents mention having been affected, more or less directly, by Malta’s accession to the EU. The impact has differed according to sector. Professional services were ambivalent; the regulatory implications are quite strict and complex for them, such as those pertaining to insurance and accountancy (R3, R13, R18, R20, R22). Furthermore, they faced added competition through free movement of services, though quite optimistic that the size of the local market will not attract serious competition. Manufacturing firms were most

concerned, particularly in the beverage sector (R25) where relatively cheap imported wine has devastated the market share of local produce; and the furniture market (R1, R3), as the cost of imported goods since levies were removed has made it impossible for them to compete with ready-made furniture. The latter feel, paradoxically, that they have been saved by the 'non-professional' approach that many masons take to their work – the fact that apertures, for instance, are rarely of the dimension that they were meant to be has created a niche market for furniture makers that, for the time being at least, cannot be taken over by standardised imports. As one carpenter (R1) only half-humorously recalled:

“We're saved by the fact that we have unskilled labourers who do not abide by standard aperture sizes. They drive me round the bend, but in a sense it's thanks to them we haven't closed down yet. All this boils down to our low levels of education. I was awarded a tender in St Julians, needing 600 doors per floor. Obviously when you have a standard size it's easy, like when I worked overseas. Builders in the UK use a 'subframe'. So we gave a price assuming the doors would all be the same. To play safe, we gave the building contractor 20 galvanised steel subframes. When they started building the second floor they told me I could start installing on the first. And I went, and no two of the first 20 doors were the same. I asked them 'where are the * subframes I gave you?' The worker called the foreman, who called the contractor, then the subcontractor, then the crane driver. Eventually we found out that the 20 frames had been taken to bits to make boxes for the tower crane people to sit in!”

While one may have expected the importing services to be generally more optimistic about EU accession, they too were cautious. Wholesale and retail respondents (R4, R9, R14, R21, R26) said that while they had definitely benefited since the removal of import levies, this was only temporary for two reasons. First, more people had started to import, hence greater competition, and second, the level of demand in a small market was not going to change very much. Cheaper imports may therefore further stimulate the wholesale and retail trade, but “at the end of the day, there exists only so much supermarket space” lamented a wholesaler (R9) who has lost part of her market share. This was also recognised by three manufacturers (R1, R3, R5) in the aluminium and wood industries, who noted the effect of imports on their business and spoke of the temptation to pack up and move into the “easier money of importing”, but would not because they took personal satisfaction in the greater creativity afforded by manufacturing and because the benefits of import would soon level out. All but two respondents hope, and believe, that they will be able to establish themselves in a local niche market, yet wish for greater assistance in doing so. One small manufacturer (R10) said that the infrastructure for indigenous business to develop locally or to export, is still sorely lacking; for instance,

“Marketing? How can I do marketing, if I employ a graduate in marketing it would cost me one fifth of my turnover. [Government agency] was set up to help Maltese firms to export; they have no imagination, no customer service. I wanted to export nursery [] to England, they tell me come to the trade fair in Stuttgart. It is totally irrelevant. They should be providing a professional marketing info and advice service, not just looking for free trips for themselves. If they would develop this marketing service, then small firms could pay reasonable rates for the information and everyone would benefit. But it’s secrets, secrets everywhere”.

For the third and related subcategory, a number of respondents felt that they were seriously disadvantaged in relation to big firms. First, the latter are better placed to take advantage of the removal of levies as they have the capital to venture into imports. Big firms are able to flood the market and squeeze out the smaller producers and retailers; they are also more able to give big discounts on their products, and cross-subsidise with profits from other products, in order to squeeze a smaller supplier out of the market. The effect of liberalised imports on the furniture industry was referred to above. Another retailer of a particular product (R4), whose family has been in this business for sixty years, is on the brink of closure as a large firm with various subsidiaries has used the discount strategy to promote an inferior product and drastically reduce this person’s market share. Another respondent (R16), a well-established producer of local ‘artisanal’ biscuits confirmed that she is also on the verge of closing down, as a large biscuit firm had flooded the market with cheaper yet inferior foreign biscuits; not only that, but it had copied her most popular product and has now managed to export it. Of course, she cannot compete with the larger firm’s scale advantages. This person spoke of the far-reaching implications of this, as over the past fifteen years the firm grew from two spouses, one oven and a packing machine into an employer of 18 family members; this extended family would be devastated if she is forced to liquidate as she fears.

A second example of the advantage of big firms is access to government contracts. Four respondents (R6, R18, R20, R22) referred to the difficulty in being awarded a government tender because of their size. When queried, they claimed that it was not a capability issue; they had both the skills and number of staff required for the job, as well as a good track record. They suggested that there is an inherent bias against small firms when there should be a preferential or at least equal treatment of them. Perceptions of political bias are never far from the surface; two respondents (R5, R8) alleged that small firms are not contracted because they are less likely to be able to assist with electoral campaigns and therefore their favour is not sought. One accountant (R20) understands it as follows:

“Yes I want to grow, but it’s not easy to find new business. For instance, Government is a major potential client but does not use the services of small firms. When we tender, government ignores us. I think we have to grow more to have any sort of impact at all. When I was working alone, I understood that Government couldn’t use a one-man shop. But now we are ten, we have a reputation for efficiency and integrity, and have the capacity to deliver. I think it must be nepotism, I cannot understand it any other way.”

A third instance of competition from big firms, this time in the public sector, arose when three respondents (R5, R11, R28) referred to government’s efforts to privatise a number of its entities. They feel very strongly that the Drydocks and Shipyards, which have been seriously in the red for over a decade now, have deprived the technical and trades sectors of the best workers in these fields, who are kept on the books with no work to do. One aluminium firm owner (R5) asked if the research findings would be shown to government; on being assured of anonymity, he said

“On the contrary, please put my name down. Tell them that keeping the shipyards open is ruining my sector, and anyway I’ve told them myself already. Tell them to close the shipyards and free up those workers. They’d do us a big favour. They have the best of the best [workers] in the shipyards and they have excellent tools. But you go to the shipyards, four are sleeping while one works. It’s terrible when you’re crying out for skilled people. There was some sort of scheme where the Federation of Industry offered to help place the shipyard workers in the private sector. Of course, the workers didn’t accept, they’re sitting pretty getting paid for doing nothing.”

Respondents also spoke of government having established two cooperatives among ex-Drydocks and ex-civil service workers in fields similar to their own. While they recognise the need for Government to reduce its current wage bill (for 34 per cent of the gainfully employed), they are very concerned that simply moving workers into another entity which is publicly funded or underwritten will not solve either the fiscal or the skills problem. They feel that the treatment of these cooperatives, whose members still receive a basic wage in addition to being allowed to compete for government and other contracts, constitutes a very serious breach of fair competition. One respondent (R3) also asserted that a number of calls actually have specifications which practically exclude anyone from tendering but these cooperatives. To return to the aluminium firm owner:

“This is another thing you must write down. I kicked up a big fuss for the [] Minister in 1999. Look at all these newspaper articles I wrote... In February 1999 they set up a whole new cooperative to do aluminium works, surplus civil servants were given all the workshops and tools to run this cooperative. Is that fair competition!! How can a small firm compete with the public sector like that? Would you believe me, a tender of Lm2.2 million with Lm500 a day penalty; in their case their penalties are waived. They could compete with us, but their penalties were waived! It was a bitter blow. Workshop free of charge, materials free of charge. I spoke to the Minister, I caught him at a wedding and told him, do you know what you're doing?!”

Relative to large firms, small firms find it difficult to attract the best and brightest; all but two new high-tech firms acknowledged that it is hard for them to compete with larger firms, who offer better wages and career paths to their employees. This tends to become a vicious circle, as small firm employers become reluctant to train their employees for fear of their moving on or being poached by larger firms, and they become trapped in a low-skill equilibrium. While many small firms spoke in a heartfelt manner about a general decrease in staff loyalty, they were quick to acknowledge the reasons why staff wanting returns on their educational investment would move on to larger pastures.

However, it is sometimes in relation to even smaller firms that respondents felt they were losing out. For instance, VAT regulations have been changed such that those earning less than Lm6000 (around £9000) per year are exempt from VAT. This has encouraged the generation of real, and fictitious, micro-enterprises to take advantage of this provision and leading to unfair competition with small firms that declare above that amount. As one confectioner (R24) said, some of his competitors have switched to producing frozen Maltese pastries, because frozen foods are exempt from VAT and they ensure that income on other products remains below the Lm6000 mark. In effect, therefore, his competitors have an 18 per cent advantage, but he will not follow suit for as long as he can help it; for him, making fresh cheesecakes is a craft that has been in his family for four generations and is an “integral part” of Maltese tradition.

Lastly, a problem frequently mentioned by respondents is the high level of risk in training one's staff only to see them branch out on their own. As one respondent (R10) said,

“It's very difficult to get experienced tradesmen. Today, they come, you give them a contract of service which is supposed to be for an indefinite period but by hook or by crook they get out of it, and set up their own shop. That for me is a big problem. When they're on their own, they have no overheads, they know all my clients, they know all the tricks of my trade and they automatically steal my work. That is the local trades market for you.”

This is an important point when considering the ways in which the small firm sector perpetuates itself in Malta, as small firm employees gain the breadth of skill and experience to branch out on their own and enjoy greater income and independence.

7.1.3 Fretting over finance

All respondents except one – including the more successful ones – expressed concern over their ability to maintain financial stability. Financial insecurity is felt to limit one's ability to plan, innovate and recruit accordingly, and to have broader implications for one's own family or that of one's employees.

There were six sub-categories to financial insecurity. The first relates to the difficulties that respondents experienced in obtaining sufficient start-up capital. The second relates to the problematic relationship that most respondents experienced with their Bank. The third, and related, issue relates to the way in which respondents experience a dependence upon personal sources of finance, whether one's own or more often one's family's. The fourth relates to the marked increase in debtors that has been experienced by all respondents in recent years. The fifth is the effect that financial insecurity has upon the ability to plan and manage one's staff complement. The sixth effect of financial insecurity is the inability to invest in upgrading or innovation.

It is hard for small firms to access finance, as no venture capital system exists and start-up and development loans are harder to come by. Respondents spoke of their difficulty in obtaining finance; many of the younger ones (R4, R7, R12, R17, R23) described how they had had to borrow money from family in order to start their operations. While they acknowledged that they were lucky to have been able to do so, they also pointed out that it had not come without a cost. A forty year old respondent who runs a professional services firm (R20) described how his in-laws lent him the start-up capital when he set out on his own, and the ways in which this unspoken obligation had put pressures on his married life.

These were compounded by the fact that it was necessary for his wife to continue working until the firm was on a sound footing, which in turn has delayed childbearing to a rather late point in life.

This respondent was not the only one to have experienced the ambivalence arising from accepting loans from the family, which seemed to exert some pressure on their gender identity too. One respondent spoke of feeling "less of a man". A young, successful female entrepreneur whose parents lent her the money said that borrowing money had, for some time, left her somewhat confused about her gender role and she had had to revise her concept of the "good woman" to accommodate the notion of herself as a businesswoman taking risks with family money. In her case, the Bank had refused her a small start-up loan, despite her award-winning business plan, on the grounds of her gender and the assumption that the business would not survive her childbearing years (and this was mentioned by practically all the female respondents). Her parents, too, had misgivings in terms of her 'proper role', and although they eventually lent her the money, remind her of the fact rather frequently.

Other respondents described the need to dip into personal savings to meet the wage bill when cashflow was particularly tight (R7, R13), or even to mortgage the family home at times of crisis, much to the consternation of their partners. In most cases, the inability to keep separate one's occupational and family finances was a source of major concern, both in terms of personal risk and the way it compromised one's family relationships.

When asked more closely about the firms' relationship with the banks, respondents showed a considerable degree of resentment. A number distinguished between two periods in their relationship with local banks. In the eighties and early nineties, it was relatively easy to obtain a loan or an overdraft, even unsecured, on the basis of a sound business concern and a good reputation. A number of respondents say that their access to bank finance has become more problematic since one of the two major commercial banks was sold to the 'world's local bank' - a personal relationship with one's branch manager, and a sound repayment history, no longer appear to be important considerations in obtaining financial credit (R16).

Respondents generally stated that the bank should be less cautious with smaller firms that are doing well and that had always maintained their credit repayments. Only one respondent (R10) claims not to have had problems with his bank, and he attributes this to his having

kept faith with them. He says that

“We never spent the business loan on cabin cruisers or a nice car. We’re very conscientious with the Bank and always got what we asked for. OK, so the Bank Managers change from time to time. But they have their records and that’s it.”

Others refute this, stating that they too have good credit histories yet no longer enjoy a ‘personal’ relationship with their bank. In the majority of cases, therefore, access to credit appears to remain a problem, and the full collateral required as a rule, tends to bring up again the issue of inadequate boundaries between private and firm finances. This serves to heighten the owner’s sense of personal risk and to generate a level of conflict between his or her felt responsibilities towards the family on the one hand and towards employees on the other.

Although access to capital is a problem, the major problem emphasised by all respondents time and again is the drastic increase in debtors over the past five years. Without exception - high- and low-skill, thriving and surviving firms - all complained of the great difficulty in obtaining payment for their goods and services. Most respondents spoke of payment delays of between nine to eighteen months, with ‘best’ clients paying within the year. One printer (R17) said that the effects of bad debtors are particularly serious on small firms, and in his case has made him have to terminate employment contracts on more than one occasion:

“It’s very very difficult to collect money. There are a lot of companies who do business, pay by cheque and they have no money in their account. You have to chase them. That affects your payroll. Three years I had a company, [] Supplies, who used to order, order, order, they never paid, Lm6000 down the drain. Not only me, but many companies. That’s one year’s salary for us, I had to let [] go. Look what it does to you. Two or three of those and you’re finished.”

A very few believe their debtors to be in genuine financial trouble and to be simply passing on their cash flow problems. Others were more cynical, noting that even “powerful market players” were some of the worst debtors; that delays are often a calculating way to obtain a discount, or a cheap form of credit where “everyone works with everyone else’s money”. At the same time, the nature of competition does not allow them to raise prices to compensate for this reality. One insurance broker (R2) stressed the need for credit check systems to be introduced, while another (R23) spoke of the difficulties for small firms to obtain redress

through the legal system. She says that

“my management accounts show big profits but my bank accounts do not! Debtors are a real problem; there is no legislation. We badly need legislation to help small firms collect their money. You can take debtors to court but it is so expensive and such a lengthy process that I'd end up in much greater debt just to sue my debtors.”

For respondents, the most concerning aspect of the increase in debtors is the insecurity it generates regarding the payroll, that is, on their ability to ensure that the wage bill is covered at the end of every month. In each instance, the concern was by no means only an abstract notion of responsibility. Many mentioned their acute awareness of their employees' family obligations; others spoke of the anxiety they felt over their financial obligations to workers who had also become close friends. One high-tech company (R17) is finding its feet again after having to discharge two out of eight employees two years ago when three major clients failed to pay him. The experience appears to have been a very bitter one, especially in the context of the friendships that had been forged as this young company took off. The law courts have still not resolved the matter, leaving this entrepreneur wary of recruiting anyone else despite an increased demand for his product. Other respondents too (R21, R25), claimed that they would like to recruit more staff but the prevalence of debtors makes it too risky for them to do so.

A second effect of these cash flow problems is the inability of small firms to access certain government measures intended to help them. For instance, the Loan Guarantee Scheme depends on prior bank approval of the credit. Other schemes, such as those on premises, machinery or training, are based on a refund system – often only repaid three years later – and if the firm is not able to pay up front in the first place, they cannot access these forms of assistance with obvious implications for development of their business.

7.1.4 The Pervasiveness of Politics

Many respondents claim to be affected by the politicised nature of social and economic life in Malta. Three forms of political impact could be identified. The first relates to the claim that patronage is necessary for either the award of public contracts or even access to bank finance. The second is that the constituted bodies, that is the representatives of business and the trades unions, are politically aligned and tow the party line to the detriment of small

businesses where necessary. The third is the effect of political division upon the work ethic in the public sector. While these claims, of course, cannot be verified, it is certainly true that widespread perceptions of politicisation do exist and are related to a sense of dependence and/or futility among respondents. Allegations were not made about any party in particular but about both parties that have governed Malta over the past thirty years; parties are claimed to wield influence whether in power or in opposition.

Six respondents spoke of what they see as patronage in the local market. Two high-skill service firms (R20, R22) lamented the fact that while the official line is that their firms, with around 15 people each, are too small to be awarded government contracts, in reality they have the internal capabilities to meet the requirements and it is only the reality of nepotism that bars them from being awarded this work. Another high-skill firm (R23) alleged that it refuses to submit quotes or tenders for public contracts as this procedure is a smokescreen; yet another spoke of inconsistency in the use of direct orders by government.

While allegations of patronage appeared to be more commonplace among higher-skill firms, there were also examples among lower-skill ones. Two firms, one providing personal services (R6) and the other a woodwork firm (R1), claimed that having political contacts is often the only way to be sure of obtaining bank finance. Two other respondents in the crafts and trades sectors (R5, R10) were more upbeat about the matter, claiming that the only way they managed to bypass the bureaucratic maze and to get the necessary public works carried out around their firms was by direct intervention of a Minister. This they justified in the name of efficiency and public good, as the following respondent illustrates:

“When we needed something, for example, the skips, we only got them through a Minister. It’s the only way we get anywhere, it’s ridiculous but it’s the only way Malta works. You don’t know anybody? You just sit down there and do nothing. I’m not saying we’re corrupt but if we need something we just make a call and get it done. Of course, the whole [*industrial area*] benefits too.”

The second main way in which politics appears to affect small firms is through the way in which respondents believe the constituted bodies to be firmly aligned with one or other political party. Almost without exception, and regardless of their own evident political sympathies, respondents expressed a sense of futility about the commitment of certain major employer bodies to represent the interests of small firms as they were caught “in the political

vice”, primarily concerned with towing party lines. A number of small firms appeared to be particularly upset about an association’s stand on EU accession; they accused it of concealing the real impact of accession on the interests of small firms in favour of Government’s accession agenda when it should have been the interests of its constituents that it sought to protect.

The third way in which respondents believe politics to affect them is through the impact it has on the public sector work ethic. A producer of electrical parts (R28) spoke of an “institutional arrogance” that characterises certain gatekeepers in lower-level occupations in the the public sector who were recruited or promoted on the basis of political favour – quite probably for canvassing – and therefore feel untouchable. A furniture maker (R3) claimed that factionalism has affected the work ethic of unskilled labourers who note the cushy lives of their public sector counterparts and level down their efforts accordingly:

“I think our deficit really began when in 1987 the whole unemployment register was wiped out by placing all the unskilled registrants in the civil service....If you put these people to work in the private sector, they wouldn’t survive a day. Half the workers don’t want to work because the Government is ‘not theirs’, the other half don’t feel they need to work because ‘their’ Government is in power! You have a very few conscientious people who work, but the arrogance is tangible everywhere.”

7.1.5 Reeling under Regulation

All respondents without exception complained about regulation, in terms of five main issues. These include the rapid pace at which it has increased in the last five years or so, the additional costs it bears for small business, its uneven application, its impact on their recruitment strategy, and its impact upon the managerial prerogative.

All respondents in every sector complained about the deluge of regulations that has hit them in the run-up to, and aftermath, of accession. The major problem here has been to digest these regulations and alter their operations accordingly; they claim to have had little practical guidance on the matter either from the issuing body or the constituted bodies. Respondents mentioned, in particular, regulations such as VAT, company law, regulations affecting financial services and insurance, health and safety, employment and industrial relations, equality as regards gender and disability, and data protection. The high-skill services appear

to be most acutely aware of the volume of regulation. The heads of a financial consultancy firm, and an insurance firm respectively (R2, R22), both claimed that their sectors are now 'over-regulated'. The former said that he feels his firm's "number one risk is not being able to make the time to keep up to date with all the laws and rules in fiscal law, like VAT, Income Tax, Financial Services, Company Law, not to mention the changes in international accounting standards". The head of the insurance firm also thinks that the sector is heavily regulated, especially for micro-enterprises, and may serve to kill initiative and business entry.

While respondents generally appear to accept the need for regulation in terms of protecting consumers and staff and ensuring fair competition and fair trade, respondents have issue with the way the regulations were promulgated with little support. Another issue they mentioned repeatedly was the cost of adopting new regulations. For some, this was a matter of paying consultants to explain the implications to them; for others, the costs were more direct in terms of health and safety equipment, or expensive audits of data protection or health and safety compliance. They pointed out that, at a time when everyone has cash flow problems, the timing and timeframes of the regulations could have been worked out differently. One owner of a guest house (R7) complained bitterly of the costs he has incurred the past two years in terms of regulations in the hospitality sector. He said that the money he has spent on three-phase electricity, new plumbing, blackout curtains and the like has brought him to the brink of closure, and he is seeking to sublet his guest house to a language school or larger hotel.

Eight respondents stated that they do not have problems with being regulated as such, but they feel that regulations are unevenly applied, thereby creating unfair competition. For instance, unlike the suggestion by some of the literature that small firms resent paying social security, respondents were more concerned that this requirement should be enforced on all firms. As one retailer (R4) said,

"Everyone should pay NI. Whether a small company or a big company, if a company can't afford to pay its NI, shut it down. The NI does not belong to the company, it belongs to the future, to the pension fund or whatever, to the individual. So if the company can't afford to pay that, it can't operate. That's what they should regulate, that everyone pays, I guarantee you 20 per cent of Maltese companies would go down. NI is part of the wage, it's a cost. As I told you, if companies do not pay NI, they should shut them down."

Uneven treatment was pointed out by four respondents in relation to the collection of employers' national insurance contributions. One consultant (R27) claims that the day he received a hefty fine for a late submission of his contributions, he read in the paper that two large firms – one of which was a public entity – were over a year in arrears. He suggested that it is this seeming unevenness, rather than the contributions themselves, that fuels small firm'scepticism.

The reference to differential treatment was also made a number of times with regard to planning regulations, which are seen to be applied differently depending on the applicant. As one real estate respondent (R8) stated,

“It's not setting standards that's the problem, that's a good thing because our sector will improve. It's the way they are interpreted and enforced. Because if you apply under the regulations the first time, your permit is never issued. Then you go to the appeals board, and it's issued. This happens not once, but every time. What is going on? Why all these tactics? The [Authority] is the key to the economy of the island and should improve its service.”

A personal services provider (R12) asserted that “grease money” is still used to resolve problems to do with regulations, permits and bureaucratic delays. When asked to elaborate on this rather broad allegation, she said that this is evident by the apparently unequal treatment of similar applications for permits and licences.

Gender-related regulations were singled out as a main reason for respondents' reluctance to recruit women. Except for three female owners, all respondents did not hesitate to say that they would definitely think twice before recruiting a young woman today. They claim that while the 14 weeks' maternity leave is a price they would (grudgingly) pay for a good female worker, the newly introduced right to parental leave is a serious deterrent. The cost of training a substitute while the staff member is on parental leave is considered an unwarranted cost, as well as the difficulty in dismissing the latter should the person on parental leave eventually return. Many expressed regret at this point, claiming that in many ways, they tended to prefer female workers who were generally more industrious, precise and committed to their work, but their prospect of motherhood and its costs was a strong deterrent.

Lastly, most of the respondents claimed that the various ways in which the employee is protected – through the Employment and Industrial Relations Act, Health and Safety and Non-discrimination legislation and various tribunals - has virtually robbed them of their managerial prerogative. A female wholesaler (R21) pointed out that “it is hard enough for me to exert any authority over my male staff, all I need is Government on their side too.” Numerous respondents feel that their employees are far better protected than they are, with one head of an accountancy firm (R20) saying that “this is not fair because if I run into difficulty no-one’s there to help me”.

7.1.6 Burdened by bureaucracy

Respondents were not very positive about their dealings with bureaucracy, on three main counts. The first is the rapidly increasing amount of information required by Government; the second relates to the delays in respondents’ dealings with Government; and the third relates to the scope of government incentives as regards the eligibility of small firms.

One printer (R17) claimed that bureaucracy is the worst enemy of the small firm in Malta, supporting the small states literature which says that in a small state, one comes up against government all too frequently:

“Bureaucracy, number one. Unbearable, all the time. The process takes a long time, you end up losing either a job or a possibility of investment or a contract. Permits, there's permits for everything; licensing, and getting information, uuh, and importing things, anything that has to do with government departments is the worst, no matter what you do. My time is money, I just can't afford to employ a paper pusher. Then there's expenses, a lot of expenses, related to importing any goods, it's very expensive. Electricity, rates, rent, especially here at the Incubation Centre, it's very expensive for a start-up company.”

All respondents complained of a surge in government’s information requirements over the past five years, with multiple agencies requiring either similar data or complex information that often came at a cost to these small firms as they had to purchase services to collect and analyse this information. Moreover, respondents believed that the penalties attached to late submission were unfair in their case as they lacked the manpower to meet all these

requirements on time. One consultancy firm (R27) said that “government picks on small registered businesses because they’re easy prey and it shows government to be tough...besides, government is rarely beholden to small firms and can get away with it.”

While some purchase the services of accountants to process the information required, five other respondents mentioned that their wives come in and “do the paperwork” when necessary. The entities that all firms mentioned were the VAT and Inland Revenue Departments, the Department for Social Security and the Employment and Training Corporation, the National Statistics Office, the Data Protection Commissioner and other sectoral entities such as the Malta Financial Services Authority, the Tourism Authority and others. The cost of this compliance ranged from the value of just under a minimum wage to double this value. All believe that reporting requirements could be rationalised and simplified, which would benefit small firms in particular.

A number of respondents pointed out that though they were penalised for late submissions, they regularly experienced delays when dealing with government departments and authorities. One digital printer (R17) claimed that he has lost work, and with it the possibility of recruiting someone, because a tardy issue of a permit cost him to lose a foreign contract. A number of the respondents claim to have lost business because of the delays in the issue of planning and development permits, which can take up to several months with often unpredictable outcomes. Two respondents (R19, R23) claimed that, despite promises of a two-week reply, they were still waiting for an approval under the Loan Guarantee Scheme almost nine months later when even the commercial banks, that run a higher risk than Government, had approved their business plans, conducted their searches and consequently approved their loans, within a month. The printing firm (R17) pointed out that six months down the line, he has not yet had confirmation that the training course in America – to which he must send two of his employees as no specialist training is available locally – is eligible for refund, but, as the course was due to start in October he would have to take the risk and send them anyway.

As regards government incentives, respondents had issues with the way these are designed, and the red tape involved. A number of respondents pointed out that many government incentives were not applicable to them as they had under ten employees, or because they were in the service sector. Two female entrepreneurs (R21, R23) suggested that the schemes are inherently gender-biased in terms of the economic activities that are targeted. Many

respondents also pointed out that the red tape connected to the application for, and utilisation of, government incentives were far more bother than they were worth, particularly because many of them are based on a delayed refund basis. This applied not only to refunds such as those on machinery but also in relation to job creation and training subsidies where beneficiaries are refunded three years later. One contractor (R11) said that

“Technically we’re eligible [to benefit from the Business Promotion Act]. But it’s such a burden to go through that process that, you know, when we need to do something, it takes up so much time, there’s so much bureaucracy, that you don’t actually bother. The costs outweigh the benefits. Especially because you have to wait for years to receive the refund.”

Another anomaly in relation to training subsidies is that the Business Promotion Act under which they are awarded, lays down that training grants are only available in respect of the first six months of a person’s employment, or after an employee has been in a firm for three or more years. One high-tech respondent (R28) pointed out that for start-ups, this is very inconvenient, as in the first six months of a firm, when core staff are generally recruited, the firm is unlikely to have the funds to train them (which are only reimbursable many months later). If they miss this initial period, they have to keep an employee on their books for the relatively lengthy period of 3 years before any training becomes eligible. Respondent claims that this provision has rendered these incentives meaningless for her and for other people in her situation.

7.1.7 Apprehensive about Associating

The next category is that of association. Three subcategories emerge. The first relates to a broadly felt sense of futility as regards participation in constituted bodies, in terms of the scope of their activities, their exclusivity and above all the politicised nature of their agendas. The second subcategory refers to the difficulties of sectoral cooperation, particularly due to the secrecy that characterises Maltese business and due to their experiences of broken promises. The third subcategories relates to the positive aspects of cooperation, which was predominant among female respondents.

Every single respondent, irrespective of sector, expressed a sense of futility as regards their participation in constituted bodies, claiming, without exception, that it was a waste of

precious time. They claimed that these bodies did provide information, albeit not in a timely or comprehensive manner, but that they did not go beyond this role, and definitely did not assist individual firms when the need arose. While female respondents appeared to feel particularly excluded from the constituted bodies, in terms of the scope of their interests and the 'old boys' network', it was by no means only a gender issue as a number of male respondents also spoke of cliquism between larger firm owners or between established family firms.

Another commonly expressed theme was that referred to above, of the political factionalism of the constituted bodies. Many respondents were frustrated and cynical at the bodies' apparent towing of party lines, especially where these were seen to go against the interests of small firms and the opinions of their members. One retailer (R14), for instance, referred to the fact that for decades, retailers have sold government-produced milk at no profit, with all the expenses this entails in terms of refrigeration and space. Yet it is only now that Malta has joined the EU and foreign milk is imported freely, that the relevant association has pushed for profit on local milk, for reasons not quite clear to them. However, despite this general sense of futility, all respondents claim to be members of one or more constituted bodies. Many said that they would not like to be seen as 'outsiders' though they would not elaborate on what they thought the implications may be.

Most respondents, also irrespective of sector, expressed a sense of distrust and resignation about the poor prospects of cooperating with other operators in their sectors. A recurring theme was that of the secrecy that pervades Maltese business life, where everyone appears to jealously guard information about their firm's activities, plans and progress. One respondent (R25) spoke of this secrecy as "being almost tangible, a brick wall" that seemed to cut dead any attempt he made at cooperation. Another respondent (R3) referred to an occasion where he had reason to believe that things were improving as a number of carpenters in his area had agreed to join forces to import some specialist equipment, only to have his hopes dashed when his messenger took the equipment to a competitor who met him at the door and would not let him into the workshop. This same person said that

"It's hard for us Maltese to work in a group, we tend to work in cliques, an us-and-them mentality like our band clubs, football, political parties...we are divided in many ways and have not really accepted that we can all win if we cooperate. We only feel we've moved up if someone else is further down."

A number of respondents claim that they no longer seek to cooperate after having had experience of associates breaking their promises. One beverage manufacturer (R25) described how – after agreeing on a new sectoral association's terms of cooperation – he was to discover in the following week's newspaper that a main protagonist of the association had slashed his prices without informing members first, an obligation which they had all willingly undertaken. Another respondent (R19) spoke of his firm's cooperation with another with a view to benefit from a particular government incentive, only to be dumped in favour of a different firm only a week before the application was to be put in, thus ruling out his chances of getting another proposal together. A third firm (R20) told a similar story in connection with a joint tender. An aluminium firm owner (R5) spoke of a sectoral agreement not to poach each other's staff as having been breached within weeks of it being finalised. The beverage manufacturer (R25) is of the opinion that

“our market size makes cooperation impossible. As the consumers are given more choices, one man's gain must be another man's loss, there's no way around it. The price war is here to stay.”

However, there was a small group of respondents who were far more positive about the prospects of cooperation. This was true of only one male (R13), who participates in an insurance association and values this cooperation for the advance insight he obtains into matters relating to his business. On the other hand, all the female respondents had more positive things to say. The most active example is a successful provider of a particular personal service (R12), who started from scratch twenty years ago. This particular service has proliferated in recent years, and – feeling that the constituted bodies are firmly male domains based on old boys' networks and 'masculine' sectoral interests – she set out to establish an association in her sector. Most operators in her sector are now active participants in this association, which has set standards, co-financed foreign training and convenes regularly to identify and resolve issues of common concern. This respondent was very enthusiastic about the gains that she and her competitors derived from such cooperation, and states that despite the proliferation of providers and the tough competition in her sector, it remains fair and based on quality and mutual respect, rather than undercutting. The same enthusiasm was expressed by an active participator in a women's business association (R18). She spoke of the way she has gained through networking, as the association has provided her with both local and foreign contacts, and has fostered innovative developments and

partnerships between female business women. In general, female respondents displayed far less cynicism, and a more proactive stance, towards cooperation between firms.

7.1.8 *Feeling like family*

Not surprisingly for small firms, the 'family' theme recurred frequently in a number of ways. Practically all respondents used the family metaphor in describing their experience of managing a small firm. Most respondents appeared to value this experience, such as the owner-manager of a small real estate firm (R8) when asked what running a small firm meant to him:

"We consider ourselves like family, that's the advantage. It's a small firm, it's like family. It has advantages and disadvantages but on the whole you know what's happening if you're a small firm.... In a bigger firm, you hardly meet the staff. In a small one, you're always in contact. Sometimes you solve their family problems as well. Our people are real, they're not just numbers on the payroll."

A more detailed look at the family metaphor generates four subcategories: family support; the replication of family dynamics; the managerial implications of a family business; and the valorisation of the family.

In terms of family support, as already noted above, a number of respondents acknowledged their debts to their families in terms of their start-up and survival. Some received financial support from their families that was not forthcoming from any other source, though they spoke of the strain that this put on family relations. Others acknowledged support from their spouses, though this was more frequently expressed by female respondents who also noted wryly that although two of their spouses worked only on a part-time basis to be more supportive, the women still retained full responsibility for feeding, ferrying and educating the children.

Many respondents indicated the ways in which a small, familial environment tended to see the replication of family dynamics. Three spoke of the sibling rivalry between their staff, who were constantly vigilant with regards to the workload distribution, and the conditions that each respectively enjoyed. A replication of gender roles was evident, in that most

respondents had very definite ideas as to what a woman could or could not do, with very positive remarks about their capacity to perform service and supportive roles but not much more. The effects of parenting style in Malta was also referred to frequently, as respondents were of the opinion that parenting had gone from a tendency to strict control and observance of religious and other social norms, to a very strong focus on educational achievement but laxity and indulgence on most other issues. This, felt respondents, has bred a cohort of young people who – if not high performers – experienced low self esteem coupled with a sense of dependence and entitlement. That young people are not taken seriously as adults was also mentioned by three respondents in their twenties who all find their age to inhibit their ability to command and carry authority in their employees' eyes.

Half the respondents were actually family firms. Three respondents spoke of the difficulties that arise when management is split between family members; as disagreements take on emotional overtones which are very unpleasant to handle. One of these also said that staff sense, and play on, these differences, seeking alliances with one or other sibling to broker better conditions for themselves. One head of a wholesale firm (R21) is still suffering the repercussions of terminating a sibling's employment for misappropriation, and has practically lost contact with their mother who chastises this person for the dismissal. A retailer (R14) pointed out how family firms find it hard to attract professional managers, saying that

“They just can't see opportunities within. It comes from the Maltese way of doing business as well. We're Phoenicians and unfortunately, just because I'm the son of the owner, I become the owner. Whether I am capable of doing so or not...the son has to carry the weight...and he's not always good enough. It's difficult to find a father and tell him look, your son is not capable, that person who is not your blood can do a much better job than him. That's why we're not attractive to professional people, because there's no way forward. We have to understand that everybody's capable of doing something but not everybody's capable of doing everything.”

One successful building services contractor (R11) attributed his firm's success to the fact that they have moved away from the family model and introduced professional management:

"It's management attitude that makes the difference, moving away from dominant or hidden agenda scenarios like you find in family-run business. Ours is not a family firm. We have shareholders, they all work for the company, and what's peculiar about it is that once a person resigns he cannot retain his shareholding...it's very important because, had it not been the case, over 27 years by now we'd have had the wives of deceased shareholders involved in the company without being competent, technically or up to scratch. This way we keep going."

This fear of outsiders – particularly female ones – coming into the business was also expressed by a retailer (R14), who is seeking to limit his brothers' wives' influence over the business, as well as by the owner of one in a chain of Maltese confectioners (R24) who believes that the problems in the chain began as the six brothers married and "fell under the influence of their wives". In each case, they are exploring alternative legal frameworks to structure and run their firms.

Whether family-run or not, a small firm does tend to breed familial relations about which respondents expressed ambivalence. While they strongly value the "open door" approach, the quasi-fraternal feeling between staff and the relative ease in "controlling" the performance of a small workforce, they speak of the difficulty in disciplinary action and in being able to differentiate between staff on grounds of merit. Eight respondents also spoke of the sense of personal betrayal when certain staff were found to have stolen goods or clients, and others spoke of a personal loss when staff resigned.

Without exception, respondents seemed to feel affronted when asked whether their staff were unionised, and many used the 'family' *motif* to say that there was absolutely no need for "outsiders" to defend the staff's interests as these were treated as well as family members. Many construed their role as a parental one, and seemed genuinely hurt at the mention of unions. Others were more belligerent, with three (R5, R8, R17) claiming that they would shut shop immediately (as one of them had done before) if their staff were to seek unionisation. Using a family analogy as many respondents had done, one aluminium firm owner (R5) said, with humour but conviction, that he reminds his staff that

"I'm the boss here. Like my father used to tell my mother, she didn't need to bring her mother, her auntie or even the parish priest into the story. I'm saying the same to you. You just sit down and talk to me, tell me what you want and then I'll take my decision."

Turning to the valorisation of 'the family', many respondents spoke of their awareness of their responsibility to their own families and to the families of their staff. They spoke of needing to ensure that the wages they offered permitted a decent standard of living for their workers' families. However, when it came to valorising the role of workers as active family members, respondents appear to be less committed to the family concept. The vast majority consider that legislation related to the protection of parental rights is an unfair burden, and that small firms cannot be expected to accommodate the needs of parents of young children, whether through reduced hours, flexitime or emergency leave. When pushed, respondents said that they would abide by the newly introduced parental leave if the women they employ applied for it, but that they would think very seriously about recruiting new young women in view of these increasing entitlements and the cost of inducing and training a substitute.

This was true across sectors. While female respondents were generally more sympathetic, they too admitted the difficulties faced by small firms in this respect. The single exception to this position was that of a successful personal services provider (R12), who is seeking larger premises in order to be able to operate a childcare centre at work for her predominantly female staff who are all around childbearing age and who she does not want to lose. She prides herself on her low turnover rate, and claims that it is only common sense to make the necessary accommodation, given the training investments she has made in her staff, their relations with customers and the general morale in the salon.

7.1.9 *Searching for skills*

All respondents except two claim that it has become progressively more difficult to find the skills they require. Subcategories that emerged included a sense of skills polarisation, skills inflation, the education-industry link, a deteriorating command of English, a deficit of technical and trades workers, a reluctance to continue learning/training especially among young unskilled men, and the lack of career guidance services.

The two exceptions were at polar ends of the skills spectrum; one crafts concern only needs to recruit persons with a steady hand to paint their products, and these are apparently in plentiful supply, while an IT firm says that due to a drive to increase ICT skill in recent years, there actually exists quite a glut of IT graduates at the moment.

The other respondents, however, seemed to speak of a hollowing out in the middle, where it is very hard to find competent persons with middle-level skills in the administrative and services occupations. When they do have vacancies, they are inundated with applications from persons with few or no qualifications at all, and none who meet their requirements. It would seem, therefore, that small firms are experiencing the effects of skill polarisation, as above-average youngsters are continuing with post-secondary and tertiary education and “a residue of barely literate youngsters” is left available to small firms. The aluminium manufacturer (R5) who made this remark showed the researcher the basic mathematical questions that he puts to his interviews for trainee welders, at a level that is probably used in 11-plus exams. He went on to note that over the past two years he has interviewed over 150 persons and only 6 have been able to get through the interview. A carpenter (R1) said that he has been teaching part-time for twenty years and the number of illiterate applicants has progressively increased; but the respondent also noted that the classes have grown bigger and it may simply mean that carpenters feel the need to sharpen their skills to survive.

While the experience of polarisation was true of practically all sectors, there was also some evidence of skills inflation. One beverage manufacturer (R25) claims that they require at least three O levels for machine operators in the firm, due to the need for a good level of literacy and evidence of basic problem solving abilities; this was not the case in his father’s time 30 years ago, when machines and procedures were more simple. A number of firms require clerical and secretarial staff to possess A levels, when four or five O levels were sufficient for such positions only some years back. When questioned why this was necessary, respondents generally asserted that this was not due to a greater supply of applicants with O levels but to a general decrease in standards. Many small firm respondents claim that they just “do not have the slack” to be able to mentor someone for too long, and it is therefore important to be relatively sure about an applicant’s skill level and learning ability from the start.

A commonly recurring complaint, mostly by higher-skill service firms, was about the apparent deterioration in the level of written and spoken English among the younger cohorts. As most business communication is still conducted in English, this raises serious supervisory concerns for respondents such as those in insurance, financial services, consultancy and hospitality. Three respondents interpreted this decline, which is puzzling in view of rapidly increasing access to English-speaking media these past two decades, to the reactionary attitude of many youngsters whose parents were educated in schools where spoken Maltese was prohibited, or who had experienced the English language as a symbol of class

difference. One insurance broker (R13) complained that this issue has become a very emotive one, both for his staff and his long-standing English-speaking clients:

“As I always tell them, we’re here to give a service to English-speaking Maltese, and to Maltese-speaking Maltese, and it’s not up to us to judge his preference and say ‘how pretentious this client is’. We lose business with those vibes. I tell them, grow up, my goodness. You have to say, I’m going to make him comfortable, it’s up to me to adapt, my job depends on his custom.”

However, even firms without direct client contact were concerned about the implications of poor English, particularly in terms of their staff’s ability to continue to learn both on and off the job, given that texts, journals and most training are still to be found in English.

It is not only those recruiting lower-skilled persons that find problems. Numerous respondents in the high-skill sectors spoke of a very poor link between University and industry, in terms of outdated curricula, insufficient investment in growth areas, and the inability of many graduates to move beyond the theory that they learnt by rote towards applying their knowledge at the workplace.

Another issue that arose repeatedly and that was referred to above, was the impact of a large public sector on the labour supply. Respondents feel that a public sector job still represents a more secure, better paid and comfortable option and one which is still socially valorised in Malta. In particular, the technical and trades respondents complained about the dearth of experienced people in their fields, claiming that most are “in cold storage” with government, most notably in the bankrupt shipyards, or in government-subsidised ‘cooperatives’ which compete unfairly with private sector firms. Three respondents claimed that although government has attempted to address the shipyard issue, they have only done this through a comfortable early retirement scheme, the contract for which prohibits them from taking up similar work in the private sector. This issue seemed to be one of the most irksome to these respondents, who feel that this is a serious waste of skilled persons who would easily have been taken up by the private sector had government “taken more decisive action”, which, presumably, meant making them redundant. One respondent claims to have accosted a Minister on the matter at a wedding reception, and was told “*pacenzja* [tough luck], my friend, these people have families like you” and would not discuss the matter any further.

This lack of skilled trades and technical workers was pointed out repeatedly. One respondent who runs a woodwork factory (R3) and who has resided in Central Europe for numerous years, pointed out that most of his workers can

“only copy, not innovate. They don’t know the science of what they are doing, they simply repeat what they’ve always observed. If you try to teach them anything, they get defensive and aggressive and say, ‘are you trying to tell me I don’t know my trade?’ So...I’ve given up.”

This respondent and others explained that for too many years, Malta followed Britain in under-valuing technical excellence, giving priority to the more prestigious professions such as law, finance, medicine and teaching, leading to a surplus of the latter skills and a serious deficit of technical workers. Respondents pointed out that the Malta College of Arts, Science and Technology only re-opened in 2000 after being closed for twenty years. This has obvious implications for the country’s technical labour supply and for the attraction of foreign investment in these areas. As the head of an electronics firm (R28) explained, when he attracted the interest of a German firm who subsequently came to Malta, he was told that the skill level of the potential workforce was not up to scratch. This person undertook to train his workers in Germany at his own cost, and eventually won the contract but would rather not have had to follow that expensive route.

The last sub-category in this section addresses the resistance that many respondents claim to have found from their staff when they encouraged them to engage in training or further education. This was true of almost two-thirds of respondents except those in the highest-skill sectors such as IT and financial consultancy, and in beauty services. It was most marked among lower-skill trades concerns, where four respondents claim that their staff will not even discuss the prospects of training, whether during or after hours and even in return for a wage rise. This was true in the aluminium, woodwork and electronics assembly sectors. One head of a furniture factory (R3), visibly saddened at the situation, saw beyond this reluctance to put it this way:

“I tell them ‘you’re still young’ but they say ‘my mind isn’t good enough’. I think it’s our school system, it segregates people sharply into winners and failures, it doesn’t give second chances and those who do not succeed are broken in some way. Going back to learn is a second indignity for them. They’re scared of failure and very vulnerable in their own way. It’s the thing that hurts me most in my job, they won’t let me help them make a better life for themselves. This has come to mean more to me, almost, than the business but I never seem to succeed.”

A number of respondents attributed this reluctance to train in terms of the absence of a careers guidance service in Malta. They claim that many young recruits they meet clearly have not thought through what they would like to do and what they would be best at doing, and therefore just muddle through without a sense of direction or control over their career.

7.1.10 The Question of Character

The importance of character was repeatedly referred to throughout the interviews, bearing out the emphasis in small firm literature on the importance of 'good fit' in a small firm. As the owner-manager of the real estate firm (R8) put it,

“in a small firm you cannot afford to make mistakes about whom you hire. You need positive, creative people. One negative person can turn your business right around, he can put you into downward spiral. The employee has far more power in a small firm than in a larger firm.”

Various aspects of the character of labour were repeatedly referred to throughout all the interviews. Many of the older respondents spoke of the change in the work ethic that they have observed over time, which they generally characterise as a rise in the 'rights mentality' and a lessening of loyalty. The issue of personal development arose frequently, and common complaints included references to passivity, dependence and lack of initiative. Some spoke of their endeavours to get their staff to take a pride in their work, whether in the quality of a good or through better service attitude. The theme of machismo ran through practically all interviews with wholesale, technical and trades concerns. A troubling number also spoke of theft, of goods or clients.

Most respondents were not very happy with the 'work ethic' of their staff. The heads of a supermarket (R14), a restaurant (R15), a retail store (R26) and recruitment agency (R27) complained that government has 'aligned' itself with the workers, quite likely because it fears the unions, and has thereby undermined the manager's authority. Other respondents referred to colonisation under the British, though evaluating it differently. Three respondents argued along the lines of one owner of a DIY retail outlet (R26), who said that "we were just objects, dispensable, mostly surplus to the fortress economy and they never cared to industrialise us". On the other hand, three others spoke of the tendency of Mediterranean peoples to not exert themselves unduly at work, and of the relatively stronger work ethic in Malta as being due to the Anglo-Saxon establishment of a good public administration. As one carpenter (R1) put it,

“we’ve always made money through buying and (re)selling cheap things, from Sicily or wherever, a bazaar mentality and it made us lazy. We want quick money. It’s a good thing the British came. And it’s a good thing they left, too, because they helped us find our feet but then we had to stand on them... it’s not so easy but we’ve achieved a lot.”

In any case, all respondents agreed that given the current economic climate, Malta needs a much stronger work ethic. In the words of a recruitment and training agency owner (R27), “we all need to work harder for the same money. We need that sense of solidarity, that people are working together as Malta plc”. An example often cited of a weak work ethic was that of clockwatching where, “as though with a vengeance, the clerks stop whatever they’re doing and switch everything off to put on their lipstick at five minutes to five” in a particular insurance firm (R13). One retailer (R14) put it this way:

“I’ve been working for 25 years in a family business so I remember what I refer to as the old staff, and compare them to the new staff. The old staff were much more loyal, not that concerned about the time, not that they’d always stay over, but they were more concerned with doing their work. Not that concerned about salary, not that they did not want a good salary, but I mean, it was not necessarily the be-all and end-all. Nowadays it’s the other way round, it’s salary, advancement, I mean I interview a young man who’s just 18, no particular qualifications other than sixth form, and during the first interview for a trainee, he’s asking when do I become a manager. Which just shows you.”

There were other older respondents who also claim to have seen a decrease in application and effort over the years, which they spoke of in terms of ‘loyalty’ to the firm. They attributed this to a rise in the ‘rights’ mentality, a rapid shift away from the deference that characterised traditionalist Malta right up to the seventies, towards a materialism that most young people in its grip, such that, as an insurance agent (R13) put it,

“people don’t come to work to be creative any more, and yes they used to, I know because I worked with my father before me, I have seen the change. People don’t want to go home thinking, look how useful I was, how well I did that piece of work, they just want to think that they’ve got this much more towards that car, or knocked that much off their ten credit cards. People are becoming spiritually impoverished and I mean that in the widest sense.”

Loyalty was also used to denote a commitment to quality work. The issue of taking pride in one's work came up quite frequently among owners of trade firms, such as carpentry and aluminium, where the owners were obviously skilled tradesmen who were frustrated at what they construed as disloyalty among their staff. Yet this was also true in other sectors, for instance in wholesale and retail concerns (R9, R14, R21), in insurance (R13), and a guesthouse (R7).

Yet a third use of the word loyalty is that of mobility. Most respondents spoke with resignation about the reality of the high turnover of good staff. Here loyalty was construed more personally, in terms of their having brought a person into a familial environment, trained and rewarded him or her, only to see them leave at the first opportunity for better terms. There was a good degree of ambivalence on this issue; on the one hand, many respondents acknowledged that they could not offer the career path or conditions that many larger firms could, while on the other, they evidently felt entitled to a rather different treatment by these employees. In any case, the mobility issue seems to have been a highly personalised one in most instances.

A fourth way in which loyalty, or rather lack of it, was used was in reference to theft of whom nine respondents claim to have repeated experiences. This was particularly true in low-skill services such as retail, trades and crafts, but not exclusively so, with cases mentioned in the insurance and printing sectors. Respondents were evidently hurt about the matter, some expressing it as a personal betrayal that they took badly. One retailer (R14) said that theft is his biggest worry:

“Theft. Theft is big. Theft is so big that first we employ a security, then we catch security stealing. The security [guard] himself. You can't take action because you only caught him steal today. What he stole yesterday, how can you take action. And the law tells you that you still have to give him the wage, and then sue him for what he stole. And if he's broke? I tell you, once I caught the security loading his car, during the night, and he stole, and drinks, and minerals, and everything. And he's my cousin's husband! I caught him, but I could only take back what he had in the car. Goodness knows what he'd taken before and now I can't trust anybody.”

Two respondents claimed that this propensity has peculiar roots in colonial times; one older respondent (R26) put it this way:

“one was considered clever if one [robbed] the Crown...I mean the NAAFI, the drydocks and all that, at school we all used to show off the things our dads had managed to collect, we were proud about it – look, I still have NAAFI pencils!...it was their way of getting something back, something for free, and I suppose that’s still the way they see it today”.

Concern about theft is probably a main reason why most respondents, when asked what they would value most highly in a potential recruit, stressed honesty over and above all else. This was true among all but three high-skill service firms who would assess capability first, but then go on to look for honesty. A number of respondents admitted looking into a candidate’s family background before actually taking him on, as this insurance agent (R13) pointed out:

“Honesty, definitely. Our job requires the utmost good faith, religiously. Our staff open files and see that Mrs X has a ring worth Lm1000, if they keep bad company that’s dangerous knowledge. Uhm. I’ve ruled out applicants in the past, even if they could have been good, because we try our utmost to get background on the family. And sometimes when we don’t, we wouldn’t employ. A police conduct certificate isn’t enough, it can be obtained by all. So for us, the main thing is honesty.”

To move on to issues of development, eight employers spoke specifically and without prompting, of their frustration at the apparent reluctance of their staff to take initiative. They said that staff seem to fear taking decisions; that they have not been prepared to take on responsibilities. One printer (R17) who returned after some years in Canada, spoke of the burden he felt because his staff seem so dependent, claiming that “it’s the mentality in general, people are indecisive, afraid to take on responsibility, that’s the way they’re brought up. To depend on other people”. The claim was made by numerous others; a most successful exporter of electronic goods (R28) spoke of having to re-parent most of the young people he employs, coaching them on the most basic of issues and encouraging them to take initiative in an incremental manner. A female owner of a high-skill service firm (R22) seemed quite exasperated at having

“to act like a mother for most of my staff...I have to remind them every day when to take out the rubbish and not to leave the shutters open in the evening. You see that man outside? He’s 24 and applied for a job in Libya. Well, that’s his mother come to negotiate his conditions. And I can tell you, it’s not unusual.”

To move on to the issue of gender identity, most respondents in the technical and trades sector spoke of the machismo of their young male staff. While they appeared to be rather

humoured by it, they did note that it impacted on their operations in three main ways. First, it tended to ensure that women were not recruited into these firms; respondents expressed a 'chivalrous' concern that they could not bring women into such an environment, both for their own sakes and because it would distract the young men. Second, it often proves rather taxing for them as managers, in that they have to learn to understand the young men's language, or rather lack of it. This often means deciphering just what different curses may mean – whether they are happy or sad, frustrated or bored, irritated or really angry. As one carpenter (R1) put it, he has learnt through the years not to worry unduly unless someone's mother is brought into the conversation; at that point, the situation needs taking into control. Thirdly and of more concern to respondents, is the notion of "worker dignity" that these young macho men have, where the more difficult, dirty and dangerous a job is, the more "dignity" it bestows upon the worker. The implications, claimed three respondents (R1, R3, R5), are that although health and safety training and equipment has been provided to them, the staff generally refuse to use it and keep it on standby in case the health and safety inspectors turn up. Boiler suits are chopped off at the shoulders, and protective helmets, goggles and gloves are not used. That minor injuries, and some more serious ones, have occurred has not proved a deterrent. While this is of concern to respondents, they seem to feel powerless to change the situation, and one cannot help but wonder why they permit it in view of the danger involved.

7.2 The Strategies

In this section, six aspects of respondents' strategy are discussed. These include growth; cooperation; management; recruitment; development and representation.

7.2.1 Growth

Three basic approaches to growth could be identified among respondents – those wishing to grow, those ambivalent about growth, and those definitely against it.

Firms wishing to grow are either pursuing strategies of diversification, specialisation or entry to foreign markets: One third of all respondents spoke of such strategies. Three firms are seeking to diversify. A beverages producer (R25) has developed new branded products to compensate for a drop in revenue from wines. An insurance agent (R2) who has tired of the very small profit margin in this field – compared to turnover and to managerial effort – is expanding the portfolio to include financial consultancy. A guest house is seeking to market itself as a venue for local and foreign conferences (R7).

Other firms are seeking to specialise, and this was particularly true of the financial services and consultancy firms (R18, R20, R22), who believe that they may sharpen their edge by doing so. In most cases, this involved the pursuit of accreditation of their firm, which was proving significantly challenging and expensive but had not deterred this group of respondents. This was true in the training, IT, accountancy and insurance sectors as well as the production of beverages.

Yet other firms are seeking to grow through active pursuit of foreign clients. For instance, both the respondents providing engineering and IT services (R11, R23) are at advanced stages of negotiating foreign contracts. The firm that already exports a product to Germany (R28) is also seeking new markets on the condition that he obtains larger premises. Five respondents are exploring markets in North Africa and the Middle East, though as one respondent put it (R27), there is need to make up for lost time and overcome a prejudice dating back many hundreds of years:

“how shall I put it...None of us liked it when Arabic was compulsory at school, it was seen as a political imposition. Which perhaps it was, but had we taken it seriously we'd have many more opportunities today. We have to overcome this prejudice of ours, you know 400 years of Arab rule don't feature in any of our history books and even the most progressive historians never speak of it. Government is finally taking the Arabic question seriously again but look, I don't think anyone's applied yet for the new course at University.”

While some respondents did want to grow, this did not necessarily imply more staff, except in the case of the two producer firms. On the contrary, the others were seeking new pastures that were not labour-intensive. Owners of firms that had grown to near the twenty-employee mark spoke of the way in which they found the growth process exhausting. They described how the dynamic had changed, from earlier days when they had under ten staff, and how difficult it was to superimpose a more rational approach to organisation and management upon a prior ethos of informality.

In fact, this fear of not being able to manage growth was a principal cause of ambivalence among many firms that said they are not too keen on growing. Some firms said that they would like to grow but that the domestic market is saturated and the nature of their business has no overseas potential (R3, R10, R16). Other said they would like to grow but could not

find the right staff, or lacked the time and skill to pursue foreign markets. Two successful women said that in principle they would like to grow, but have become tired of juggling of work and family life and wished to spend more time with the family, as well as feeling tired of having to exercise authority (R9, R22).

Some firms spoke of a wish to grow but knew that it was highly unlikely because of the financial investment it would require. One confectioner (R24) said that

“I’d like to grow, I’d like to show Europe what good things we produce here, real quality goods...but growing would make me a prisoner for the rest of my life and what for...we would probably not get back our investment until my grandson grew up, in my lifetime it would simply mean having more staff and a bigger headache.”

This respondent, still in his early thirties, expressed considerable weariness over his role as employer yet had not entirely dismissed the possibility of growth. However, another one-third of the respondents said that they most definitely did not want to grow; men in their late forties and fifties who were not prepared to make the necessary investment of money and energy for uncertain returns in a distant future. The possibility of joint ventures with similar firms was dismissed outright as impossible. Two respondents are seeking to sell their business (R8, R14), while three others are seriously thinking of closing their firms and switching to the easier, and less labour-intensive, business of importation (R3, R5, R6). The others are struggling on although profits are negligible, hoping that somehow the tides of fortune may change.

7.2.2 Cooperation

As discussed in the preceding section, respondents perceive the general prospects of cooperation as rather dismal. The secrecy with which small firms tend to shroud their business, and experience of having been betrayed by associates, seems to have left most respondents quite wary in this regard. They feel that the small size of the market, and a tendency to imitate rather than innovate, makes cooperation a very irrational strategy.

However, there was a marked gender difference on this theme which does not appear to be entirely linked to sector. As already noted, two female respondents are prime movers in having set up and maintained a sectoral association in personal services and an association for women in business (R12, R22). The other three women spoke of having actively

fostered collaborative relationships with both local and foreign suppliers as well as with competitors. Above all, it is the cooperative approach taken with one's clients to which the most successful respondents attributed their progress.

7.2.3 Management

Four distinct aspects of respondents' approach to management emerged from the data. These include their management style, the provision of career paths, wages and family-friendly conditions.

Respondents expressed three different management styles, which may be categorised as parental, fraternal and dictatorial. The parental approach can be further distinguished between those who spoke of practically 'containing' their staff, and those who took a more developmental approach. The former spoke of the ways in which they had to constantly coach, encourage and discipline their workers, frequently deploying family metaphors with affection and exasperation. These were largely male respondents, though with one female exception. On the other hand, those who took a developmental approach spoke of the ways in which they sought to empower their staff, fostering adult forms of communication, involving staff and requiring them to assume responsibility and to take decisions. This was more prevalent among female respondents.

The parental approach was taken by the majority of respondents. A smaller group spoke of a fraternal approach, on a more egalitarian footing; as one technician put it, "just getting on with the job, accepting each other with our ups and downs, as long as everyone takes responsibility, of course." This group showed a more laid back approach to what they called "the human element" and just letting people be. This seemed to coexist with a clear understanding of an actual hierarchy; however, as a real estate agent (R8) said that "I'll roll up my sleeves, and even unblock the drains if necessary, but at the end of the day, they know who's boss." For some, this coexistence of fraternalism and hierarchy seemed to pose no problems; for others, it did. The head of an accountancy firm (R20) described how he tried to put his staff at ease, and motivate them by being seen as working as hard as they did, but how he had to reconcile this with his role to ensure the quality and integrity of their output. A successful young female in the high-tech sector (R23) explained how difficult it was for her, by virtue of her age and gender, to develop a solid sense of her role. She spoke of having to constantly check her impulse to befriend her staff, and not to give mixed messages, particularly as her firm had grown and it was time to renegotiate people's contracts.

While there appear to be no sectoral differences between those adopting a parental or fraternal approach, a third group with a minority of five male respondents was clearly located in low-skill services. These respondents spoke of a dictatorial approach, where they commanded a deferential respect, discouraged familiarity and would “force change down their throats”, as one retailer put it (R14), where necessary.

With respect to career paths, many respondents acknowledged that the ability of larger firms to offer these to employees is a major reason for their leaving. All firms with more than seven employees spoke of some form of grading system, or even shareholding in one case, as a reward for merit and seniority. However, few had rational criteria for evaluating their staff's performance and most said that they do not require them as their staff's efforts are highly visible to them.

With respect to wages, these were very much sector dependent. Lower-skill services and manufacturing firms spoke of seeking an optimal increase on minimum wage that is enough for “a family to live on”. Others, particularly those with mostly administrative staff, say that they peg their wages to comparable positions in the public sector. The highest-skill firms say that they pay competitive market rates, though it is not always easy to discover what these are. Three respondents spoke of how they sometimes discover what their competitors are paying, when employees had applied for jobs elsewhere and had come back to ask the respondent to match the offer they had received, because s/he was happy with the firm and would not leave if respondent did so. A common theme running through all sectors, however, was that respondents believe that wage levels are not the paramount concern of staff; it is the familial environment and the closer relationships in their small firm that matter most to them, as well as their ability to more clearly envisage and commit to a small firm's objectives.

On the last issue, of family-friendly conditions, there is not very much to report. As noted above, most respondents do not feel that enabling a healthy work-family balance – other than through a decent wage – is necessarily their responsibility at all. Three high-skill firms said that they are relatively flexible in terms of working hours but this was clearly a function of the nature of their work rather than concern for allowing workers to balance their work and family responsibilities. As already noted, only one respondent spoke of her intention to open a childcare centre at the workplace, acknowledging the difficulties she herself had faced and wishing to retain her trained and committed staff.

7.2.4 Recruitment

Most respondents spoke of a preference for informal methods of recruiting staff, because of the importance of good fit with the rest of the team. As a real estate agent (R8) put it, “one negative person and everything goes haywire”. They were acutely aware of the implications of making poor recruitment choices and therefore tended to prefer word of mouth as a means to finding staff. Only three respondents in technical fields (R11, R17, R28) spoke of resolving a shortage by having poached from a competitor, while four high-skill firms spoke of their preference for advertisements (R18, R20, R22, R27).

This sectoral difference is also evident in the qualities that respondents seek in their employees. For higher-skilled positions, competence is a primary quality followed closely by character; for lower-skilled ones, moral qualities such as honesty, and personality issues such as friendliness, were paramount.

An issue that emerged repeatedly was the reluctance of most respondents to employ young people, though reasons differed according to gender. Respondents in lower-skill sectors repeatedly claimed that young men have become a “nightmare” to manage, in terms of punctuality, attention and manner. Two firms spoke of having a firm policy of not employing men under 25 (R25, R27). However, they also spoke of the way in which young men change “from night to day” when they get married, taking a radically different approach to their work and settling down in every sense. Another lamented the fact that people are marrying later, and also that the tradition of becoming engaged before marriage tends to be dying out, as this was also a ‘rite of passage’ that “brought young men to their senses” (R24).

As regards young women, the reasons were very different. Most respondents said, that for jobs that were “suitable for women”, they much preferred having female staff in that these proved to be more meticulous and courteous. However, the prospect of their reaching child-bearing age with all the costs this implies for small firms was a real deterrent. As an insurance agent (R13) said with respect to taking gender into consideration:

“Unfortunately it is, to a certain extent. It is, in reality, Although I must say, through experience, that women are always more efficient. Women are very moody also, and that causes other problems. But yes, you have to keep account of all these things, you know. The biggest problem we always face is that at one stage a girl will get married. Times have changed, but sometimes they don't want to come back to work. And you would have trained, and trained and trained, and then?”

Three respondents actually said that, in breach of the recently promulgated Equality between Men and Women Act, they had obtained a promise from their new female recruits to resign upon becoming pregnant.

Around half the respondents offer indefinite contracts of employment, while others spoke of offering three year contracts. The use of atypical contracts was prevalent among firms who work on a commission basis, such as in wholesale and real estate, and among those with unpredictable demand such as in training and consultancy. In the former, atypical work tends to take the form of using the services of self-employed people on a commission basis, because, as in this real estate firm (R8) “this makes them work harder, I can see the difference, my employees are much more laid back but they really try their best.” Those with seasonal or unpredictable demand (R7, R19) tend to use short-term contracts, whether of a full- or part-time nature, for the duration of any particular project. One consultancy firm (R27) said that

“The model I have for [Firm X] has been, and will remain, flexible and responsive to demand. I have a core team but my challenge is to keep payroll as low as possible and work with a large network of professional associates, this is what we need to do to be successful in my field.”

Not everyone was comfortable with this approach, especially in areas where ‘portfolio working’ is unlikely. The owner of a guest house (R7) says that he personally works a seven day week rather than employ more than his current five staff, because the seasonality issue – where tourists drop markedly in autumn and winter – means that he would have to dismiss them at some point of the year. He described how this has been quite traumatic on various occasions over the years and is one of the main reasons that he would like to sell his business. Another older owner of a DIY retail outlet explained how he thought definite contracts did more harm than good, inspiring “fear not fair play” and saying that

“we managers just have to learn to handle the human element, we have to be reasonable and accept this. No-one is perfect and I think if we try hard enough we can make the most of everyone’s strong points. So [Mr X] has a breakdown, then we try and make him laugh. And [Mr Y] was a storekeeper and lost his arm. I sent him on IT training and he’s developed a really good system. Now he provides a sort of consultancy to other small firms like ours. Looking for the perfect employee is a bit like searching for the Holy Grail.”

7.2.5 Development

As already mentioned above, respondents differed in their approach to developing their staff, with a minority taking this on as a responsibility. For some, developing staff was about involving them in the running of the business. Most spoke of regular staff meetings which employees appreciate, but they also acknowledged the difficulties in seeing through some of the employees' suggestions as ultimately "they cannot see the whole picture". But the main issue that arose in terms of staff development was that of training.

Respondents differed on how they perceived the value of training in their firm, whether or not they were obliged to provide it, and whether or not they would do so in the likely event of poaching. As regards the value of training, all but the lowest-skill firms agreed that ongoing training was necessary for the quality of their product or service and for keeping up to date with developments in their field. One insurance agent (R13) thought that training one's staff is, after a fair wage, the most important aspect of being a good employer:

"Training, uuhm, training throughout, continuously, because you're always showing them that you believe in them, that you want them to improve, because at the end of the day, training for the employee is something that he or she will retain. Not necessarily by staying with me, he can leave the next day, but he will take the knowledge you've invested in him through training."

While most respondents saw the value of on-going training, they differed in terms of whether or not they were obliged to provide it. At the higher end of the skills spectrum, firms in civil engineering, financial services, IT and digital printing (R11, R18, R23, R17) all acknowledged that, second only to a decent wage, the employer is obliged to help staff develop their abilities, for the firm's sake but also for their own. At the lower end, firms said that they would like to invest more in training their staff but that employees were more often than not reluctant to undergo training. Furthermore, a number of respondents felt that there did not exist training provision that is appropriate for their field, or that it was highly costly. Most respondents acknowledged that training their staff does make them more likely to be poached, and while some were deterred by this prospect, others felt that it was an obligation to their staff that was not dependent on their future behaviour. In fact, those whose staff had undergone training were all happy with the results in terms of improved output and morale. None of the staff had a formal training needs analysis system or programme, though one beverage producer explained that as his firm becomes accredited, having this system in place would be a necessary next step.

In respect of their own training, owner-managers of higher skilled firms state that they have pursued training courses at various points in their careers and keep a look out for relevant seminars or information sessions (R11, R13, R18, R23). At a lower-skill level, respondents seemed almost to take offence at the mention of training for themselves; three explained how they had learnt everything they needed to know from their father, whom they had shadowed before taking over the business. One confectioner (R24) spoke of having gone on a school visit to an institute where catering is taught, and recalled that he already knew at 13 how to make better pastry than the tutor he observed. This sense of “we know our trade, thank you” was quite prevalent among lower-skill firms, coupled with an opinion of the disadvantages of formal study, well captured in the apparent reprimand of a successful illiterate confectioner:

“Then you have all these studious people who study hard and when they come out into the world they fall flat on their faces. Now don’t go and get offended. You have to admit, all successful people have grown up the hard way. Studies can make you crazy, it’s better to find your way in the world...No I don’t think studies are good for you. Even accounts, look, no-one can teach you real accounting, you have to use your mind and make sure you don’t pay all your profit to Government! Look at you, are you able to do that?”

7.2.6 Representation

Without exception, all respondents said that they were not unionised, that they did not need to be, and some seemed offended at the mention of unions, underscoring a study by Baldacchino (1999a) of small firms in Fiji. This author found, in the small Pacific island, that “trade unionism is considered ... to be an aggressive and unwarranted intrusion into an extended family culture. Attempts at union membership can be construed as acts of defiance or disloyalty, emotionally painful to the boss who may retaliate accordingly” (p. 107).

Three respondents seemed proud to say that on different occasions, there had been efforts by certain employees to encourage unionisation but that all the other workers refused and, in two instances, actually made life unpleasant enough for the persons concerned to resign. Unionisation was the worst prospect for one retailer (R14) who said that “unions, out of everything, I would fear unions growing, unions are the worst”, while one owner of an aluminium firm (R5) forcefully said that

“If one person enters a union, I will close the next day. As I have done before. The employees work for me and not me for them, and that’s the way it will stay. Sometimes I wish they’d do it, and I’ll just move into retail and live an easy life like my brother did.”

Even respondents who were not so vociferously opposed to unions thought that while unions may “have their proper place to defend exploited people” this is definitely not among small firms.

A couple of firms did, however, see the value in taking part in formal associations, particularly because it helps them to keep informed. When asked if he participates in any such groups, an insurance agent (R13) said that this can offer a competitive advantage:

“Yes I do...at times too much. I'm involved in certain committees which generate subcommittees and small firms don't have so much time to dedicate. I participate mainly in insurance organisations, first and foremost to know what is going on. However well you disseminate information to your members, being on committees you always know more about what is going on. Not because you don't want to tell the members, but because you know a week before. And again, not as information to utilise against your fellow members, but it's good to be one step ahead.”

Some respondents went as far as to attribute a declining work ethic to the power of the unions, while others spoke of the loss of managerial autonomy which small firms cannot afford to allow. As the real estate owner-manager (R8) put it, “We're not unionised. I don't believe in unions. If you're management, you dictate. If they dictate for you, you've had it. You can close.”

7.3 Chapter Summary

This Chapter presented an analysis of the qualitative phase of this study, intended to address the second research question as to how the Maltese context affects small firms and their employment levels and quality.

Small firms in Malta experience a number of issues that derive from its size and which are, perhaps, reinforced by the historical and socio-political specificities of Malta. The first and very significant factor is that of the size of the island. As noted, respondents experience in quite a sharp manner the limited land and capital, and the insular peripherality of Malta.

This affects their ability to grow and to access export markets, at least in the productive sector. The limited domestic market is another restricting factor. While Malta's accession to the EU has at least notionally opened up access to easier imports and exports to and from Europe, many small firms lack the capital and knowledge to take advantage of such opportunities. Furthermore, ease of imports brought about by accession may have reinforced the Maltese propensity for trading, which adds relatively low value to the economy and the skills base.

While the literature on small firms tends to discuss their relative disadvantage to other larger firms, in Malta this disadvantage takes on a rather different perspective in relation to foreign firms and to the public sector as employer. Both of the latter tend to offer better working conditions than smaller firms and thereby significantly reduce the labour supply available to the latter.

The issue of trust arises in a number of contexts. First, and keenly felt by respondents, is the rising difficulty in collecting one's dues from customers. This has an impact upon employment because, as respondents pointed out, there is the constant concern to meet the payroll bill. Furthermore, in a context of such financial insecurity, many employers would think twice before adding persons to their payroll, even if they needed them. The issue of trust also arose in relation to associating with other firms or in constituted bodies, with fear of opportunistic behaviour overshadowing the potential of such association for small firm productivity and growth. This is quite probably not simply a small state issue, though it may be exacerbated by the low-skill nature of the Maltese economy and the multiplexity of social relations, which is a challenge to confidentiality and may give rise to divided loyalties. Regrettably the issue of trust also arose in relation to employees, both in terms of their commitment to the firm's objectives as well as in relation to theft or pilfering.

The issue of family norms also emerged repeatedly. On the one hand, the close nature of family ties in Malta has meant that family support – financial and moral – has enabled the start-up of a number of businesses that may not have otherwise been launched. Respondents also spoke of the way in which the prospect of forming a family of one's own has a major, positive impact upon the work ethic and performance of young persons reaching that stage. On the other, the prevalence of family firms was seen by many respondents to limit their modernisation. The delayed dependence upon their family of young people in Malta was also seen by respondents to have an adverse effect upon initiative and responsibility at work. In a cultural sense, the patriarchal nature of Maltese society, though decreasing, was still clearly evident in most respondents' approach to their staff and seemed – more than issues of

manager prerogative – to underpin respondents' belief that unionisation among their employees is not necessary.

Analysis of the data also allowed for the identification of six strategies among respondents, including growth, cooperation, management, recruitment, development and representation. On the basis of the various behaviours falling within these strategies, a typology of small Maltese firms was developed, which is presented in the forthcoming Chapter.

CHAPTER EIGHT:

SMALL FIRMS IN A SMALL STATE: THE COMBINED FINDINGS

This Chapter returns to the research questions and analyses how the findings of both the quantitative and qualitative surveys combine to answer them. The first section of this Chapter discusses five key themes that arose in both surveys, referring to pertinent regulations and to possible actions by various stakeholders. The second section of this Chapter then presents a typology of small Maltese firms based on the qualitative findings in the previous chapter and discusses the implications for a segmented approach.

8.1 Features common to small Maltese firms

This section is based on a review of both the quantitative and qualitative findings and how they combine to offer key features of the small firm sector in Malta. Five such features emerged clearly from both surveys and are discussed in turn. These include the gender issue; the fragmentation of the Maltese market; the difficulty in finding staff; a low-skill status quo; and a trust deficit.

8.1.1 The Gender Question

Perhaps the theme that ran most clearly through both the quantitative and qualitative surveys is the reluctance of small firm employers to recruit women. Despite a small rise in the employment rate of women over the years, it remains very low at around 34%. Contrary to what was suggested in the literature, small firms in Malta are less likely to employ women than are larger ones, even if female labour does constitute a 'secondary' labour supply. In the quantitative study this was borne out both by the staff composition in small firms (with a lower female share than larger ones) and by the stated reluctance of respondents to recruit a women (or a person with disability or history of 'deviance') even if otherwise suitable for the post in question. In the qualitative study, too, respondents spoke of the added cost of a female employee, making them hesitant to recruit women even if they are more compliant or 'suitable' for certain jobs. The cost of maternity leave, the recently introduced parental leave and childcare obligations were of particular concern to respondents.

The question of gender equality in employment is a controversial one in Malta. There are 'cost-of-regulation' aspects to it, as well as cultural ones more broadly. In terms of regulation, the requirement that small firms pay the full thirteen weeks of maternity leave (plus a fourteenth unpaid one) to their pregnant employees is a hefty cost for them. The granting of parental leave, even though unpaid, is also an administrative 'burden' in that the absence of an experienced employee is more likely to be keenly felt in a smaller organization than a larger one, especially given the difficulty to find replacement labour and the virtual absence of temporary work agencies and culture in Malta.

One area in which regulation does appear to have had a clear effect is in the dramatic rise of part-timers over the past fifteen years. At present, employment regulations require that part-timers are given pro-rated benefits in respect of non-wage issues like vacation and sick leave, bonuses and so on. However, such entitlement only covers part-timers who work twenty hours per week or more (or over fourteen hours where the part-time job is a person's principal employment). This obviously provides an incentive for employers to utilize as many persons on nineteen hour contracts as possible, which in fact is widespread. This 'incentive' may negatively affect the optimal organization of work in a small firm and is inequitable, not to mention going against EU directives in the area of labour law. It is also indirect discrimination against women, who make up the majority of part-time workers.

In addition to the nineteen hour threshold, (female) part-timers are also penalized by the current social security regulations (Social Security Act, 1987) which require each employee to pay ten per cent of one's income, and each employer to pay another ten percent of each salary, every month. However, there exists a minimum contributory 'floor' of ten per cent of the minimum wage; thus, part-timers working for less than the minimum wage per month still have to pay ten per cent of the latter by way of national insurance contribution which may constitute quite a part of one's earnings. It is also a disincentive for employers to utilize female labour in the 'formal' (rather than the undeclared) economy, which may mean that a significant number of women are working outside the scope of employment and social security protection.

The protection of 'family workers' – often women – does not appear to be strong enough either. Although the Equality for Men and Women Act (2003) stipulates that spouses who are not employees or partners yet participate in their spouse's business are entitled to fair compensation, the practice of unpaid family workers is widespread. Since the promulgation of this Act, there has not been a targeted information campaign on this issue, nor a clear means of redress. Furthermore, family workers are exempt from the provisions regulating

minimum rest in the Employment and Industrial Relations Act (i.e. rest breaks and maximum working hours). Although one hopes that the need not arise, there may be cases where exploited souses need to seek redress through a Tribunal but the law does not give them this facility.

These regulatory deficits in respect of women may be due to a persistent 'male-breadwinner' culture in Malta where female employment has been very much the exception and particularly for married women and mothers. One can still occasionally hear references to shame (at one's wife 'having to work') and negligence (in the case of working mothers) in common discourse. The past two decades have seen a gradual evolution of the gender contract in Malta, and a move to more 'democratic' families. As has been repeatedly illustrated, the traditional family was based on a material inequality of the sexes (eg. Giddens 1998, 1999; Lewis, 1992) and as Giddens (1998) points out, there can be no going back from the principle of gender equality. However, this critical analysis runs along different lines than the prevailing discourse in Malta, where the traditional family is valorized in religious terms and where rights and responsibilities are constructed in terms of the family unit rather than the individuals within them.

In this respect, it seems that religion has an important part to play in transforming the gender contract in Malta. The impact of religion on the labour market is not a new idea. As Wuthnow (1994) states,

“the market system is embedded within a cultural sphere of which religion is a significant part. Indeed, few other aspects of culture could be said to have such far-reaching implications as religion, the reason being that religion purports to add to and alter the meaning of all realms of human activity, including work and money” (p. 640).

It may be accurate to say that this is nowhere more true than in Malta, where practically every aspect of social life, and much of political life too, has revolved around the Church for centuries. Malta's Catholic heritage has played a critical role in promoting a number of social 'benefits' such as the relative stability of the Maltese family; the formation of youth through various educational and recreational initiatives; and the multiplicity of parish and other voluntary organizations that meet important social needs. Its role in the area of gender equality, though, has been less easy to analyse

To date, the Church in Malta has firmly pronounced itself on the issue of mothers' duty to be full-time carers of their children, with little reference to the domestic responsibilities of

fathers. Perhaps in response to an increased level of lobbying, as well as Government's relatively recent policy statements to raise the female employment rate, in 2005 one pastoral letter announced to the church-going faithful that although women's primary duty is to care for their children, this was not to be taken as reason for discrimination against women or to imply that the father's role in the family is negligible. The essentialist view of gender roles is still evident, though the pastoral letter does acknowledge that women (though not necessarily mothers) may aspire to a career and that the father is to play an active role in domestic affairs.

It would definitely be very relevant to a large number of working women if the local Church were to engage with their concerns. The Church remains a powerful moral authority in Maltese social life and could play an important role in promoting the concept of equality between adult partners, encouraging them to negotiate an equitable distribution of domestic and wage-earning responsibilities according to their conscience and circumstances. The concern of the Church for children's welfare cannot be overlooked; however, the Church could play an active role in the provision of quality childcare for children below school age, not least by entering discussions on the childcare regulations being developed, and perhaps entering service partnerships or offering their various premises for this purpose.

Strengthening the equal status of women would be a critical part of a redeemed family metaphor – away from old yet persistent notions of patrimonial authority and towards greater empowerment of women but also of children. This may well have labour market gains in terms of increasing the restricted labour supply of a small state and capitalising on women's considerable educational attainments as well as having repercussions on the broader business environment such as access to finance for women, non-discrimination at work and a greater, independent return for women on their investment in their spouse's enterprise. Promoting the notion of rational adults may also serve to reform the paternal metaphor that many small firm owners seem to adopt, making for more honest employment relationships and for a stronger legal-rational approach to management.

The role of the State in changing the gender contract is a subject of heated debate in Malta. Though there has been a national machinery to promote gender equality since the early nineties, the topics it addressed, such as women's health and domestic violence, did not really touch the heart of the gender contract in Malta. It is only since Malta's accession to the European Union became a reality that more affirmative statements have been made about women's entry to the labour market on terms equivalent to men (such as in the Equality for Men and Women Act 2003). There appears to persist an ambivalence around the issue of

childcare for those below school-age, with yet no public provision or subsidy in this regard and a consultation document on childcare standards only launched, after long discussion, in 2005. This may reflect a number of factors, such as a firm belief in women's contribution to the family especially in children's earliest years; a concern that women's entry to employment may displace men from a small labour market; or even concern about alienating the Church. In any case, momentum is increasing in terms of political agency to incorporate women in employment and this is likely to continue to be propelled by the Union's insistence that measures be taken to boost the female employment rate and thereby increase the number of people in work.

It is not only the State and Church that may strengthen women's labour market position in Malta but also a stronger women's lobby. At present, in addition to the national machinery for gender equality, there exist a couple of other women's groups such as the Association for Women in Business and the NGO called the National Council of Women, as well as the women's wings of the political parties. Collaboration between these entities is rather sporadic and there would appear to be much scope for joint concerted action to be taken on matters relevant to women's access to and progression within work – for instance, childcare provision, equal pay, parental leave, family-friendly work organisation and similar matters.

As Tripp (2001) points out in her study of the ways women's movements challenge neopatrimonial rule in Africa, independent women's organisations can play an important role in development more broadly. While post-Independence Africa did see the rise of some women's organisations, these tended to lack autonomy from political parties and were often co-opted into "patronage machines" (p. 34) which compromised their message. Autonomous women's movements, Tripp claims, are very well placed to draw upon women in different groups; to cut across particularist interests and to challenge vertically ordered privilege networks. She acknowledges, however, that cross-cutting linkages are not enough, and the success of such movements depends on a number of factors such as their own viability, their refusal to be co-opted and the willingness of the state to listen to their demands. It is hoped that the very recently established Malta Confederation of Women's Organisations may transcend factional differences and make a strong and articulate exposition of gender equality issues in Malta.

8.1.2 *Growth and fragmentation in a limited market*

The reality of a restricted domestic market arose in both surveys. In the quantitative survey, market factors outweighed regulatory concerns in respondents' consideration of whether or

not to recruit, and the demand for one's product or service was seen to be a critical aspect. This was true of both smaller and larger firms in Malta as well as in Europe where the purchasing power of customers was shown to be the major business constraint in the 2004 survey of European SMEs.

However, what may be particular to the small firm sector in Malta is a rise in fragmentation. A review of Maltese labour market data illustrated that over the past fourteen years, the number of employers with less than twenty employees has grown by one third. However, its employment share has only grown by six per cent, and there are very many more small firm employers with fewer employees than in years gone by. This may be interpreted in different ways. On the one hand, it appears that there are lesser barriers to entry into self-employment than in years past. In fact, facilitating self-employment was one of the electoral pledges of the current government when it was elected in 1987. However, despite a moderate growth in high-skilled services such as financial intermediation and other business activities, much of the growth in small firm employment has occurred in relatively lower-skilled areas such as wholesale and retail, construction and catering. Higher value-adding manufacture has remained the province of larger firms, often with a foreign dimension.

This apparent fragmentation of the market into more and more providers of relatively low-skill services may not bode well for the capacity of small Maltese firms to generate more jobs and better ones. The local market for services is finite and limited, and this fragmentation is bound to lead – and perhaps has already done so – to competing on the basis of low cost, possibly resulting in a 'race to the bottom' in terms of job growth and quality.

In the qualitative survey, respondents elaborated further on this fragmentation. They pointed out the difficulties they face due to cut-throat competition, reinforced in many sectors by the removal of levies on accession to the EU. Respondents spoke of competing on low cost, with the effect that many small firms are working with 'each other's money', being unable or unwilling to settle their dues on time. This financial uncertainty definitely has an impact upon an employer's decision to add another employee to his or her payroll or even to make any investment beyond the firm's immediate requirements, for instance, in training.

Small firms may benefit from a strengthening of the links between them and the EU. Enlargement may benefit small firms through the removal of barriers to trade in goods; the free movement of capital; the freedom to provide services; free movement of labour; regulatory harmonisation; and structural funds (CEC 2004c). It should also benefit small firms through the adoption of the *acquis*, which aims to improve the business environment

through a more efficient institutional and legal system and a sound and reliable economic policy.

Although accession may have opened up new markets and business opportunities, it has also been seen to bring new competitors and compliance burdens with EU regulations. Furthermore, seizing opportunities and avoiding risks requires a strategic competence on the part of small firms, which may be somewhat unready in terms of vision and skill to benefit from enlargement as yet. Also, accession has required an accelerated withdrawal of state subsidies to sunset industries, which has seen a number of indigenous firms go out of business and a rise, if not in unemployment, in the award of early retirement to persons made redundant through the privatisation of unviable state services. Also, old member states have a number of competitive advantages compared to new states with respect to higher investment capacity (eg. better availability and lower cost of finance), more advanced technology, and experience of the internal market (CEC 2004c).

On a more positive note, since accession in 2004, small firms in Malta have benefited indirectly in a number of ways. Qualifying as a disadvantaged Objective One region, Malta has gained structural and social funding from the EU, which is being put towards improvement of roads and environmental management as well as various training and employment schemes. Maximum use is being made of participation in various EU education and training programmes, which is having a rapid and visible impact upon the upgrading of services and skills in Malta. Having passed through its first experience of applying for and absorbing EU funding, Malta is currently learning its lessons and preparing to make best use of the next and longer round of EU regional development and social funding from 2007 to 2013. It seems quite reasonable to expect that, despite the very steep learning curve required by accession and harmonisation, the end of the second funding period will see a very different Malta to the one that became a member only ten years previously. There are various sources of funding that may be availed of, that may increase both the technical competence and the levels of skill and of finance available to small firms.

First, there are funding opportunities directly available for small firms. Grants are available in a wide range of areas, with grant programmes often reserving a given percentage to support small firms. For instance, 15% of the recent Sixth Framework Programme for Research and Technical Development (2002 – 2006) was reserved to support research and innovation for SMEs, with a number of special measures such as training, evaluation and dedicated calls for proposals being targeted at small firms (http://europa.eu.int/comm/research/fp6/index_en.html) The Innovation Relay Centres

Network promote the transfer of innovative technologies among European SMEs. In the field of education and training, small firms may participate in a number of educational actions such as Erasmus on higher education, Grundtvig on adult education and Minerva on European cooperation on ICTs and Open and Distance Learning. The Leonardo da Vinci programme also supports innovative trans-national activities to promote integration into working life, and is open to SMEs (http://europa.eu.int/comm/education/programmes/calls/callg_en.html). The European Agency for Safety and Health at Work supports SMEs to raise their health and safety standards (http://agency.osha.eu.int/fs/index_en.htm).

Second, small firms may benefit from the Structural Funds, intended to promote economic and social cohesion in the European Union and to reduce regional disparities. In Objective 1 (least-favoured) regions, the Structural Funds aim to develop and strengthen SME support structures. The Structural Funds include the European Regional Development Fund, which finances infrastructure, job-creating investments, local development projects and aid for small firms. They include the European Social Fund, which promote the return of unemployed and disadvantaged groups to the workforce by financing training and recruitment aid, which may benefit small firms. The EU also operates a number of initiatives such as Interreg III that promotes cross-border, trans-national and inter-regional cooperation; URBAN to support innovative strategies to develop urban areas; and EQUAL, for measures to eliminate labour market discrimination (http://europa.eu.int/comm/regional_policy/index_en.htm).

Third, there exist financial instruments that serve to increase the volume of credit available for SMEs and to encourage banks to develop their SME lending capacity. The European Investment Fund has two instruments that may help support SME financing: investment in venture capital funds and business incubators that support SMEs; and guarantees to financial institutions that provide credit to SMEs. (<http://www.eif.org>). The European Investment Bank only finances large projects, but SMEs can benefit through the global loans made by the Bank to financial intermediaries. The Bank also runs the Innovation 2010 initiative to support investments that promote R&D, innovation and competitiveness and human capital. (www.eib.org/i2i/en/index.htm). The European Commission also manages the Gate2Growth Initiative, a portal which allows entrepreneurs, investors and service providers to network. It also provides tools and support services directed at innovative entrepreneurs on matters such as developing a business plan (<http://www.gate2growth.com>).

While increasing small firms' access to European funds and to training and networking

opportunities is important, it is also important to strive for small firm growth too. By opening up the economy and integrating with the EU, jurisdiction may be put to good use in terms of supplying discipline, incentives, funding and long-term opportunities. It is also important for the infrastructure for small firm support to be strengthened in parallel, though, so that the small firm sector can become more able to compete with imports and to develop its export potential. On the home front, policy efforts are required to help Maltese firms shift away from proprietorship towards entrepreneurship. As Carland et al (1984) point out, small firm ownership and entrepreneurship are distinct. Proprietors are more interested in quasi-rents and pursue gain without aiming for long-term growth which benefits the entire economy. As was seen in the qualitative findings, many small firm owners tend to be proprietorial rather than entrepreneurial in their outlook. This may to a large extent have been a rational response to the limited domestic market and the economic passivity and shortages experienced during two decades of socialist planning and import-substitution. During those years, market niches were protected and small firms did not need to base their decisions on market calculation or competition with foreign actors. The situation is different today, with small firms operating in a more competitive environment yet with greater opportunities to access a large market.

It must also be noted that there remain a number of 'given' factors that impinge upon the successful growth of small firms. Land restrictions in Malta, with one of the highest population densities in the world, have made land a very scarce and expensive resource, often beyond the capital available to small firms. This, together with the relatively small labour pool and the absorption of technical skills by the public sector and a handful of foreign firms, make high-skill labour-intensive industry quite difficult for local entrepreneurs. The domestic market for locally manufactured products is quite limited, with Maltese firms unable to reach the minimum levels of output necessary to be efficient. This is particularly so since trade levies have been removed and free trade with Europe has replaced import-substitution. Malta's peripheral insularity and high handling and freight costs also put export manufacturing beyond the reach of many small Maltese firms.

It is necessary to continue to locate niches for local small firms – in services but also in certain manufacturing areas – that can flourish without requiring significant land space, highly-skilled labour and hefty export charges. On the positive side, Malta enjoys a number of assets which could be more fully exploited by small firms. Among these assets are a strategic location; a rich heritage and temperate climate; a very good infrastructure for telecommunications and financial services; an English-speaking population that is becoming increasingly better qualified and a workforce that has become multi-skilled of necessity.

Although large-scale export manufacturing is probably not so feasible for the majority of indigenous entrepreneurs, small-scale manufacturing with an export orientation is not to be ruled out. Unlike trade, which is low value-added and has become an extremely fragmented and cut-throat sector since levies were removed, small scale export manufacturing would serve to tap larger foreign markets, to bring back foreign currency and also, to absorb low-skilled labour in a way that knowledge-based services are unlikely to do. Such examples were not easy to locate in the literature. One, however, is put forward by Baldacchino (2002) in his case study of Prince Edward Island (PEI), the smallest province of Canada with a population one-third that of Malta, of 137,000 residents. Agriculture and fisheries are still the main industries though cutting-edge technology is now used. Like Malta, PEI has over a million visitors per year, though its tourism has a strong pastoral brand unlike Malta's Mediterranean one.

Baldacchino (2002) discusses a small, successful firm in PEI which produces fruit preserves from local agriculture and markets them in ways which reflect the island's culture. The firm's outlet is not only a manufacturing one but also one that offers various services. At the outlet, the client is exposed to a 'full relationship' with its manufacturing process (visibility, touch, taste) coupled with a staff culture that welcomes and encourages tourists, such that their product becomes a 'souvenir'. Although its primary concern is encouraging clients to visit its 'themed' production site, it also sells through the internet and thereby overcomes the seasonality of tourism. The firm purchases locally, even when there are price disadvantages, as it believes that good, steady relations with local suppliers are more advantageous in terms of reliability and of product promotion.

Another such example relates to the island of Fiji in the South Pacific (Baldacchino 1999). Despite the many disadvantages Fiji endures as a small remote island, a number of firms have had exceptional success. Baldacchino (1999) identifies one such small-scale manufacturing firm which uses low-level technology to produce soap. The firm's success lies in the way it 'packages paradise', marketing the product in close alignment with the island's identity. The firm has also benefited through the use of expatriate expertise, and through the promotion of loyalty and dedication among the workforce. Like the Canadian firm, this Fijian firm also sells through the internet.

These two case studies suggest that small-scale export manufacturing may be successfully developed in Malta too, especially if the firm concerned manages to brand the product in a way that reflects Malta's identity and therefore appeal to a larger market than the limited

domestic one. Baldacchino (2002, 1999) calls this 'romancing the brand'. The possibility to source expatriate expertise with greater ease, now work permits have been liberalised post-accession, may assist where local skills are lacking. Malta's strong telecommunications network and a rapid growth in ICT education and training and e-government services also open up the possibility for Internet sales.

Entrepreneurs wishing to develop a manufacturing concern may seek assistance under the Business Promotion Act (Chapter 325), promulgated in 1988 and amended in 2001 and 2003 to 'encourage the establishment of new businesses and the expansion of existing ones'. It provides for a number of benefits and incentives for qualifying companies, which include manufacturing concerns and industrial services, fisheries and agriculture, R&D, export companies, Freeport, tourism and hospitality and the production of films, as well as firms that provide services to export companies. The Malta Enterprise Corporation must approve any company's eligibility for benefits.

The law provides for a ten-year tax holiday on the gains or profits of companies constituted after 1987 and which derive from export sales not less than ninety five percent of their revenue. This provision may be seen to militate against small firms struggling to enter the export market as the 95% threshold is such that it would be hard for a small firm to achieve. It may be recommended that this quota be relaxed and brought down to, say, fifty percent for a small firm's first three years of export and then staggered thereafter to reach the prescribed 95% by say, ten years after export activities begin.

The terms of the export incentive scheme and of the investment incentive scheme do not seem to discriminate against smaller firms as they are based on percentage increases in exports and investments respectively, over a base year – rather than a fixed threshold. Also, if a company puts aside funds exclusively to finance a project approved by the Corporation, it may benefit from reduced tax rates. Again, this does not seem *prima facie* to discriminate in any way against small firms.

The Act also allows for the provision of soft loans to approved companies to acquire plant, machinery and other fixed assets (but not land or buildings), but only where such investment is not less than Lm21,000. The loans may amount to thirty three percent of the projected investment and incur a reduced rate of interest. This would mean that the small firm would have to project an investment of at least Lm63,000 (around £100,000) to be able to access a soft loan which sum may be quite prohibitive to a start-up or young firm. It could be recommended to reduce the qualifying floor of Lm21,000 to, say, Lm15,000 and raise the

33% to 50% for small firms, thus extending the coverage of soft loans to a more reasonable projected investment of around Lm30,000.

Despite these provisions, the Business Promotion Act is only aimed at the manufacturing sector and, within it, only those with high growth potential. Very few firms in Malta are actually 'eligible' companies and able to avail themselves of these schemes. Besides, it is not only in manufacturing that further growth may be attained but also in services. Advances in telecommunications open up new possibilities at high-skill levels but also at lower ones such as call-centres and back-office work, assisted by the fact that most Maltese speak good English. Given the lower capital investment required in such services, they may prove to be good niche markets for small firms who develop the competence to source possible clients abroad. Other opportunities may also exist in other service sectors such as tourism and the heritage sector, as well as in the provision of organised household services to meet the needs of a growing number of two-earner households. It is well worth considering assistance to businesses contemplating start-up in these areas, particularly those with good recruitment prospects.

The success of the measures referred to above has not yet been evaluated, either in terms of its attraction of new investment or in terms of its impact on labour or on the status of small firms vis á vis larger ones. In any case, the Act will itself have to be reviewed by 2008 in terms of state aid regulations. As Peacock argues, small firms may be much better through vigorous competition laws than through protective subsidies, and by laying down and enforcing codes of practices which regulate business ethics in the transactions between small and large firms.

Turning away from subsidies, another possible source of growth in services is to open up access to public tenders. While a number of respondents claimed that there exists a bias against small firms, a review of Maltese public contract regulations (Legal Notice 299 of 2003) indicates that no firm is specifically excluded on size alone. Any natural or legal person may apply for a public contract, singly or together with others; discrimination between undertakings is prohibited; and the tender conditions and specifications are not to involve undue advantage or disadvantage to any particular tenderer. A clear adjudication process is laid out, and tenders awarded must be published immediately, and also on a regular basis in the Government Gazette. There exists the possibility to appeal which, in the case of tenders with a value less than Lm20,000 (£30,000) incurs a fee of Lm100, or in tenders above that amount, against a fee of 1% of the tender value.

It would appear that regulations provide for due and transparent process in the award of tenders. The issue therefore may be one of tenders being designed to effectively exclude firms of small capacity. A case may be made for ensuring that the contractual system includes the division, wherever possible, of public tenders into small contracts that are accessible by small firms.

8.1.3 Difficulty in finding staff

Another issue that ran through both the quantitative and qualitative surveys is that of finding staff. This was another aspect of the 'market' that was highly challenging for both smaller and larger firms. However, the qualitative survey further illustrated the difficulties faced by small firms in particular. These find it hard to compete with the conditions offered by large, often foreign, firms and were very aware of the way in which people generally prefer to work with the public sector as it tends to offer better conditions and job security than small firms. Respondents in the qualitative survey also spoke of the fact that skilled trades and technical people are in very short supply; they spoke of an apparent hollowing out of the skills spectrum with low-qualified and poorly motivated jobseekers on the one hand, and highly qualified ones on the other where the latter are more likely to take up employment in the larger firm or public sector.

It seems fair to say, therefore, that it is not the 'regulatory' aspect that deters small firm employers in general from recruiting staff (though with the exception of the gender issue, returned to below). It is the 'hiring' of staff that poses a challenge to employers; that is, an inadequate labour supply, rather than any regulatory disincentives. Local legislation is not very burdensome in respect of the processes of either hiring or firing staff.

In respect of hiring staff, the process is relatively straightforward. The Employment and Training Services Act (1990) regulates the registration of employment. In this respect, the law requires any employer to submit an engagement form to the public employment service on recruitment, and a termination form when the employment ends. This is a simple form and may now be submitted on line. It applies to employed and self-employed persons, whole- and part-time employees and those on a definite or indefinite contract. Failure to submit these forms carries fines, though the employer who is identified as being in breach has fifteen days from such identification to regularize his position without consequences. While the small firm employer is also to notify the Inland Revenue department of engagements and terminations, and this duplication may be seen as burdensome, efforts are underway to streamline the notification of engagement into one process.

Another indicator of 'hesitant' recruitment is the use of atypical contracts. However, contrary to what was expected, that small firm respondents would be more likely to use these than larger ones, this was not found to be the case with small firms more likely to offer indefinite contracts. However, a closer look at prevailing employment regulations suggests that it may be in the small firm's favour to do so. The Employment and Industrial Relations Act (2002) prescribes periods of notice for persons on indefinite contracts that run up to 12 weeks for twelve or more years of service. On the other hand, the breach of a definite contract obliges the defaulting party to pay to the other, the equivalent of half the salary for the unserved period of the contract. The small firm employer may therefore think it less of a risk to offer an indefinite contract which he could terminate on grounds of redundancy, (or, in the case of dismissal, reckon on winning the case at the Industrial Tribunal) than to offer a definite one and have to pay a significant sum if the contract is terminated.

Therefore it is the location of suitable labour, rather than any disincentive to hire workers, that poses a considerable challenge to small firms. A pressing problem in this respect is the unemployment trap in Malta, where the proximity of social benefits and minimum wage is such that a person with two or more dependents is very likely to receive more benefits than he or she would receive in terms of minimum wage. Wages in small firms in Malta are low and the effect of this has been sharpened even further with quite high inflation in recent years and the ongoing fragmentation/cost-competition referred to above. An important indicator in this respect is the equivalent number of jobseekers and foreign nationals working in Malta with a work permit. At the time of writing, around 7000 jobseekers claim to be actively seeking work, while a similar number of permits have had to be issued to foreign nationals (two thirds of which are from outside the EU) in occupations similar to those preferred by the jobseekers. The issue of 'making work pay' is a very pressing one for Malta, and for small firms in particular. Accession to the EU has notionally expanded the labour supply available to small Maltese firms, but in reality the European workers who move to Malta tend to take up employment in higher-skilled and better paid positions than those on offer in most small firms, due to the considerably lower minimum and median wages in Malta compared to other more developed member states.

The issue of whether or not to further liberalise the work permit system for persons from non-EU states is a pressing policy issue. On the one hand, the pressure is mounting from employers, especially those in the lower-paid sectors like construction, catering and cleaning, for the system to be liberalized as they claim not to be able to find labour. On the other hand, further liberalization may not be a sustainable solution for the local market, in that it will further depress wages and encourage fragmentation among small firms where

employees decide to set up in business themselves with the expectation of sourcing very cheap foreign labour. This fragmentation and the failure to 'pull' more Maltese jobseekers off benefits and into employment require careful study and action.

8.1.4 A Low Skill Status Quo

Another theme that runs through both the quantitative and qualitative surveys is that of a low-skill status quo that seems to prevail in small Maltese firms. The former survey illustrated that owner-managers of small firms tend to be less qualified than those in larger ones, and that they are less likely to provide in-work training for their employees. The qualitative survey elaborated further on this finding. Respondents spoke of the difficulties they encounter in finding skilled employees, and of their fear that training their staff would make them more likely to be poached by other employers. Notwithstanding this fear, most respondents saw the value and necessity of ongoing training yet claimed that this was limited in their firms due to the reluctance on the part of employees to engage in further training or education. They claim that their employees are not interested in lifelong learning and once they have found employment, they make little effort to improve their productivity through such initiatives. This lack of inclination was, according to employers, even more significant than the cost to the latter of sponsoring such training or releasing employees for the purpose.

At present, therefore, it seems that small firms in Malta are locked into a low skill situation where the employers themselves do not prioritise their own learning in view of more pressing business requirements, and their employees do not perceive the need for it either. This may be in some part due to the nature of the social fabric in Malta, where dense social ties often result in retaining even poorly performing employees and in advancement through one's contacts rather than competence. However, there remain a number of measures that could contribute to raising the skills profile of employees in small Maltese firms.

The first among these may be the provision of training in small business management for employers themselves, setting an example of lifelong learning for one's staff. At present, training in small business management is offered sporadically by two public training entities. However, there may be room for a more sophisticated and applied approach, possibly providing training for specific sectors and designing such training in response to the expressed needs of small firm managers themselves.

Another possibility is to strengthen the culture of certification, where occupational standards are set, assessed and certified. This would certainly raise the low levels of certification

among the Maltese workforce more broadly, giving visibility to the skills that have been attained through informal learning. In this respect, in late 2005 a Legal Notice was at last promulgated which establishes a Malta Council for Vocational Qualifications which started to operate in 2006 and is at present at an early stage of designing occupational levels. The attainment of recognised and portable qualifications may be an enticement for employees to undergo training, reinforcing the importance of lifelong learning and enabling greater job mobility and labour market adjustment.

The State has a number of measures to promote training, which could however be fine-tuned to increase access by small firms and their staff. At present, the Business Promotion Act (Regulation 14) provides for training grants payable to 'qualifying' enterprises. However, the range of qualifying enterprises is restricted to those that are high-tech or high-growth, which cover only a very small proportion of firms in Malta and lesser still of small firms. Furthermore, the application procedures are highly complex, payment can take many months to process and eligibility is restricted to employees who have been working either less than six months (induction) with the firm or more than three years (re-training). Also, there is such an array of caps upon various elements of training that could be reimbursed, that it is impossible for small firms to calculate the benefits they would derive from undergoing the complicated process of applying for such grants. It is far less likely for a small firm to have the resources to dedicate to this process, and to be deterred from applying if the funds receivable were so small not to warrant the effort.

The administrative practice regulating these training grants could therefore be simplified, to encourage uptake by smaller Maltese firms. First, the eligibility criterion requiring that employees should be in employment less than six months or more than three years should be removed completely. As one respondent pointed out, the success of start-ups is often established in the months after the first year; this is the time when small firm staff often require training and the grant should be accessible to them. Second, the many caps could be removed and kept in line simply with state aid principles; that is, that the total amount of grant receivable should not exceed 80% or 60% of the cost depending on whether it is an SME or large enterprise respectively. This would allow small firms to budget better and to predict whether the application is worth undertaking. Third, it is recommended that the complex application procedure be simplified, with a reduction in the number of documents required and that payment be accelerated, as cash flow is often a serious issue for small firms.

However, eligibility under the Business Promotion Act is limited, mostly to high-tech firms. These constitute only a small proportion of Maltese business, and arguably always will. It is important for some other mechanism to be developed that serves to raise competence in other small firms. In 2005 (and following the fieldwork for this study) the public employment service launched a scheme for owner-managers and employees in small firms with less than twenty employees. This scheme requires the filling of one simple form and provides reimbursement (up to a cap) of 75% of the training cost with respect to training that is pre-approved by the Corporation as being relevant to the firm's business. Both owner-managers themselves, and their staff, are eligible for this grant. By bearing a good part of the training cost for small firms, and thereby treating training as a sort of public good, this might reduce some of the small firm owners' expressed reluctance to train their staff for fear of poaching by other firms.

Another means of addressing the prevailing low-skill status quo is through improved collaboration between training institutions, which is an important element of strengthening the lifelong learning culture. Schuller and Bamford (2000) study continuous education in Scotland, noting that despite high early achievement, the aspirations to learn were low among adults. Through a series of focus groups and stakeholder meetings, Schuller and Bamford studied the institutional relationships between state agents, employers, professional bodies, educational providers and the family and community and how these relationships shape continuing training. The authors claim that the focus on the quality of these relationships is important if educational attainment is to be increased. These various bodies should have mutually "supportive relationships...where there is a common understanding of goals – even where the goals are not themselves common to both parties – and an effective sharing of information" (p. 10). Specifically, they found that learning goals and information should be shared between all the above participants.

In Malta, there exists a pressing need for a clearly articulated training strategy among the various public training providers amongst whom there is little co-ordination of policy priorities. Although those in the private sector may be left to be ruled more or less by the invisible hand of the market, those in the public sector cannot. These institutions (excluding compulsory education) include the public Adult Education Department; the Malta College for Arts, Science and Technology (MCAST); the University of Malta; and the Employment and Training Corporation (ETC). There is considerable duplication between the entities, reflecting the fact that these organisations have developed in parallel without sufficient communication. For instance, since the establishment of MCAST in 2000, there are a number of similar courses provided by this College and the ETC, as well as others in the

Adult Education Department. The goals of each entity require further articulation, particularly in terms of the different clientele they could be serving better; and the processes of collaboration between the entities need to be strengthened. The overlap is a source of confusion both to employers in their search for public sector trainers and for apprenticeships, and also to students. Better articulation and sharing of goals, priorities and processes would definitely add to the opportunity for and quality of lifelong learning in Malta.

Small firms could also benefit through greater cooperation on the definition of skills shortages in Malta. It is becoming increasingly apparent that industry and training providers could collaborate to everyone's advantage on the matter of skills gaps and how best to provide for them. Although different training providers have conducted sporadic studies, a rigorous, representative and regular addressing of this issue has yet to be developed. It would seem particularly useful to take a sectoral approach to this matter which, in turn, may serve to diminish the fear of poaching and thereby to increase training on the job.

8.1.5 The Issue of Trust

The last theme to run through both surveys is that of trust, or the lack of it, in the Maltese business sector. The quantitative survey illustrated that small firms are highly unlikely to participate in a sectoral association or a constituted body, and to a far lesser degree than larger firms. At face value, one might attribute this to the greater demands on the time of a small firm manager. However, the qualitative survey further illustrated the apprehension of most respondents to associate in any way with other small firms for fear of opportunistic behaviour. It is not clear to what extent this is a national phenomena, though the debates on factionalism and familism in the small states and Southern European literature may shed some light on this. It may be that a combination of insular culture and the prevailing cut-throat competition that continues to reinforce the situation.

Improving small firm collaboration is important to maximising what ILO (2005) calls 'the collective efficiency of the small-enterprise sector'. As seen in the interviews, small firms express fear and scepticism over cooperating with other firms. However, it would seem essential that small firms cooperate in an environment with rising costs and considerable challenge from firms both in Europe, North Africa and China. They could cooperate not only to survive better through shared information and economies of scale, but also to tap new markets. One way of doing so could be through clustering, enabling economies of scale with respect to machinery and equipment and leading to greater potential output, for instance, in terms of their ability to supply to larger firms or to win public tenders.

Achieving economies of scale and increases in output would in turn lead to higher productivity and possibly wages. They would also be able to respond better to the volatility of the local and global market. Clustering would require the revival of the notion of industrial parks, which has been on the cards for a number of years but is still in very early stages.

One way government might promote collaboration for mutual benefit is through strengthening the regional innovation system, or "how firms, institutions and government, jointly and individually, contribute to promote the innovation process within a regional context" (Cooke, Roper and Wylie 2001). Innovation does not only refer to high-technology developments but to the creation, adaptation or adoption of new or improved products, processes or services (CEC 2000). In their study of a number of successfully innovative regions, Cooke and Morgan (1998) hold that the state should actively promote associational behaviour between firms, rather than adopt a dirigiste or neo-liberal approach. It is not the scale of government intervention that matters, they claim, but its form, as

"the associational repertoire seeks instead to empower intermediate associations which lie between the state and market, be they groups of firms, trade associations, chambers of commerce, labour unions or civic associations." (p. 22)

Discussing Northern Ireland in particular, Cooke, Roper and Wylie (2001) highlight a number of important ways that the state could help develop a regional innovation system. This would involve helping firms to upgrade their internal innovation capabilities, and on developing the linkages in the innovation system. These linkages would enable, for instance, the transfer of learning from multinational and successful indigenous firms and the development of clusters. The state should also focus less on capital grants and more on assistance for R&D and innovation. Rather than financial support for companies in particular, however, the state could more fruitfully support public and private institutions which foster innovation, for instance, sectoral federations that are better able to understand and assist the firm.

At present, the principal state agency for industry is *Malta Enterprise*. Since its establishment in 2003 (when it was set up to incorporate a number of disparate public agencies providing services to business), Malta Enterprise has focused on the promulgation and operation of the Business Promotion Act. This provides for a series of fiscal incentives and support measures for eligible companies. However, Malta Enterprise has taken heed of

the growing discourse on enabling associational growth, and in November 2005, launched a process which will lead to the development of a regional innovation strategy for Malta. This process is part of an EU-funded project called MARIS which seeks to promote Europe-wide sharing of best innovation system practices. It is hoped that this strategy will gradually promote an appreciation of the benefits of collaborative behaviour and possibly enlarge the radius of trust. As indicated by a number of respondents, undercutting and opportunistic behaviour are well-established features of a small market with few resources; or as one respondent put it, a 'bazaar mentality' prevails among many small firms. A strategy that may help firms overcome these fears and learn and grow through collaborative effort would offset some of the difficulties in operating in a small and cut-throat market. Key elements of this regional innovation strategy might be the extension of the business incubation centre and the strengthening of the relatively new programme for innovative start-ups. Consideration could also be given to setting up a public/private fund for seed or venture capital. Another possible element might be the stimulation of joint back-office services shared by a number of small firms. Government might consider providing the manpower to advise upon and to organise the set-up of these services and might also utilise existing employment subsidy schemes for a limited period to help small firms to establish these services.

Another means of promoting trust and collaboration among small firms is to strengthen their representational capacity. Small firms and their workers find it difficult to organise and gain representation, because – from the firm's perspective – there are very many small firms with disparate interests and little time on the owner's part, and – from the workers' perspective – because seeking unionisation may challenge the 'harmonious' relations in small firms and have repercussions from management.

It is important to close the representational gap and to increase the role of small firm managers and workers in social dialogue. Efforts could be made by local social partners, both employers' representatives and trades unions, to extend their membership and services to small firms, to understand and help with their concerns, to facilitate their access to resources and to ensure that the small firm voice is heard when considering the impact of new laws and regulations.

This may also mean establishing new representative bodies. At present, there only exists one body that represents the interests of predominantly small firms, the General Retailers and Traders Union. However, it is difficult for this three-person concern to understand and voice the concerns of other small firms in other key sectors, say, manufacturing, tourism, IT,

financial and professional services. While these may seek representation within the other associations such as Malta Employers' Association and the Chamber of Commerce, these are quite thinly spread across firms of different sizes and may not be able to focus upon small firm issues.

The Parliamentary Secretariat for Small Business and Self-Employed signed, on 2nd August 2005, a Memorandum of Understanding with a number of business associations (Malta Chamber of Commerce, Federation of Industry, Chamber of Small and Medium Enterprises, Malta Employers' Association; Malta Hotels and Restaurants Association and Malta Institute of Management). In this memorandum the parties agree to support common initiatives to eliminate undue bureaucracy, eradicate underground operators, ensure fair competition and ensure due regard for society and the environment. The parties agreed on a regular consultation process; on a series of information campaigns for small businesses; and on putting a structure in place that brings together venture capitalists and those with valuable business ideas. This memorandum of understanding is an important first step, though its operationalisation will inevitably require the dedication of time and resources.

Government might also consider deploying a small number of staff for a limited period to enable small firms to organise in an optimal manner, and may thereby strengthen the representational capacity of small firms with the Small Business Efficiency Unit and also within the national social dialogue forum, the Malta Council for Economic and Social Development.

One last, and broader, means to possibly increase levels of trust among small firms is the promotion of Corporate Social Responsibility. As Spence (2000) points out, the corporate view of business ethics may be remote for a majority of small firms, whose special circumstances should be taken into account. For instance, small firms may have fewer resources, whether time or money, to deploy in the public interest; they may have developed a 'fortress' mentality which disassociates them from social and political life; and a mistrust of bureaucracy and regulation which makes them averse to any discussion of externally dictated standards. Although some authors claim to have found that small firms are more concerned with profit and survival than social responsibility (eg. Wilson, 1980), in her study of small English firms Spence (2000) found them to attach significant importance to a number of ethical concerns, such as employee health and welfare, supporting local business, giving to charity, caring for the environment and local community, and generating employment.

Through the practice of social responsibility, small firms could grow beyond the fortress mentality and help build links across the community. This may take an economic form, such as in the practice of fiscal morality, the honouring of contracts and prompt payment. It may also take a social nature such as the preferential recruitment of persons from disadvantaged groups, or some form of contribution to any of the numerous non-governmental organisations that exist in Malta.

The Church may play an important role in promoting this notion, by engaging with the emerging dialogue on CSR in Malta. Inspired by the European Union's 2002 Communication with the same title, and currently supported by the UK's presidency of the EU, a dialogue has been launched on CSR in Malta in which the Church has not been visible. CSR calls upon companies to manage change in a socially responsible manner by seeking to balance the needs of all stakeholders. The voluntary nature of CSR would be in line with the Church's principle of subsidiarity, and this debate would seem to offer the Church an excellent forum to strengthen its relevance to the companies and the people whose lives are affected by rapid economic and social change. The Church could, if it wished, use the occasion to promote Catholic thought on economic life.

In addition to engaging with the new national dialogue on CSR, the Church could also enter into dialogue with small firms. The Church in Malta could fruitfully engage with small firms on such ethical concerns that are close to the nature of their operations, acting as a catalyst for the promotion of employee welfare, community involvement and fiscal morality.

8.2 The Need for a Targeted Approach?

The preceding section dealt with common concerns of small firms in Malta and the ways in which various stakeholders could be mobilized to address these concerns. This second and last section looks more closely at the issue of targeting assistance to small firms. While the concerns in the preceding section were common to all respondents, the way in which respondents reacted to these issues differed markedly. In fact, it was possible to develop a typology of respondents to the qualitative survey, on the basis of five sets of discrete attitudes and behaviours. Only on these five counts were respondents clearly distinguishable and could therefore be assigned to 'ideal types'. There was no neat sectoral distinction in these approaches; while two-thirds of the respondents owning higher-skill firms were 'pioneers', others of this type featured also among the 'soldiers' and the 'defeated'. The same was true of low-skill services, who were about equally spread across the three categories. All the low-skill manufacturing, however, were in the 'soldiers' category.

Table 42: Respondent Typology

	PIONEERS	SOLDIERS	DEFEATED
View of the environment	Opportunity	Struggle	Predatory
Attitude to growth	Actively exploring	Calculating risk	Refusal
Response to regulation	Levelling up	Interference	Deterrent
Approach to staff	Developmental	Direct & control	Indifference
Recruitment of women	Valued contributors	Upsets the boys	Refusal

The Pioneers saw the environment as an opportunity. They all acknowledged the reality of tough competition but were not unduly discouraged by it. Cooperation with competitors, suppliers and clients was seen as essential to win-win solutions. These respondents were actively exploring forms of growth, though not necessarily labour-intensive ones, and they were doing so through diversification, specialisation or entry into foreign markets. Their view of regulation, though acknowledging its cost, was ultimately one where regulations can ensure a fair playing field and bring about a levelling up of standards, whether the quality of a product or service or at the workplace. Their approach to staff was developmental, and they expressed comfort with and commitment to a full notion of responsibility towards their staff. These respondents were positive about the potential contribution of women to their workplace and, while they were not generally forthcoming about making any special accommodation of their parental role, they were happy to recruit women and to abide by the gender legislation if eventually necessary.

The Soldiers saw the environment as a constant struggle; competitors were to be fought though a fair fight was possible. They were ambivalent about growth, particularly insofar as it would dilute their ability to control their staff. They perceived most forms of regulation as an interference with their prerogative as owner and manager of a small firm. These respondents spoke of their approach to staff in terms of directing and controlling them, with more concern for deference and productivity than for their development as such. While they claim to have no particular prejudice against women, these respondents said that having women at work would upset the masculine ethos at the workplace and diminish the male form of bonding that prevailed.

The Defeated saw the environment as hostile and predatory, holding out little chance of survival for them. They were adamantly against growth, and in fact, spoke of winding down in the immediate or near future. These respondents claim that regulation has made their

operations impossible. They seem overwhelmed by the problems of managing their staff and particularly hurt at the theft and lack of loyalty they have experienced, leading to a seeming indifference in their approach to employees' output and well-being. These respondents were also adamant in their refusal to consider recruiting women, apparently in a spirit of defiance against regulation more than anything else.

These differences raise an important question as to whether assistance – if provided to small firms at all – should be targeted at any particular group of them. The remainder of this section looks at the debate as to whether targeting the small firm sector is warranted, and the importance of setting clear policy objectives and evaluating the effectiveness of measures taken.

8.2.1 Targeting the Small Firm Sector

Three forms of selective assistance to small firms are discussed here. The first is perhaps the most straightforward, and least controversial one, where the administrative burden of liaising with government is reduced. However, a balance must be sought here, too; as Du Gay (2000) discusses in detail, there are differences between the commercial world on the one hand, and the requirements for accountable and transparent management of public funds on the other. Certain rules of procedure, limits on discretion and – in the case of EU member states – adherence to state aid requirements must be followed when public funds are being disbursed. Although there may always remain room for efficiency improvements and rationalisation of procedures in a bureaucracy, certain controls can never be entirely eliminated.

The second form of selective assistance is that of 'regulatory tiering' (Harvie and Boon-Chye, 2003). Recognising that fixed compliance costs may be more onerous for small firms, in terms for instance of learning about the regulations and establishing systems to ensure compliance, tiering refers to the practice of applying more lenient regulations, or even exempting, small firms from certain regulations. However, as Harvie and Boon-Chye point out, this requires careful analysis of the impact on the employment conditions of employees and on overall economic efficiency. The costs saved through such tiering may be passed on to the employees or to society more broadly; finding an appropriate balance between the interests of the SME sector and those of the community is difficult and may explain why tiering is not a common phenomenon.

The third form of selective aid is that of access to finance, which may be aimed at helping small firms to grow, upgrade their technology, export, improve their management capacity, raise productivity or even to survive.

Which approach, or what mix of approaches, to favour is a matter for debate and will depend upon many factors, not least history, culture and politics. Broadly speaking, the emphasis has changed over time. In her study of France, Sweden and Germany in post-war Europe, Parker (1999) notes how industrial policy has changed over the years. After the war, policy was targeted on the basis of sector, rather than size, and particularly where impending bankruptcy would have led to significantly negative effects on employment or production. In her words, policy was based on "strategic interventions designed to manage structural change in the broader national interest" (p. 64). In more recent years, however, the policy focus has turned to the promotion of competitiveness, particularly through measures to reduce business costs such as tax reform and labour market deregulation. This is due in large part to the rhetoric of the entrepreneurial economy which should encourage SMEs to start up and grow. Other forms of government support for SMEs have also grown, such as information, advice and training; and more tangible assistance to expand access to loans, venture capital and new technology.

Parker (1999) argues against an uncritical approach to the promotion of SMEs, noting that they cannot be a panacea for employment problems and industrial stagnation. She maintains that only a very small number of small firms are innovative, create jobs and utilize 'progressive' employment practices. This diversity among SMEs needs to inform policy objectives:

"If the objective of policy is to stimulate business activity of all kinds, regardless of its quality, then indiscriminate deregulation measures might be appropriate. However, if the objective of policy is to promote high quality SMEs, then a more complex targeted policy regime may be required...General policy measures that have been designed to improve the economic environment of SMEs are likely to create the conditions for the emergence of isolated low cost firms in low technology industry, which utilize poor work conditions and have high failure rates" (p. 84/86).

Parker is clearly in favour of targeted aid for promising SMEs that are most likely to innovate and create quality jobs. To apply to the current study, this would mean targeting assistance only at the 'pioneer' group of respondents and letting those in survival gear come to a natural end. Not everyone agrees with targeting aid. In his critique of public

intervention, Peacock (1989) claims 'complete scepticism' about government programmes:

"There is bound to be lack of technical agreement on the effects of selective aid policies promoting efficiency and growth in individual sectors, because appraisal is so difficult...The proliferation of selective aid schemes fosters a pork barrel mentality among those who might qualify for support. On top of the growing cost of government regulation and taxation of business there is placed an inducement to incur the cost of liaison with government departments who might be induced to part with money. The link between profitability and efficiency is broken, if profitability depends on bargaining skill in the interface with government officials instead of satisfying domestic and international consumers...The main thrust of industrial policy must be found in the preservation of both domestic and international free trade" (p. 8).

This author, therefore, appears to favour a broader, deregulatory approach to selective aid, on the grounds that aid breaks the link between profitability and efficiency and that beneficiaries are obliged to incur an administrative burden in order to benefit from public funds. Peacock is correct to claim that appraisal of the effects of selective aid is difficult, and this issue will be returned to in the following sub-section. However, the potential benefits of selective aid cannot be dismissed on the basis of administrative burden alone, which could be addressed in its own right.

In respect of Malta, the current policy mix has a number of elements. Malta has been undergoing Better Regulation efforts for a number of years, though the momentum in this respect, and particularly for small businesses, has only accelerated since 2005 when it was clearly put upon the EU's policy agenda. In respect of its regulations more broadly, employment laws are moderate and do not in themselves appear to restrict an employer's ability to hire and fire; as noted above, this tends to be more an issue of wages than of regulation. Regulatory tiering does not exist in any of the social legislations such as labour law, social security, anti-discriminatory laws and so on. Furthermore, given that the vast majority of Maltese firms are small ones, introducing such tiers may have negative social repercussions. It would also be immensely confusing for the business community that has, as respondents pointed out, had to adjust itself to legislative reform in a vast number of areas since accession to the European Union.

To turn to the issue of whether or not to target assistance at the 'pioneering' firms identified in the previous chapter, this raises the important issue of needing to establish very clear policy aims. This is particularly true in relation to the objective of more and better jobs. In the Maltese context, should aid be targeted at those firms which are most likely to create

jobs, even if these are not particularly high-skilled? Or should it only be a means of encouraging the very small minority of small firms to move further up the value-adding chain of activities. This has very real implications for Malta where, as noted earlier, the majority of new jobs being created are in low- or moderately-skilled services. If this is where the jobs are likely to be created in the coming years, for instance in personal services and hospitality, perhaps assistance should be extended to these sectors too, for instance, access to development loans and to training grants. In the Maltese context, it might be feasible to select firms on the basis of factors such as those that formed the basis for the typology, eg. orientation to growth, development of staff and compliance with regulation, rather than on the basis of their level of technology or research and development activity.

Of course, the selection of policy aims is a matter of political prerogative and cannot be seen outside the broader policy direction of an economy. However, until such time as higher skilled manufacturing and service industries develop in Malta, the aim of targeted aid in this interim period may be to encourage a levelling up of the skills base and the quality of work and the expansion of successful small firms. This could take different forms according to the type of enterprise. Firms that are able and willing to grow might have increased access, irrespective of sector, to assistance in the forms of guaranteed loans, marketing assistance and staff training grants. Firms on the margins of survival could receive targeted aid in the form of information and training; they could also be assisted to form networks or to merge with other similar firms if the economies of scale thus derived would assist them to continue in operation. There may also be a role for stronger enforcement of labour law in these firms, especially when their survival depends solely on the breach of such law and is not otherwise sustainable. There may also be room for speedier access to unemployment benefits for those small firms that go out of operation, and for the rolling out of the current pilot scheme which provides for a wage subsidy to firms that recruit a worker who has very recently been made (or is about to be made) redundant.

8.2.2 *The Need for Careful Evaluation*

In addition to the need for more clear policy aims for small business assistance, it is also necessary to monitor and evaluate the policies and measures introduced in the Maltese context. This section draws on the work of Storey (1998) who discusses common forms of monitoring and evaluation and their pitfalls.

The critical starting point in evaluating small firm assistance is the clear articulation of policy objectives, and ideally their quantification. There is often a discrepancy between

stated rhetoric and the actual effect of small business policies. For instance, Storey (1998) suggests that while small firms are often promoted on the basis of their job creation potential, what this really means to the proponents of such rhetoric is that small firms should be helped to reduce the unemployment rate. However, their capacity to do the latter is often limited by the fact that the people they recruit, for instance women or very young or old persons, are unlikely to have been registered as unemployed. It is therefore important to be precise about small firm policy and to quantify objectives, where possible, as a basis for evaluation.

Storey also questions public policies that, as in Malta, seek to promote start-ups among unemployed individuals. As he states, this may have a displacement effect in that

“public money is used to encourage unemployed individuals to start a business in [low entry barrier] sectors, but serves primarily to displace other unsubsidized traders in the locality with no obvious benefit to the local consumer or to the economy in general. The effect is then to increase the number of start-ups...but also to increase the number of businesses which cease to trade” (p. 9).

This illustrates the importance of good policy and planning, and of a sound evaluation practice, in the area of small firm policy. Storey (1994) outlines six steps that are typically utilized to measure the ‘additionality’ of small firm measures. The first three steps may be seen as the monitoring phase. The first step involves the analysis of scheme take-up, taking into account factors such as the number and type of participating firms, and the level of expenditure by type of firms, sectors, regions and so on. This must necessarily be followed, in step two, with an enquiry into firms’ opinions on the accessibility and effectiveness of the policy or measure. It is important not to restrict such enquiry to those firms that did participate, but also those that did not, to determine any barriers to uptake. As Storey points out, however, this step may be important in addressing issues of accessibility or user satisfaction but does not necessarily address whether or not the measure in question is effective. In Step Three, therefore, participants could be asked about the actual impact of the measure on their firm’s performance, preferably in quantitative terms regarding additional jobs or profits. As the author notes, the calculation required of this step may be beyond the time or ability of the small firm respondent to work out, and even if able to do so, it is hard to separate the effects of the scheme from various other influences on performance. Once again, the possibility of selection bias (by failing to interview those participant firms that have since ceased to trade) may render results more positive than is actually the case.

Therefore, while monitoring may be an important aspect of operational effectiveness, it does not address the broader issue of whether or not a policy or measure was itself effective in reaching its stipulated objective. Evaluation is necessary for this purpose, and must involve a comparison of assisted and non-assisted firms while controlling for other influences as far as possible. The first step of evaluation may involve comparing the performance of assisted firms with other typical firms more broadly. The difficulty here is that an assisted firm may differ significantly from a typical one, for instance, in terms of its orientation to growth or training, or other differences such as sector or region. A second step may therefore involve the identification of a control group, where the assisted firm is compared to a matching firm, particularly on the basis of age, sector, ownership and region. The difficulty in matching on such tangible factors, however, may disguise other important differences such as the motivation and growth orientation of the manager. Biases such as self-selection among applicant firms, or administrative selection in terms of cream-skimming those most likely to succeed, may mean that such matching is limited.

Storey (1998) proposes two procedures to help overcome selection bias. The first includes statistical techniques that help to correct for self-selection bias. However, these procedures may be complicated. The second includes the use of random panels that is better suited to help correct for administrative selection bias. The author argues that evaluations such as these, that help correct for selection bias, currently amount to the best practice in small firm policy evaluation and budgets should be set aside whenever a new policy or measure is introduced that will – given clear objectives – enable the evaluation of their effectiveness.

8.2 Chapter Summary

This Chapter has seen how the quantitative and qualitative findings combine to generate five related features of the small firm sector in Malta. First, it was seen how culture and regulation interact to restrict the female labour supply, which is a typical source of labour for small firms in many countries. Second, it was seen that the labour market has progressively fragmented, leading to an adverse competition environment for small firms. Third, it was seen that due to this fragmentation, as well as to make-work-pay issues, it has become harder for small firms to find labour. Fourth, it was seen that the small firm sector in Malta is trapped in a low-skill situation where few employers or employees perceive the necessity to pursue further learning. Fifth, the issue of mistrust emerged clearly in both surveys, where fear of imitation and opportunistic behaviour as well as a growing failure to honour payment

terms is continuing to limit the gains that could be made through more cooperative action.

The second section in this Chapter then turned to look at the concept of selective aid for small firms. While this has become increasingly common with the rise of the entrepreneurial culture, there are still those who believe that deregulation more broadly is more conducive to an efficient labour market and economy. In the case of Malta, it was seen that the barriers to hiring and firing are limited and a good balance is thought to exist between flexibility and security. Regulatory tiering does not exist in Malta and may be inappropriate in light of the prevalence of small firms in the Maltese economy and the need to limit survival on the basis of cost-cutting alone. Selective aid to small firms in Malta has to date been targeted at high-technology start-ups. However, it is suggested that assistance, at least in the form of information, advice, marketing and training, also be made available to small firms with progressive employment practices and the inclination and ability to grow.

The next Chapter - the concluding one - will provide a synthesis of results in relation to objectives. It will also outline the contribution of the thesis to the literature as well as its limitations, and will make suggestions for further research.

CHAPTER NINE:

CONCLUSION

9.1 Aims, Objectives and Results

The overall aim of this thesis was to contribute to the creation of more and better jobs in Malta, through a deeper understanding of the small firm sector in Malta. A review of the literature on employment in small firms, on small states, and on social capital was conducted to help structure the enquiry into small firm employment practices, and the contextual features that may shape these, in Malta.

More specifically, this thesis had three objectives and each will be considered in turn, along with a synthesis of the results. The first objective was *to determine whether a 'size effect' is still evident in respect of employment characteristics, even in an economy where small firms make up the vast majority of enterprises*. This question was addressed through a quantitative study based on a structured questionnaire administered to a random stratified sample of 400 firms – one hundred in each of the high- and low-skill manufacturing and services sectors respectively. The face-to-face interviews were carried out by an established research agency kindly sponsored by the author's employer; the sole involvement of this agency in this thesis was to conduct the quantitative interviews and enter the data in an Excel spreadsheet. The analysis was then carried out by the author.

This analysis illustrated that there is still a significant size effect in respect of a number of issues. On average, small firms have been established for less than larger ones; they are more likely to be family-run and to have a lower turnover than larger ones. Owner managers of small firms were significantly more likely to have founded the firm as they had no other choice at the time; and owner-managers of small firms had significantly lower educational levels than those of larger firms.

Small firms are more likely to use informal methods of recruitment, and to offer indefinite contracts of employment, than are larger ones. Smaller firms are less likely to employ women and persons with disability. They are less likely to offer formal training of any sort as well as family-friendly measures. Employees in smaller firms are less likely to be represented by a trade union, while small firms are less likely to participate in representative bodies than are larger firms.

The second objective was *to understand the effect of the national context upon employment in small firms, looking specifically at the issues that small firm owners believe to be significant to them.* This question was addressed through a qualitative survey carried out by the author among twenty eight small firm owners in high- and low-skill sectors. The interviews were loosely structured around broad questions relating to the ways in which the Maltese environment, and EU accession, is perceived to affect the small firm's operations and the issues respondents face in respect of the recruitment, development and management of staff. Analysis of the qualitative findings resulted in the identification of ten common concerns among small firm respondents.

- The first relates to the way the island's size affects the firm's prospects, particularly in terms of available land, the size of the market, and labour shortages.
- The second concern is the intensification of competition, especially in view of reduced consumer demand in recent years and the removal of barriers that came about with Malta's accession to the EU.
- Third, respondents spoke of the difficulties they face in achieving and maintaining financial stability, for instance, in attaining start-up capital in the absence of a venture capital system; in managing their relations with the banks; and with having to manage a sharp increase in debtors.
- Fourth, respondents spoke of the ways in which they perceive the Maltese environment to be politicized, in that patronage still prevails and political affiliation influences the agenda of representative bodies as well as the work ethic of a number of public officers.
- The impact of regulation upon small firms was the fifth issue to be discussed by all respondents, who claim that such regulation has increased drastically in recent years and possibly exacerbated by EU accession, and affects small firms in a disproportionate way.
- On a related note, the sixth issue raised by respondents was the rise in bureaucratic requirements such as information gathering by different government departments, and the delays they encounter in their daily dealings with the public sector.

- Seventh, respondents spoke of their apprehension about associating with other small firms or with constituted bodies. In respect of the former, there appears to be a trust deficit as respondents expressed a fear of opportunistic behaviour on the part of other firms and hence their reluctance to cooperate with them. Respondents also did not see the utility in allocating scarce time to participation in constituted bodies, with some claiming that the first loyalties of the latter are often partisan while others simply not seeing any gains in such participation.
- The eighth concern to be raised was the way that the family metaphor is evident in small firm dynamics and particularly among small family firms, which have their own difficulties with managing disagreement, appointing outsiders and managing succession.
- The ninth concern related to respondents' experience of a skills polarization in Malta, and skills shortages in those middle-level occupations traditionally sought by small firms. Also of concern is the apparent reluctance of employees to undertake training, even when provided by the employer.
- Lastly, the tenth issue to arise is respondents' perception of a changing work ethic among staff in recent decades, particularly in respect of loyalty, effort and initiative.

The third objective of this work was *to derive policy implications from the findings*. These are outlined in the next section.

9.2 Policy Implications

This section recapitulates the main policy implications that have emerged from this work, under the headings of employment policy, training policy and others

9.2.1 Employment Policy

The first area is that of *employment policy*. The key policy implications here appear to be the need to enable the employment and retention of female employees and young jobseekers. In respect of women, a better balance must be sought between encouraging women to seek and take up work while addressing the disincentives that small firms face in taking them on. Novel measures for Malta might include the development of a regulatory framework for

temporary work (temping) agencies to provide ready substitutes for women taking maternity and parental leave.

Another possibility might also be that of allowing persons in receipt of certain social benefits - such as lone parents, persons with disability and others who are willing to work but finding it hard to get a job - to retain those benefits while they substitute women on maternity/parental leave and receive a top-up from the employer. In this way, the persons would gain valuable work experience, the employer would enjoy a considerable wage subsidy, and government would be marginally better off in terms of receiving national insurance and income tax on that employment.

Yet another possibility might be the 'preferential' treatment of small enterprises under the Employment Aid scheme, recently launched in line with state aid regulations. EU State Aid regulations allow for wage subsidies to be paid in respect of a range of disadvantaged groups. These subsidies may be of up to half the wage plus national insurance for a maximum period of twelve months, on condition that the employer keeps the person concerned in employment for one year. Budgetary restrictions have required that in Malta, these subsidies will be capped at half the minimum wage (not half the actual wage, as is permissible), and that they will be granted for three, six or nine months only (rather than a full twelve), depending on the extent of disadvantage. It could be possible to consider, say in the case of firms with less than ten employees, to allow the maximum grant to be paid, that is, half the actual wage for up to twelve months in respect of all the disadvantaged groups mentioned. These groups are quite wide-ranging, for instance including young people without tertiary education, women returners, those recently redundant, those aged 50 and over, and persons with disability among others. This might serve the dual purpose of bearing some of the labour cost of the small employer while also providing such persons with a valuable work experience in a small, possibly familial setting that might prove supporting and encouraging. The effects of such a scheme would ideally be controlled for and evaluated from the start.

Another policy issue that needs to be addressed is the removal of the restriction of pro-rated employment benefits - such as vacation and sick leave - to those part-timers working twenty or more hours a week. This is believed to seriously distort the utilization of labour (with employers hiring people at 19.9 hours a week) and to discriminate against female employees in particular, as they constitute the majority of people working on a part-time basis only. This 'floor' of twenty hours should be removed and benefits pro-rated accordingly.

Another possibility in the field of employment policy is to strengthen the basic work experience schemes for young people. In very recent years, the public employment service has introduced two such schemes: a thirteen week placement of twenty hours each week, where young people who have never worked are placed with private sector employers who are able to offer them a useful work experience; and a six month placement of young people with voluntary sector organizations for the same purpose. In both instances an allowance just under the minimum wage is paid to the young person. The schemes have proven very popular and, at least as regards the private sector employers, over two thirds are subsequently kept in employment. However, the schemes are only operated on a small scale and, following evaluation and any amendments to the scheme, could be rolled out on a larger scale and possibly benefit from European Social Funding.

Also in the field of employment policy, since the economic upturn from mid-2006 many employers are complaining of a serious skills shortage. In addition to closer study of the mismatch between the profile of jobseekers and employers' needs, it may be necessary to assist employers more actively to access labour in the European Union. This may involve further strengthening of the EURES office in Malta, which is part of the network of European Employment Services in Europe and which could help employers to meet their recruitment needs in other new member states. Furthermore, the policy and criteria in respect of admission of third country nationals to the Maltese labour market need to be clarified.

It is also important to encourage diversity in recruitment among small firms. Measures appear necessary to help combat stereotyping and prejudice when it comes to recruiting outside the middle-age male bracket. This is true not only in respect of women but also of persons with diverse social backgrounds as small firms have shown themselves very reluctant to recruit persons with disability or a background of social problems. The employment aid (wage subsidy) programme due to be launched in 2008 may contribute towards such encouragement but must be matched with a sensitive campaign to promote diversity. This could take place as part of the activities not yet planned for the 2007 European Year of Equal Opportunities.

9.2.2 Training Policy

In respect of *training*, the policy implication seems to be the need to raise awareness of the possible benefits of lifelong learning to the owner-manager and staff of small firms and to make it easier for such firms to access public training grants. One possible way to do so

might be to take one sector at a time to determine the real and specific learning needs of each individual sector, and for either or both of the adult training institutions to enter into dialogue with each sector – rather than with individual enterprises - as to how best this training could be provided. A sectoral approach to training needs may reduce the fear of poaching expressed by some employers in relation to training their employees.

However, this might not be easy to implement given the secretive nature of much small business in Malta. It may be more feasible to make it easier than it is at present for small firms to apply for training grants for their own in-house training. As noted in the preceding discussion, training grants at present are targeted at the manufacturing and supporting sectors. It seems that the time has come for this targeting to be removed, especially in light of Malta's efforts to pursue higher value-adding enterprise in the knowledge services. So in respect of training grants, it seems necessary to broaden the eligibility criteria as well as to make the application process much more user friendly. At present, the administrative requirements to apply for such grants are considerable, and can definitely not be eliminated in view of the need to account for the distribution and use of public funds. However, the process could be considerably simplified and the applicant assisted through clear guidelines and simple templates and so on. Thus, an examination of the business processes involved in these training grants is necessary.

Also in relation to training, small firms could be trained in appropriate methods to enable on-the-job learning by employees. This might include training on job design, work organisation, management by objectives, mentoring and related skills.

9.2.3 Other

In respect of other policy recommendations, one may suggest a detailed analysis of the ways in which the social security system is serving to shape entrepreneurs' behaviour – both in their own respect and in terms of the recruitment of employees. This is particularly true in respect of the recruitment of women and of part-timers, where the minimum floor of national insurance payable is ten per cent of minimum wage irrespective of the income earned. It may also be time to allow for the formal recognition of working spouses under the social security and income tax system, which has not been possible to date.

Another more generic policy recommendation is the need to involve stakeholders more closely in the formulation and evaluation of employment policies. While convergence with European guidelines and targets does serve to level up many aspects of job quality, it may be

the case that there are other objectives that the small business community in Malta sees as priorities and would like to be addressed. The planning process required by European membership in respect of economic, employment and social inclusion policies, among others, could be more open to public scrutiny and debate.

Capacity-building in the area of policy and programme evaluation is also an important policy recommendation. Clear and quantifiable targets should be set in the area of small business, for instance in respect of start-ups, survival rates, uptake of training and other business grants, and so on, after which evaluation could be undertaken in respect of the efficiency and effectiveness of measures that aim to stimulate and support small firms.

9.3 A Reflection on the Process and Outcomes of the Thesis

This thesis has been characterized by an exploratory process. Throughout the process, it has taken considerable effort to seek and maintain a balance between adequate focus and a holistic understanding of the context of small firms in Malta. The author believes that the process, and particularly the practice of quantitative and qualitative methods, has been a very useful learning experience and has imparted skills that can be transferred into other settings. The qualitative interviews were most enlightening and helped dispel, or in some cases soften, the initial misgivings one may have had about the 'sweatshop' and dictatorial nature of life in small firms.

In terms of the outcomes of the thesis, the literature review has been useful in that it opened up two areas with which the author was less familiar, namely small states and social capital, and the theories and concepts learned will be of lasting value. The outcomes of the quantitative and qualitative phase will also be useful in a practical sense in that they have, and will continue, to inform the design of employment and training schemes to better meet the needs of small firms in Malta. The policy recommendations that have been developed will be put forward to appropriate entities for consideration.

9.4 Limitations of thesis

A limitation of this work lies in the definition of small firm. Given the local scarcity of other indicators such as turnover and market share, the definition of small firm was based on the number of employees, which is a one-dimensional and therefore limited approach. An attempt was made to mitigate this by basing the definition on the perceptions of different

sectors of the Maltese economy. At the same time, however, using this grounded definition has meant that the findings from this study are not directly comparable to those in other countries where small firm thresholds – usually at fifty employees – are quite a lot higher than the threshold of twenty in this study.

On a related note, it would perhaps have been more interesting and illustrative to have compared Malta as a small Southern state to small states in Northern Europe. While comparative references have been made along the way, this has not been done systematically and the work may have been richer for a systematic comparison rather than a single-state case study.

Another limitation is that quite a lot of the literature referred to is dated. Despite efforts to locate more recent literature, for instance on small firm employment and small state dynamics, interest in these topics appears to have peaked over a decade ago although, as the findings illustrated, much of it remains relevant to Malta today. Furthermore, a lot of the small firm literature is based on the UK which is different in important respects to Malta, both in terms of size, economic structure and culture. It would perhaps have been more relevant to have drawn upon literature that studies small firms in a Southern European context, or even in a small state; however, such literature could not be located and hence the decision to introduce small state and Southern European literature into the work.

Both the quantitative and qualitative studies were limited in that they were carried out only with the small firm owners themselves and not with their employees. Having included the latter would definitely have provided a richer and more accurate account of small firm employment in Malta. The author initially wished to carry out fieldwork with a small number of employers and their employees but preliminary consultation suggested that it would be extremely difficult to find employers willing to participate. Hence the work is limited in that it lacks the experiences of employees themselves and the meanings they attach to them.

Another significant limitation is the fact that this work covered all sectors and has therefore not captured the differences between sectors. In hindsight, it may have been more fruitful to select two or three sectors only and compare and contrast smaller and larger firms in these specific sectors.

In the qualitative study, respondents may have felt constrained in their responses given the fact that the author also heads the public employment service which has an enforcement role with respect to the recruitment and notification of employees. While respondents were guaranteed anonymity, it would be understandable if they were reluctant to fully trust an interviewer whom they had never met before, especially one with an enforcement role. However, the interviewer's experience was generally one of a frank discussion of owner-managers' experience and indeed of the many frustrations they face in their daily operations.

The recommendations in this work are limited and definitely do not cover the whole scope of possible government intervention with respect to small firm development. The focus in this work is on those policy aspects that most directly affect employment, rather than on a broader review of industrial and entrepreneurship policy intervention that could help stimulate the small firm sector. Further study on this issue would be useful.

The main challenge of this work has been to maintain as great a focus as possible. However, this was not always easy in view of the attempt to attain a culturally specific understanding of small firms. This required a broad approach to the literature drawing on different disciplines. A key limitation of this work is that greater depth was perhaps sacrificed to breadth. At the end of the work, there remain a number of areas that call for greater and more detailed study which will have to be undertaken as future exercises. Some of these are mentioned in the subsequent section.

9.5 Contribution of the Thesis to Literature

This sub-section addresses the question of the distinctiveness and contribution of this thesis to literature.

The thesis is distinct in that it has sought to bring together different bodies of literature to understand small firm employment in a particular geographic and social context, that of a small state in Southern Europe. To the best of the author's knowledge, this approach has not been taken elsewhere. A number of contributions of the thesis to literature are being proposed.

In respect of the small firm literature, it was seen that even in a context where an overwhelming proportion of firms are microscopic, a size effect is still evident in terms of various employment indicators. The smallest firms are even more likely than other small

firms to recruit informally, to offer less formal training and to be less represented in social dialogue.

It was seen that although small firm literature seems to have identified informality as the defining feature of small firm relations, the dynamics of a small state reinforce such informality, making it the norm in small state employment relations rather than a feature of a sub-group of firms. The degree of informality and its impact upon the firm is therefore likely to be more or less strong depending on the social and geographic context of the firm.

This thesis also contributes to the small states literature in that it has highlighted some potential difficulties in regionalism, which is often put forward as a corrective to small state inefficiencies. In this instance, the work highlights the difficulties faced by a small state in complying with employment targets set at regional level. These are due not only to the limitations of land, labour and markets but also to the nature of social bonds and the resulting low labour supply and low post-compulsory education rates with which strong bonding has been associated.

This work also adds to the debate on regulation and small firms. These firms everywhere are said to feel the 'omnipresence' of government, but this is possibly even more the case in a small state where the administration necessarily looms quite large if a minimum infrastructure of modern services is to be offered. The relation of small firms to the State in small countries warrants further study. A conundrum arises particularly in the application of regulations, in fields like employment relations, competition and credit management. The theme of enforcement and its role in social capital tends to be missing from many accounts of social capital, including the Woolcock typology. However, respondents' concerns suggest that in Malta, enforcement appears to be an important precursor to bridging and linking forms of social capital. It is important both for employees who need to know that they could seek redress if they needed to, and for firms to limit opportunistic behaviour and to venture into alliances in the knowledge of a strong regulatory framework. In this sense, the findings in this work would most strongly support a more recent definition of social capital as including "social networks and the norms and sanctions that govern their character" (Halpern, cited in Schuller, 2007, p. 13).

Also in respect of social capital, the thesis contributes to the school of thought that it is not the stock of social capital that matters most, but how the types of social capital interact and the meaning of this interaction at a given point in history. Most notably in this thesis, while close social bonds have maintained family welfare and social cohesion over long periods of

time, as Malta faces the challenges of globalisation and European membership it seems that this bonding should be better complemented by bridging. This is evident primarily in the need for women's greater access to the labour market; for the value of further learning to be recognised as a basis for career progression and national productivity; and for enhanced collaboration between small firms.

9.6 Suggestions for more research

This study has raised a number of areas which may profit from further research. Six such areas may be particularly interesting to the Maltese context at present.

The theme of female employment has become a pressing one both as a member of the European Union and in terms of women's aspirations and the need for dual-earner families to cope with rising house prices and cost of living. A research study could look into how successful small firms have managed to create family-friendly workplaces that attract and retain female employees.

An area that seems in urgent need of research is that of 'making work pay', as the benefits received by way of social assistance are practically the same as minimum wage, even exceeding the latter when the beneficiary has dependents. Benefits are not tapered and there are no tax or national insurance incentives to leave the benefit system. This affects small firms, particularly lower-skilled ones, who are facing severe labour shortages due to the reluctance of jobseekers to move off benefits into work at prevailing rates.

A training needs analysis among owner-managers of small firms may be useful, in terms – particularly – of the skills needed to enter new markets but also in respect of skills gaps that respondents identify as most relevant to their sector and in respect of accessing the various EU funds available for research, training and development. The recommendations of such research could include not only the training to be delivered but the optimal form of delivery, whether publicly provided or through subsidy, and in ways that are most accessible and relevant to small firm owners.

Another research study may look into on-the-job learning in small Maltese firms; the way this actually occurs and how it could be strengthened, in a way that is realistic and useful to small firm owners and their employees. Recommendations could include how employers

could be trained to enhance their employees' learning experience at work, and whether there exist barriers to learning and how these might be overcome.

The need for improved cooperation between small firms, in terms of expertise, resources and information, was particularly evident if these firms are to overcome the scale problems of a small state and take advantage of the opportunities offered by EU membership. A research study could look into the critical success factors necessary for such cooperation to be promoted, and the ideal policies and programmes that could help to bring this about.

Research could also be undertaken into successful island-state economies and the ways in which industrial, employment and social policies have contributed to their success. Recommendations could focus upon how these policies have treated small firms in particular, and whether any sectoral strategies have been pursued that might apply to Malta.

Another study could also look into the ways in which membership of the European Union may have influenced the entrepreneurial culture in Malta. Research may address how membership has shaped people's perceptions of economic prospects and market potential, as well as how membership has increased access to information and to funding possibilities and on whether and how membership has had an impact upon entrepreneurial aspirations. Research may also address the impact of legislative and policy convergence deriving from membership upon the operations of current entrepreneurs.

REFERENCES

- Almeida, R. (2004). *The Labour Market Effects of Foreign-Owned Firms*. Unpublished paper, World Bank.
- Anckar, D. (2002). 'Why are Small States Democracies?' , *The Round Table*, 365: 375-390.
- Armington, C. and Acs, Z.J. (2002). 'The Determinants of Regional Variation in New Firm Formation', *Regional Studies*, 36 (1): 33-45.
- Armstrong, H.W. and Read, R. (2002) 'The Phantom of Liberty? Economic Growth and the Vulnerability of Small States', *Journal of International Development*, 14: 435-458.
- Arrowsmith, J. and Gilman, M. (2005). 'Small firms and the National Minimum Wage' in S. Marlow, D. Patton and M. Ram (eds) *Managing Labour in Small Firms*, UK, Routledge.
- Axford, B. (2000) 'Globalisation', in G. Browning, A. Halcli and F. Webster, *Understanding Contemporary Society: Theories of the Present*, London, Sage.
- Baines, S. and Wheelcock J. (1998) 'Working for each other: gender, the household and micro-business survival and growth', *International Small Business Journal*, 17 (1): 16-35.
- Baldacchino, G. (1999) 'Small Business in Small Islands: A Case Study from Fiji', *Journal of Small Business Management*, 37: 80-84.
- Baldacchino, G. (1999a). 'A Double Dose of Unitarism: Employment Relations in a Small Firm in a Small Island State' in *International Journal of Employment Studies*, 7(2): 103-120.
- Baldacchino, G. (2000) 'The Challenge of Hypothermia: A six-proposition manifesto for small island territories', *The Round Table*, 353: 65-79.
- Baldacchino, G. (2002) 'A Taste of Small Island Success: A Case from Prince Edward Island', *Journal of Small Business Management*, 40 (3): 254-259.
- Baldacchino, G. (2003) 'Evolving Industrial Relations in Malta' in G. Baldacchino, S. Rizzo and E.L. Zammit (eds.), *Evolving Industrial Relations in Malta*, Malta, Agenda.
- Baldacchino, G. (2005) 'The Contribution of Social Capital to Economic Growth: Lessons from Island Jurisdictions', *The Round Table*, 94 (1): 31-46.
- Baldacchino, G. and Milne, D. (2000) *Lessons from the Political Economy of Small Islands. The Resourcefulness of Jurisdiction*. Canada, University of Prince Edward Island.
- Banfield, E. (1958) *The Moral Basis of a Backwards Society*. Chicago, Free Press.
- Bannock, G. (1986) 'The Economic Role of the Small Firm in Contemporary Industrial Society', in J. Curran, J. Stanworth and D. Watkins, *The Survival of the Small Firm 1: The economics of survival and entrepreneurship*. UK, Gower.
- Bannock, G. and Peacock, A. (1989) *Governments and Small Business*. UK, Paul Chapman.

- Bechhofer, F. and Elliot, B. (1985). 'The Petite Bourgeoisie in Late Capitalism', *Annual Review of Sociology*, 11:181-207.
- Behling, O. and K.S. Law (2000). *Translating questionnaires and other research instruments*. London, Sage.
- Benedict, B. (ed.) (1967) *Problems of Smaller Territories*. London, Athlone Press.
- Blackburn, R. (2005). 'Researching the employment relationship in small firms. What are the contributions from the employment relations and small business literatures?' in S. Marlow, D. Patton and M. Ram (eds) *Managing Labour in Small Firms*, UK, Routledge.
- Blackburn, R. and Ram, M. (2006). 'Fix or fixation? The contributions and limitations of entrepreneurship and small firms to combating social exclusion', *Entrepreneurship and Regional Development*, 18 (1): 73 – 89.
- Blaikie, N. (2003) *Analysing Quantitative Data*. London, Sage.
- Boissevain, J. (1977) 'When the Saints go Marching Out: Reflections on the decline of patronage in Malta', in *Patrons and Clients in Mediterranean Society*. London, Duckworth, pp. 81 – 96.
- Bradley, H., Erickson, M., Stephenson, C., and Williams, S. (2000) *Myths at Work*. Oxford, Polity.
- Bridge, S., O'Neill K., and Cromie, S. (1998) *Understanding Enterprise, Entrepreneurship and Small Business*. UK, Macmillan
- Briguglio, L. (1995) 'Small island developing states and their economic vulnerabilities.' *World Development* 23 (9): 1615-1632.
- Briguglio, L. and Buttigieg, E. (2004). 'Competition Constraints in Small Jurisdictions', in *Bank of Valletta Review*, No. 30, pp. 1 – 13.
- Brown C., Hamilton, J. and Medoff, J. (1990) *Employers Large and Small*, London, Harvard University Press
- Bryman, A. and Cramer, D. (2001) *Quantitative Data Analysis with SPSS Release 10 for Windows*. London, Routledge.
- Burrows R. and Curran, J. (1989) 'Sociological research on service sector small businesses: some conceptual considerations', *Work, Employment and Society*, 3 (4): 527-539.
- Burton-Jones, A. (1999) *Knowledge Capitalism*. Oxford, Oxford University Press.
- Carland J.W., Hoy, F., Boulton, W.R. and Carland, J.C. (1984), 'Differentiating Entrepreneurs from Small Business Owners: A Conceptualisation', *Academy of Management Review*, 9 (2): 354–359.
- Carroll, M., Marchington, M., Earnshaw, J. and Taylor, S. (1999) 'Recruitment in small firms: processes, methods and problems', *Employee Relations*, 22 (3): 236 – 250.
- Carter, S. (2000). 'Gender and Enterprise', in S. Carter and D. Jones-Evans (eds), *Enterprise and Small Business*, London, Pearson Education.

- Carter S. and Cannon, T. (1992) *Women as Entrepreneurs*. London, Academic Press.
- Castells, M. (2000) *The Rise of the Network Society* (2nd ed), Oxford, Blackwell.
- Castles, F. (1994) 'On religion and public policy: does Catholicism make a difference?' *European Journal of Political Research*, 25: 19-40.
- Central Bank of Malta (2002). Address by the Governor Michael Bonello, entitled 'Prospects for the Maltese Economy in a Global Context', *Quarterly Review*, 3: 48:51.
- Coleman, J. (1988) 'Social Capital in the creation of Human Capital', *American Journal of Sociology*, 94: 95-120.
- CEC (2000). *Innovation Policy in a Knowledge-Based Economy*. Publication EUR 17023. Luxembourg: Commission of the European Communities.
- CEC (2002a). COM 2002/177/EC.
- CEC (2002b). *SMEs in focus. Main results from the 2002 Observatory of European SMEs*. Luxembourg, Commission of the European Communities
- CEC (2004a). *Highlights from the 2003 Observatory of European SMEs*. Luxembourg: Commission of the European Communities.
- CEC (2004b). *Internationalisation of SMEs*. Luxembourg: Commission of the European Communities.
- CEC (2004c). *The impact of EU Enlargement on European SMEs*. Luxembourg: Commission of the European Communities.
- CEC (2004d). *Il-Karta Ewropea ghall-Intraprizi z-Zghar, 2000 (European Charter for Small Enterprises, 2000)*. Luxembourg: Commission of the European Communities.
- CEC (2004e). *Employment in Europe 2004*. Luxembourg, Commission of the European Communities.
- CEC (2005). *Report on the Implementation of the European Social Charter for Small Enterprises in the Member States of the European Union*. – SEC(2005) 167.
- CEC (2005a). *Integrated Guidelines for Growth and Jobs 2005 – 2008*. Luxembourg: Commission of the European Communities.
- CEC (2005b). SEC 2005 167.
- CEC (2006). *Europe in Figures – Eurostat Yearbook 2005*. Luxembourg: Commission of the European Communities.
- CEC (2006a). *Employment in Europe 2005*. Luxembourg, Commission of the European Communities.
- Commonwealth Secretariat. (1997) *A Future for Small States*. London, Commonwealth Secretariat.
- Cooke P., Roper, S. and Wylie, P. (2001) *Developing a Regional Innovation Strategy for Northern Ireland*. Belfast, Northern Ireland Economic Council.

- Cooke, P. and Morgan, K. (1998) *The Associational Economy. Firms, Regions and Innovation*. Oxford, Oxford University Press.
- Cortada, J.W. (1998) *Rise of the Knowledge Worker*. Oxford, Butterworth Heinemann.
- Crain, W.M. (2005). *The Impact of Regulatory Costs on Small Firms*. USA, SBA Office of Advocacy.
- Creswell, J.W. (1994) *Research Design: Qualitative and Quantitative Approaches*. London, Sage.
- Crossick, G. and Haupt, H.G. (1995). *The Petite Bourgeoisie in Europe 1780 – 1914*. London, Routledge.
- Curran, J. and Blackburn, R. (2001) *Researching the Small Enterprise*. London, Sage.
- Curran, J. and Stanworth, J. (1979) 'Worker Involvement and Social Relations in the Small Firm', *Sociological Review*, 27 (2): 317-342.
- Curran, J. and Stanworth, J. (1981) 'The Social Dynamics of the Small Manufacturing Enterprise', *Journal of Management Studies* 18 (2): 141-158.
- Curran, J., Stanworth, J. and Watkins, D. (1986a). *The Survival of the Small Firm 1: The Economics of Survival and Entrepreneurship*. UK, Gower.
- Curran, J., Stanworth, J. and Watkins, D. (1986b). *The Survival of the Small Firm 2: Employment, Growth, Technology and Politics*. UK, Gower.
- Dawson, S., Breen, J. and Satyen, L. (2002). 'The Ethical Outlook of Micro Business Operators', *Journal of Small Business Management*, 40 (4): 302-313.
- De la Porte, C., Pochet, P. and Room, G. (2001). 'Social Benchmarking, policy making and new governance in the EU', *Journal of European Social Policy* 11 (4): 291 – 307.
- De Vries M.F.R.K. (1977) 'The Entrepreneurial Personality: A Person at the Crossroads', *Journal of Management Studies*, 14 (1): 34-57.
- Deakins, D. (1999) *Entrepreneurship and Small Firms* (2nd ed.) London, McGraw Hill.
- Demas, W. (1975) 'Economic Independence: conceptual and policy issues in the Commonwealth Caribbean', in Selwyn, P. (ed.) *Development Policy in Small Countries*. London, Croom Helm.
- Dolman, A. J. (1985) 'Paradise Lost? The past performance and future prospects of small island developing countries', in Dommen, E. and Hein, P., *States, Microstates and Islands*. Kent, Croom Helm.
- Dommen, E. and Hein, P. (1985) *States, Microstates and Islands*. Kent, Croom Helm.
- Du Gay, P. (2000) *In Praise of Bureaucracy – Weber, Organisation, Ethics*. London, Sage.
- Dundan, T. and Wilkinson, A. (1999). 'Looking out of the black hole – non-union relations in an SME', *Employee Relations*, 22 (3): 251-266.

Edwards, P., Ram, M. and Black, J. (2003). *The Impact of Employment Legislation on Small Firms: A case study analysis*. DTI, Employment Research Series No. 20, UK, London.

Esping Anderson, G. (1990) *The Three Worlds of Welfare Capitalism*. Oxford, Polity.

European Foundation for the Improvement of Living and Working Conditions (1998). *Jobs in EU Micro Firms*. Luxembourg, EUR-OP.

Fanfani, A. (1935) *Cattolicesimo e Protestantismo nella Formazione Storica del Capitalismo*. Italy, Società Editrice Vita e Pensiero.

Felstead, A. and Jewson, N. (eds.) (1999) *Global Trends in Flexible Labour*, London, Macmillan.

Field, J. (2003) *Social Capital*. London, Routledge.

Field J. and Spence, L. (2000) 'Informal Learning and Social Capital' in F. Coffield (ed). *The Importance of Informal Learning*. Bristol, Polity Press, 22-32.

Fine, B. (1999) 'The Developmental State is Dead – Long Live Social Capital?' in *Development and Change*, 30: 1-19.

Fletcher, D. (2000) 'Family and Enterprise', in Carter, S. and Jones-Evans, D., *Enterprise and Small Business*. London, Prentice Hall.

Freeman R. and Soete L. (1997) *The Economics of Industrial Innovation*, 2nd ed. Cambridge, MIT Press.

Fukuyama, F. (1995) *Trust. The social virtues and the creation of prosperity*. New York, Free Press.

Gallie, D., White, M., Cheng, Y., and Tomlinson, M. (1998) *Restructuring the Employment Relationship*. Oxford, Oxford University Press.

Gellner, E. and Waterbury, J. (1977) *Patrons and Clients in Mediterranean Society*. London, Duckworth.

Giddens, A. (1998) *The Third Way*. Oxford, Blackwell.

Giddens, A. (1999) *Runaway World*. London, Profile Books.

Giddens, A. (2001) 'Introduction' in Weber, M., *The Protestant Ethic and the Spirit of Capitalism*. UK, Routledge.

Goffee R. and Scase, R. (eds.) (1987). 'Patterns of Business Proprietorship among Women in Britain' in R. Goffee and R. Scase (eds). *Entrepreneurship in Europe*. UK, Croom Helm

Goffee R. and Scase, R. (1995) *Corporate Realities*. London, International Thomson Business Press.

Goss, D. (1988) 'Social Harmony and the Small Firm: A reappraisal', *Sociological Review* 36 (1): 114-132.

Goss, D. (1991). *Small Business and Society*, London, Routledge.

Granovetter, M. (1973) 'The Strength of Weak Ties', *American Journal of Sociology*, 78 (6): 1360-1380.

Hanna V. and Walsh K. (2002) 'Small Firm Networks: A successful approach to innovation?', *R&D Management*, 32 (3): 201-207

Harris, J. (2001) *Depoliticising Development*. London, LeftWord Books.

Harris, L. and Foster, C. (2005). *Small, flexible and family-friendly – work practices in service sector businesses*. DTI Employment Relations Research Series No. 47, UK, Nottingham.

Hart, M. and Blackburn, R. (2005). 'Labour Regulation and SMEs. A challenge to competitiveness and employability?' in S. Marlow, D. Patton and M. Ram (eds) *Managing Labour in Small Firms*, UK, Routledge.

Harvie, C. and Boon-Chye L. (2003). *Public Policy and SME Development*. University of Wollongong Economics Working Paper Series WP 03-18.

Hirst, P. and Thompson, G. (2000) 'National Economic Governance' in C. Pierson and F.G. Castles, *The Welfare State: A Reader*. Oxford, Blackwell.

Hofstede G. (1983) "The Cultural Relativity of Organisational Practices and Theories" in *The Journal of International Business Studies*, 14 (2): 75 – 89.

Hofstede, G. (2001) *Culture's Consequences: Comparing values, behaviours, institutions and organisations across nations*. London, Sage.

Holliday, R. (1995) *Investigating Small Firms*. London, Routledge.

Ibeh, K. (2000) 'Internationalisation and the Small Firm', in S. Carter and D. Jones-Evans. *Enterprise and Small Business*. London, Pearson Education.

International Labour Office (2005) *World Employment Report 2004-5*. Geneva, ILO.

Jacobs, B.L. (1975) 'Administrative Problems of Small Countries'. in P. Selwyn (ed.) *Development Policy in Small Countries*. London, Croom Helm.

Jacobsson, K. (2004) 'Soft regulation and the subtle transformation of states: the case of EU Employment Policy' *Journal of European Social Policy* 14 (4): 355–370.

Jewson J. and Mason D. (1986) 'Modes of Discrimination in the Recruitment Process: Formalisation, Fairness and Efficiency', *Sociology*, 20 (1): 43-63.

Kalton, G. (1983). *Introduction to Survey Sampling*. London, Sage.

Kitching, J. (2007). 'Regulating Employment Relations through Workplace Learning: A study of small employers. *Human Resource Management Journal*, 17 (1): 42-57.

Kitching, J. and Blackburn, R. (2002). *The Nature of Training and Motivation to Train in Small Firms*. DfES' Research Report RR330, UK, Nottingham.

Kurth, James and James Petras (eds) (1993). *Mediterranean Paradoxes. Politics and Social Structure in Southern Europe*. Oxford, Berg.

Lewis, J. (1992) 'Gender and the Development of Welfare Regimes', *Journal of European Social Policy*, 2 (3): 159–173

Low Pay Commission (2003). *The National Minimum Wage – Fourth Report of the Low Pay Commission*, London: The Stationery Office.

Lowenthal, D. (1987) 'Social Features' in C.G. Clarke and A.J. Payne (eds), *Politics, Security and Development in Small States*. London, Unwin Hyman.

Marlow, S. (2000) 'People and the Small Firm' in S. Carter and D. Jones-Evans. *Enterprise and Small Business*. London, Pearson Education.

Marlow, S. (2005). 'Introduction' in S. Marlow, D. Patton and M. Ram (eds) *Managing Labour in Small Firms*, UK, Routledge.

Mason, C. (1991). 'Spatial Variations in Enterprise: the geography of new firm formation' in R. Burrows, ed.) *Deciphering the Enterprise Culture: Entrepreneurship, Petty Capitalism and the Restructuring of Britain*. London, Routledge.

Matlay, H. (1999). 'Employee relations in small firms: a micro-business perspective', *Employee Relations*, 22 (3): 285-295.

Matlay, H. (2000) 'Training and the Small Firm' in S. Carter and D. Jones-Evans. *Enterprise and Small Business*. London, Pearson Education.

McLaughlin E. (1994) 'Flexibility or Polarisation?' in M. White (ed.) *Unemployment and Public Policy in a Changing Labour Market*. London, PSI.

Miles, M.B. and Huberman, A.M. (1984). *Qualitative Data analysis: a sourcebook of new methods*. California, Sage.

Miles, J. and M. Shevlin (2001) *Applying Regression and Correlation*. London, Sage.

Ministry for Education, Youth and Employment (2004). *National Action Plan on Employment*. Malta, MEYE.

Molyneux, M. (2002) 'Gender and the Silences of Social Capital: Lessons from Latin America' in *Development and Change*, 33 (2): 167-188.

Moore, M. (1999). 'Truth, trust and market transactions: what do we know?', *The Journal of Development Studies*, 36 (1): 74-88.

Morris, B. and Smyth, J. (1994). 'Paternalism as an Employer Strategy, 1800 – 1960' in Rubery, J. and F. Wilkinson (eds.) *Employer Strategy and the Labour Market*. Oxford, Oxford University Press.

Moule C. (1998). 'Regulation of Work in Small Firms: A View from the Inside', *Work, Employment and Society*, 12 (4): 635-653.

Murray, D. (1985) 'Public Administration in the Microstates of the Pacific' in E. Dommen and P. Hein, *States, Microstates and Islands*. Kent, Croom Helm.

Naldini, M. (2003) *The Family in Mediterranean Welfare States*. London, Frank Cass.

National Statistics Office (2005). *Labour Force Survey, October to December 2004*. Malta, NSO.

- National Statistics Office (2006). *Economic Indicators*. Malta, NSO.
- National Statistics Office (2001). *Continuous Vocational Training Survey*. Malta, NSO.
- Neef, D. (1998) *The Knowledge Economy*. Oxford, Butterworth Heinemann.
- Neef, D., Siesfeld G.A., and Cefola, J. (1998) *The Economic Impact of Knowledge*. Oxford, Butterworth Heinemann.
- Novak, M. (1993) *The Catholic Ethic and the Spirit of Capitalism*. Oxford, Maxwell Macmillan.
- Novak, M. (1996) 'Seven Corporate Responsibilities' in Houck, J.W. and Williams, O.F. *Is the Good Corporation Dead? Social Responsibility in a Global Economy*. London, Rowman and Littlefield.
- OECD (1997) *Globalisation and Small and Medium Enterprises*. Paris, OECD.
- OECD (2001) *Cities and Regions in the New Learning Economy*. Paris, OECD.
- Osborne, D. and Gaebler, T. (1992) *Re-inventing Government*. USA, Addison-Wesley.
- Parker, R. (2001) 'The Myth of the Entrepreneurial Economy: Employment and Innovation in Small Firms', *Work, Employment and Society*, 15 (2): 373-384.
- Parker, R. (1999). 'From National Champions to Small and Medium Sized Enterprises', *Journal of Public Policy*, 19 (1): 63-89.
- Pascall, G. and Lewis, J. (2004) 'Emerging Gender Regimes and Policies for Gender Equality in a Wider Europe' *Journal of Social Policy*, 33 (3): 395 – 416.
- Patton, D. (2005). 'Training in Smaller Firms' in S. Marlow, D. Patton and M. Ram (eds) *Managing Labour in Small Firms*, UK, Routledge.
- Payne, T. (1987) 'Economic Issues', in C.G. Clarke, C.G. and A.J. Payne (eds), *Politics, Security and Development in Small States*. London, Unwin Hyman.
- Peacock, A (1989) 'Introduction' in G. Bannock and A. Peacock, *Governments and Small Business*. UK, Paul Chapman.
- Petit, P. (2000) 'Employment in a Knowledge-Based Economy', in K. Rubenson and H.G. Schuetze. *Transition to the Knowledge Society: Policies and Strategies for Individual Participation and Learning*. University of British Columbia, Institute for European Studies.
- Piore M. and Sabel C. (1984) *The Second Industrial Divide*. New York, Basic Books.
- Pirotta, G. (1997) 'Politics and public service reform in small states: Malta', *Public Administration and Development*, 17: 197-207.
- Portes, A. (1998) 'Social Capital: Its origins and applications in modern sociology' *Annual Review of Sociology*, 24: 1-24.
- Portes, A. and Landolt, P. (1996) 'The Downside of Social Capital' *The American Prospect*, 26: 18-94.

Procter, S.J., Rowlinson, M., McArdle, L., Hassard, J. and Forrester, P. (1994) 'Flexibility, Politics and Strategy: in defence of the model of the flexible firm', *Work, Employment and Society*, 8: 221 – 42.

Productivity Commission (2003). *Social Capital: Reviewing the Concept and its Policy Implications*. Research Paper, AusInfo, Canberra.

Punch, K.F. (1998) *Introduction to Social Research: Quantitative and Qualitative Approaches*. London, Sage.

Putnam, R. (1993). *Making Democracy Work: civic traditions in modern Italy*. UK, Princeton University Press.

Putnam, R. (1996) 'Who Killed Civic America?' *Prospect* 7 (24): 66–72.

Putnam, R. (2000) *Bowling Alone: the collapse and revival of American community*. New York, Simon and Schuster.

Pyke, F. (1988) 'Co-operative practices among small and medium-sized enterprises' *Work, Employment and Society*, 2 (3): 352-365.

Quinn, J.J. (1997). 'Personal Ethics and Business Ethics: The ethical attitudes of owner/managers of small business', *Journal of Business Ethics*, 16: 119-127.

Rachad, A. (2003). *Interpreting Quantitative Data with SPSS*. London, Sage.

Rainnie A. (1989) *Industrial Relations in Small Firms*, London, Routledge.

Rainnie, A. (1991a) 'Just-in-time, Sub-Contracting and the Small Firm', *Work, Employment and Society*, 5 (3): 353-375.

Rainnie A. (1991b) 'Small firms: between the enterprise culture and 'New Times' in Burrows R. (ed), *Deciphering the Enterprise Culture*. London, Routledge

Ram, M. (1991). 'Control and Autonomy in Small Firms: The case of the West Midlands clothing industry', *Work, Employment and Society*, 5 (4): 601-619.

Ram, M. (1994). *Managing to Survive: Working lives in small firms*. Oxford, Blackwell.

Ram M. and Holliday, R. (1993) 'Relative merits: family culture and kinship in small firms', *Sociology*, 27 (4): 629-648.

Reinecke, G. and White, S. (2004) *Policies for Small Enterprises*. Geneva, ILO.

Richards, J. (1982) 'Politics in Small Independent Communities: Conflict or Consensus?', *Journal of Commonwealth and Comparative Politics*, 20 (2): 155-171.

Ritchie, J. and Lewis, J. (eds.) (2003) *Qualitative Research Practice*. London, Sage.

Rosenberg, S. and Lapidus, J. (1999) 'Contingent and Non-Standard Work in the United States', in A. Felstead and N. Jewson (eds). *Global Trends in Flexible Labour*. London, Macmillan.

- Rowbotham, S. and Tate, J. (1998) 'Homeworking. New approaches to an old problem', in E. Drew, R. Emerek and E. Mahon (eds), *Women, Work and the Family in Europe*. London, Routledge.
- Rowntree, S. B. (1938). *The Human Factor in Business*. London, Longmans, Green & Co.
- Rubery, J., M. Smith and C. Fagan (1999). *Women's Employment in Europe. Trends and Prospects*. London, Routledge.
- Ryan, A. (2005). 'Representation, consultation and the small firm' in S. Marlow, D. Patton and M. Ram (eds) *Managing Labour in Small Firms*, UK, Routledge.
- Scase, R. (1995) 'Employment Relations in Small Firms' in P.K. Edwards, *Industrial Relations: Theory and Practice in Britain*. UK, Blackwell.
- Scase, R. (2000) 'The enterprise culture: the socio-economic context of small firms' in S. Carter and D. Jones-Evans (2000), *Enterprise and Small Business*. London, Pearson Education.
- Scase, R. and Goffee, R. (1980) *The Real World of the Small Business Owner*. London, Croom Helm.
- Schuller, T. (2007). 'Reflections on the Use of Social Capital' in *Review of Social Economy*, LXV (1): 11-28.
- Schuller, T., Baron, S. and Field, J. (eds) (2000) *Social Capital. Critical Perspectives*. Oxford, Oxford University Press.
- Schuller, T., and Bamford, C. (2000) 'A social capital approach to the analysis of continuing education: evidence from the UK Learning Society research programme', *Oxford Review of Education*, 126 (1): 5-19.
- Scott M., Roberts, I., Holroyd, G. and Sawbridge, D. (1989) *Management and Industrial Relations in Small Firms*. Research Paper No. 70, London, Department of Employment.
- Selwyn, P. (ed.) (1975) *Development Policy in Small Countries*, London, Croom Helm.
- Sennett, R. (1993) *Authority*. London, Faber and Faber.
- Shaw, E. and Conway, S. (2000) 'Networking and the Small Firm', in S. Carter and D. Jones-Evans, *Enterprise and Small Business*. London, Pearson Education.
- Spence, L. (2000). *Priorities, Practice and Ethics in Small Firms*. UK, The Institute of Business Ethics.
- Spence, L.J., Warner, A. and Wegner, M. (eds) (2004) *Responsibility and Social Capital. The World of Small and Medium-sized Enterprises*. London, Palgrave Macmillan.
- Srebrnik, H. (2004). 'Small Island Nations and Democratic Values' in *World Development*, 32 (2): 329-341.
- Stanworth, J. and Curran, J. (1977) 'Growth and the Small Firm – An Alternative View' *Journal of Management Studies*, 14 (1): 95-110.

- Stanworth, J. and Curran, J. (1989). 'Employment Relations in the Small Firm', in P. Burns and J. Dewhurst (eds). *Small business and Entrepreneurship*. UK, MacMillan.
- Storey, D. (1986). 'New firm formation, employment change and the small firm: the case of Cleveland County' in J. Curran, J. Stanworth and D. Watkins. *The Survival of the Small Firm 2: Employment, Growth, Technology and Politics*. UK, Gower.
- Storey, D. (1994) *Understanding the Small Business Sector*. London, Routledge.
- Storey, D. (1998). 'Six Steps to Heaven: Evaluating the Impact of Public Policies to Support Small Businesses in Developed Economies'. UK, Warwick Business School, CSME Working Paper No. 59.
- Storey D. and S. Johnson (1987). *Job Generation and Labour Market Change*. UK Macmillan
- Sutton, P. (1987) 'Political Aspects' in Clarke, C.G. and A.J. Payne (eds), *Politics, Security and Development in Small States*. London, Unwin Hyman.
- Tashakkori, A. and Teddlie, C. (1998) *Mixed Methodology: Combining Qualitative and Quantitative approaches*. London, Sage.
- Taylor, S. (2005). 'The hunting of the snark: A critical analysis of human resource management discourses in relation to managing labour in smaller organisations' in S. Marlow, D. Patton and M. Ram, *Managing Labour in Small Firms*. UK, Routledge.
- Teachman, J.D., Paasch, K. and Carver, K. (1997). 'Social Capital and the Generation of Human Capital' in *Social Forces*, Vol. 75 (4): 1343-1359.
- Tripp, A.M. (2001). 'Women's Movements and Challenges to Neopatrimonial Rule: preliminary observations from Africa', *Development and Change*, 32: 33-54.
- UNCTAD (1985). 'Examination of the particular needs and problems of island developing countries' in Dommen, E. and P. Hein, *States, Microstates and Islands*. Kent, Croom Helm.
- Van Kersbergen, K. (1995). *Social Capitalism: A study of Christian Democracy and the Welfare State*. UK, Routledge.
- Vyakarnam, S., Bailey, A., Myers, A. and Burnett, D. (1997). 'Towards an Understanding of Ethical Behaviour in Small firms', *Journal of Business Ethics* 16: 1625-1636.
- Ward, M. (1975) 'Dependent development – problems of economic planning in small developing countries' in P. Selwyn (ed.) *Development Policy in Small Countries*, London, Croom Helm.
- Warrington, E. (1995) *Current good practices and new developments in public sector management. A profile of the public service in Malta*. Commonwealth Secretariat, London.
- Weber, M. (2001) *The Protestant Ethic and the Spirit of Capitalism*. UK, Routledge.
- Weiss, L. (1988) *Creating Capitalism*. Oxford, Basil Blackwell.
- Wennekers, S., Uhlaner, L.M. and Thurik, R. (2002) 'Entrepreneurship and its Conditions: a Macro Perspective', *International Journal of Entrepreneurship Education*, 1 (1): 25-64.

Werner, A. and Wegner, M. (2004) 'Literature Review: Social Capital and SMEs' in L.J. Spence, A. Warner and M. Wegner (eds) *Responsibility and Social Capital. The World of Small and Medium-sized Enterprises*. London, Palgrave Macmillan.

Westhead P. and Storey D. (1997) *Training Provision and Development of Small and Medium Sized Enterprises*, Research Report No. 26, London, HMSO.

Westrip A. (1986) 'Small Firms Policy: the Case of Employment Legislation', in J. Curran et al (eds). *The Survival of the Small Firm* Vol. 2, Aldershot, Gower.

Wilkinson, A. (1999). 'Employment Relations in SME's', *Employee Relations*, 22 (3): 206-217.

Wilson, E. (1980). 'Social Responsibility of Business: What are the Small Business Perspectives?' *Journal of Small Business Management*, 18 (3): 17-24.

Woolcock, M. (1998) 'Social Capital and Economic Development: toward a theoretical synthesis and policy framework', *Theory and Society*,. 27 (2): 151-208.

Woolcock, M. (2001) 'The Place of Social Capital in Understanding Social and Economic Outcomes', *Canadian Journal of Policy Research*, 2 (1): 1-17.

Wray, D. (1996). 'Paternalism and its Discontents', *Work, Employment and Society*, 10 (4): 701

Wuthnow, R. (1994) 'Religion and Economic Life' in N.J. Smelser & R. Swedberg (eds), *The Handbook of Economic Sociology*. USA, Princeton University Press.

Legislation

Business Promotion Act (2002)

Employment and Industrial Relations Act (2003)

Employment and Training Services Act (1990)

Equal Opportunity (Persons with Disability) Act (2000)

Equality between Men and Women Act (2003)

Social Security Act (1987)

Papal Encyclicals

Centesimus Annus (1991, Pope John Paul II)

Laborem Exercens (1981, Pope John Paul II)

Quadragesimo Anno (1931; Pope Pius XI)

Rerum Novarum (1891, Pope Leo XIII)

Sollicitudo Rei Socialis (1987, Pope John Paul II)

Websites

http://www.agency.osha.eu.int/fs/index_en.html (December 2005)

<http://www.eib.org/i2i/en.index.htm> (December 2005)

<http://www.eif.org> (December 2005)

http://www.europa.eu.int/comm/education/programmes/calls/callg_en_html
(December 2005)

http://www.europa.eu.int/comm/regional_policy/index_en.html (December 2005)

http://www.europa.eu.int/comm/research/fp6/index_en.html (December 2005)

http://www.europa.eu.int/growthandjobs/pdf/2006_annual_report_malta_en.pdf
(March 2006)

<http://www.gate2growth.com> (December 2005)

<http://www.worldbank.org/wbp/scapital/sources/firm1.htm> (July 2005)

APPENDIX A.

LETTER TO POSTAL INVENTORY RESPONDENTS

(Home Address)

28th October 2003

Dear Sir / Madam,

I am a part-time student of the University of York, U.K., currently reading for a Ph.D. in Social Policy. My thesis is related to the context and characteristics of small firms in Malta.

As a first part of my fieldwork, I am undertaking a survey of which responsibilities employers perceive to be most significant to them in their role as employer. In order to do so, I have developed an inventory of responsibilities and should be grateful if you would indicate your agreement, or disagreement, for each item. The name of your firm was chosen at random along with 500 other small Maltese firms.

I have enclosed a stamped, addressed envelope and would very much appreciate your reply by the 15th November 2003. All replies will be treated as anonymous and confidential, and used only for the purposes of my doctoral study.

Thank you.

Yours faithfully,

Sue Vella

APPENDIX B:

POSTAL INVENTORY

In your notion of the 'good employer', how important would you rate the following features?

	Very	Quite	Neither important nor unimportant	Somewhat important	Not at all important	Don't Know	No Answer
Abide by employment regulations	3	2	-3	1	0	-5	-6
Abide by national insurance regulations	3	2	-3	1	0	-5	-6
Abide by income tax regulations	3	2	-3	1	0	-5	-6
Provide safe and healthy work environment	3	2	-3	1	0	-5	-6
Ensure job satisfaction for staff	3	2	-3	1	0	-5	-6
Provide staff training	3	2	-3	1	0	-5	-6
Provide career progression for staff	3	2	-3	1	0	-5	-6
Allow workers trade union representation	3	2	-3	1	0	-5	-6
Provide flexible hours to parents	3	2	-3	1	0	-5	-6
Provide parental leave	3	2	-3	1	0	-5	-6
Act in fatherly manner to employees	3	2	-3	1	0	-5	-6
Involve staff in business decisions	3	2	-3	1	0	-5	-6
Contribute to charitable causes	3	2	-3	1	0	-5	-6
Participate in employers' organisations	3	2	-3	1	0	-5	-6
Co-operate with competitors	3	2	-3	1	0	-5	-6
Produce quality goods/services	3	2	-3	1	0	-5	-6
Increase profit to investors	3	2	-3	1	0	-5	-6
Contribute to community development	3	2	-3	1	0	-5	-6
Create new jobs	3	2	-3	1	0	-5	-6
Retain staff when business is bad	3	2	-3	1	0	-5	-6
Avoid harm to the environment	3	2	-3	1	0	-5	-6
Generate wealth in the economy	3	2	-3	1	0	-5	-6
Take an interest in employees' personal welfare	3	2	-3	1	0	-5	-6
Recruit from disadvantaged groups	3	2	-3	1	0	-5	-6
Work alongside one's employees	3	2	-3	1	0	-5	-6
Offer indefinite contracts	3	2	-3	1	0	-5	-6
Grow your business	3	2	-3	1	0	-5	-6
Pay a family wage	3	2	-3	1	0	-5	-6
Reward merit	3	2	-3	1	0	-5	-6

	Very	Quite	Neither imp nor unimp	Somewhat important	Not at all important	Don't Know	No Answer
Reward seniority	3	2	-3	1	0	-5	-6
Recruit on the basis of competence	3	2	-3	1	0	-5	-6
Recruit through open calls for application	3	2	-3	1	0	-5	-6
Retain older workers	3	2	-3	1	0	-5	-6
Make the most of staff skills	3	2	-3	1	0	-5	-6
Use professional managers	3	2	-3	1	0	-5	-6
Adopt informal management style	3	2	-3	1	0	-5	-6
Trust one's employees	3	2	-3	1	0	-5	-6
Provide pro-rated benefits to part-timers	3	2	-3	1	0	-5	-6
Improve your organisation of work	3	2	-3	1	0	-5	-6
Make best use of technology	3	2	-3	1	0	-5	-6
Keep up to date with knowledge developments	3	2	-3	1	0	-5	-6
Negotiate pay with employees	3	2	-3	1	0	-5	-6
Award fringe benefits	3	2	-3	1	0	-5	-6
Provide clear job descriptions to staff	3	2	-3	1	0	-5	-6
Foster a family environment at work	3	2	-3	1	0	-5	-6
Treat employees as equals	3	2	-3	1	0	-5	-6
Co-operate in business network	3	2	-3	1	0	-5	-6
Treat male and female staff equally	3	2	-3	1	0	-5	-6
Provide for the special needs of staff with disability	3	2	-3	1	0	-5	-6
Offer family-friendly conditions for women	3	2	-3	1	0	-5	-6
Offer family-friendly conditions for men	3	2	-3	1	0	-5	-6
Give relatives preference in recruitment	3	2	-3	1	0	-5	-6
Pay heed to religious teachings	3	2	-3	1	0	-5	-6
Honesty, promise-keeping, respect for property rights	3	2	-3	1	0	-5	-6
Contribute to the arts and/or sciences	3	2	-3	1	0	-5	-6
Respect human dignity	3	2	-3	1	0	-5	-6
Satisfy your customers	3	2	-3	1	0	-5	-6
Participate in voluntary organisations	3	2	-3	1	0	-5	-6
Donate to charitable causes	3	2	-3	1	0	-5	-6
Improve one's family income	3	2	-3	1	0	-5	-6
Improve firm's competitiveness	3	2	-3	1	0	-5	-6
Maintain a clear hierarchy of authority	3	2	-3	1	0	-5	-6
To develop teamwork	3	2	-3	1	0	-5	-6

APPENDIX C.

QUANTITATIVE QUESTIONNAIRE

A. JOB CREATION

1.0 Have any new jobs been created in your firm during 2003? Please do not include replacements.

	(READ OUT)	IF YES WRITE IN NUMBER (0 = NO)	Don't know/ No answer
1.1	Managerial/professional		X
1.2	Technical		X
1.3	Clerical/services/sales		X
1.4	Crafts and trades		X
1.5	Operators/assemblers/elementary		X

2.0 Have any jobs been lost in your firm during 2003, which you do not intend to replace?

	(READ OUT)	IF YES WRITE IN NUMBER (0 = NO)	DK/NA
2.1	Managerial/professional		X
2.2	Technical		X
2.3	Clerical/services/sales		X
2.4	Crafts and trades		X
2.5	Operators/assemblers/elementary		X

SHOW CARD A

3.0 How strongly do the following factors affect your decision to create a job?

	(READ OUT)	Very strongly	Moderately	Somewhat	Not at all	DK/NA
3.1	Economic conditions in country	1	2	3	4	0
3.2	Demand for your product or service	1	2	3	4	0
3.3	The requirement to pay social security contributions	1	2	3	4	0
3.4	Minimum wage regulations	1	2	3	4	0
3.5	Availability of subsidies on wages of low skilled employees	1	2	3	4	0
3.6	Restrictions on the dismissal of staff	1	2	3	4	0
3.7	Availability of suitable candidates	1	2	3	4	0
SPONTANEOUS						
3.	Other – PLEASE SPECIFY:	1	2	3	4	0
8						

B. Recruitment

SHOW CARD B

4.0 What type of employment contract would you ordinarily offer the following categories of employees? I.e. indefinite full-time; definite full-time; indefinite part-time; definite part-time, or other:

	(READ OUT)	Full-time, permanent	Full-time, Not permanent	Part-time, permanent	Part-time, Not permanent	Other	DK/NA
4.1	Managerial/professional	1	2	3	4	5	0
4.2	Technical	1	2	3	4	5	0
4.3	Clerical/services/sales	1	2	3	4	5	0
4.4	Crafts and trades	1	2	3	4	5	0
4.5	Operators/assemblers/elementary	1	2	3	4	5	0

SHOW CARD C

5.0 What process do you ordinarily follow when searching for staff in the following positions? (READ OUT Q5.1 – Q5.5)

	5.1	5.2	5.3	5.4	5.5
	Managerial/ Professional	Technical	Clerical, Services Sales	Crafts/ Trades	Operators/ assemblers/ elementary
Prefer to recruit family members	1	1	1	1	1
Formal, through public or private employment service	2	2	2	2	2
Formal, through adverts in the media	3	3	3	3	3
Informal – recommendations by staff	4	4	4	4	4
Informal – recommendations by acquaintances	5	5	5	5	5
Informal – recommendations by politicians	6	6	6	6	6
Direct application by candidate	7	7	7	7	7
Other – PLEASE SPECIFY:	8	8	8	8	8
Don't know/no answer	0	0	0	0	0

SHOW CARD D

6.0 Should an applicant be suitable for a position in your firm, yet belong to one of these groups, how would you view his or her application?

	(READ OUT)	Very positive	Positive	No different to any other	Negative	Very negatively	DK NA
6.1	Woman	1	2	3	4	5	0
6.2	Mother of young children	1	2	3	4	5	0
6.3	Male aged over 50	1	2	3	4	5	0
6.4	Woman, aged over 50	1	2	3	4	5	0
6.5	Youth without experience	1	2	3	4	5	0
6.6	Person with physical disability	1	2	3	4	5	0
6.7	Person with intellectual disability	1	2	3	4	5	0
6.8	Person with mental illness	1	2	3	4	5	0
6.9	Person with previous substance abuse problem	1	2	3	4	5	0
6.10	Ex-convict	1	2	3	4	5	0
6.11	Legal immigrant	1	2	3	4	5	0

SHOW CARD E

7.0 What incentives do you offer the following categories of employees? (READ OUT Q7.1 – Q7.5) (MARK IN APPROPRIATE COLUMN)

		7.1		7.2		7.3		7.4		7.5	
	(READ OUT)	Managerial/Professional		Technical		Clerical, Services Sales		Crafts/Trades		Elementary	
		Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
1	Opportunity for Promotion	1	2	1	2	1	2	1	2	1	2
2	Opportunities for training or study	1	2	1	2	1	2	1	2	1	2
3	Performance bonus	1	2	1	2	1	2	1	2	1	2
4	Health insurance	1	2	1	2	1	2	1	2	1	2
5	Discounts on products or services of the company	1	2	1	2	1	2	1	2	1	2
6	Other – PLEASE SPECIFY:	1	2	1	2	1	2	1	2	1	2
0	Don't know/no answer	1	2	1	2	1	2	1	2	1	2

C. Family-Friendly Conditions

SHOW CARD F

8.0 Does your company offer the following conditions to employees?

(READ OUT)	8.1		8.2		8.3		8.4		8.5	
	Managerial/ Professional		Technical		Clerical, Services Sales		Crafts/ Trades		Semi skilled / Unskilled	
	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
1 Maternity leave (14 weeks)	1	2	1	2	1	2	1	2	1	2
2 Parental leave to women	1	2	1	2	1	2	1	2	1	2
3 Parental leave to men	1	2	1	2	1	2	1	2	1	2
4 Reduced hours to women	1	2	1	2	1	2	1	2	1	2
5 Reduced hours to men	1	2	1	2	1	2	1	2	1	2
6 Flexitime to women	1	2	1	2	1	2	1	2	1	2
7 Flexitime to men	1	2	1	2	1	2	1	2	1	2
8 Childcare services or allowance to women	1	2	1	2	1	2	1	2	1	2
9 Childcare services or allowance to men	1	2	1	2	1	2	1	2	1	2
10 Other - PLEASE SPECIFY: _____	1	2	1	2	1	2	1	2	1	2
0 Don't know/no answer	1	2	1	2	1	2	1	2	1	2

D. Staff Training

SHOW CARD G

9.0 Does your company offer the following forms of training to employees?

(READ OUT)	8.1		8.2		8.3		8.4		8.5	
	Managerial/ Professional		Technical		Clerical, Services Sales		Crafts/ Trades		Semi skilled / Unskilled	
	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
1 On-the-job training by other staff	1	2	1	2	1	2	1	2	1	2

2	On-the-job training by external trainers	1	2	1	2	1	2	1	2	1	2
3	Pay for short course outside the place of work	1	2	1	2	1	2	1	2	1	2
4	Pay for long course outside the place of work	1	2	1	2	1	2	1	2	1	2
5	Subsidise courses for employees wishing to follow a course	1	2	1	2	1	2	1	2	1	2
6	Short-term unpaid leave for staff wishing to train or study	1	2	1	2	1	2	1	2	1	2
7	Long-term unpaid leave for staff wishing to train or study	1	2	1	2	1	2	1	2	1	2
8	Other – PLEASE SPECIFY: _____	1	2	1	2	1	2	1	2	1	2
0	Don't know/no answer	1	2	1	2	1	2	1	2	1	2

E. Representation

SHOW CARD H

10. Which of these categories of staff are represented by a trade union?

	(READ OUT)	Yes	No	DK/ NA
10.1	Managerial/Professional	1	2	0
10.2	Technical	1	2	0
10.3	Clerical, services, sales	1	2	0
10.4	Crafts and trades	1	2	0
10.5	Operators/assemblers/elementary	1	2	0

SHOW CARD I

11.0 Does your firm form part of an employers' or sectoral association?

	Yes	No	DK/ NA
11.1 Malta Employers' Association	1	2	0
11.2 Federation of Industry	1	2	0
11.3 Chamber of Commerce	1	2	0
11.4 Professional Association	1	2	0
11.5 Sectoral Association			
11.6 Other:	1	2	0

F. Other

12. I will now read out a number of phrases on the role of the State in the labour market. Please indicate the statement which best reflects your belief.

12.1 When faced with unemployment, the State should.....:

(READ OUT - MARK ONLY ONE)

1. Invest in the creation of jobs, even in the public sector; *or*
2. Encourage early retirement; *or*
3. Allow the market to correct itself
4. Other – **PLEASE SPECIFY:**
0. Don't know/no answer

12.2 With respect to women and the labour market, the State should.....:

(READ OUT - MARK ONLY ONE)

1. Provide or subsidise childcare services for working mothers; or
2. Pay a social benefit to mothers who are not working
3. Intervene only to prevent or address cases of gender discrimination at work
4. Other: **PLEASE SPECIFY**
0. Don't know/no answer

12.3 Should unemployment benefits.....:
(READ OUT - MARK ONLY ONE)

1. be the same for each citizen?
2. be different according to the type of work formerly carried out by the worker?
3. only be provided to those in greatest need?
4. Other: **PLEASE SPECIFY**
0. Don't know/no answer

12.4 In formulating employment policies, do you believe that the State...:
(READ OUT - MARK ONLY ONE)

1. Should bring about the involvement and acceptance of the social partners?
2. Should conform as far as possible to Catholic social teachings?
3. Should allow the market to operate as freely as possible?
4. Other: **PLEASE SPECIFY**
0. Don't know/no answer

G. Details

13.0

Location - WRITE IN: _____

14.0 *How long has your firm been established?*

WRITE IN NUMBER OF YEARS: _____

15.0 *In what economic sector does your firm belong?*

WRITE IN SECTOR: _____

(NACE CODE) – CODE ACCORDINGLY: _____

16.0 *How many employees do you have in the following categories?*

	(READ OUT)	WRITE IN NUMBER ACCORDINGLY:
16.1	Full-time males	
16.2	Full-time females	
16.3	Part-time males	
16.4	Part-time females	

17.0 *How many employees do you have in these positions?*

	(READ OUT)	WRITE IN NUMBER ACCORDINGLY:
17.1	Managerial/Professional	
17.2	Technicians/Associate Professionals	
17.3	Clerical/Services & Sales	

17.4	Craft and related trades	
17.5	Operators/assemblers/elementary	

18. What legal status does your firm have?

(READ OUT)		Code
Company		1
Partnership		2
Sole trader		3
Other	– PLEASE SPECIFY:	4

19.0 Is this a family firm?

- 0. No – GO TO Q20
- 1. Yes - CONTINUE

19.b	If yes – ASK:		
		Yes	No
19.b.1	Does the family own more than half the firm?	1	2
19.b.2	Do family members occupy half or more of the senior management positions?	1	2

20.0 Did you found this firm?

- 1. Yes - GO TO Q 21
- 2. No - Go to Q. 22

SHOW CARD J

21.0 How important were the following factors in your decision to establish this firm?

	(READ OUT)	Very	Quite	A little	Not at all	DK/ NA
21.1	Allowed you to work independently	1	2	3	4	0
21.2	To increase your income	1	2	3	4	0
21.3	For the challenge	1	2	3	4	0
21.4	To produce a particular product or service	1	2	3	4	0
21.5	To create jobs	1	2	3	4	0
21.6	To continue a family tradition	1	2	3	4	0
21.7	You had no other opportunity at the time	1	2	3	4	0
21.8	Other:	1	2	3	4	0

22.0 What is your position in the firm?

	Code
Owner	1
General manager	2
Responsible for HR management	3
Other	4

23.0 Respondent's gender: (DO NOT ASK)

1. Male
2. Female

SHOW CARD K

24.0 In which bracket does your age fall?

Age bracket	Code
18 - 24	1
25 - 34	2
35 - 44	3
45 - 54	4

55 - 64	5
> 65	6

25.0 Which was the highest level of education you attained?

Level	Code
Primary	1
Secondary, general	2
Secondary, vocational	3
Post-secondary, general	4
Post-secondary, vocational	5
University Certificate	6
University Diploma	7
University Degree	8
University Masters Degree	9
University PhD	10
Don't know / no answer	0

SHOW CARD L

26.0 In which category did the firm's turnover for 2003 fall?

(READ OUT)	Code
< Lm10,000	1
Lm10,000 - Lm49,999	2
Lm50,000 - Lm99,999	3
Lm100,000 - Lm149,999	4
Lm150,000 - Lm199,999	5
Lm200,000 - Lm249,999	6
Lm250,000 - Lm499,999	7
Lm500,000 - Lm999,999	8
> Lm1,000,000	9
Did not have full financial year	10
Don't know/no answer	0

27. **Company Name:** _____
28. **Respondent's Name:** _____
29. **Time of Interview:** _____
30. **Date of Interview:** _____
31. **Interviewer's Name:** _____
32. **Interviewer's Signature:** _____
33. **Coder's Ref:** _____
34. **Checker's Ref:** _____

THANK RESPONDENT FOR HIS / HER TIME