“The Five Fingers of My Hand”: Human Capital and Well-being in SMEs

Abstract

Purpose – This paper explores the SME managers’ understanding of, and attitudes towards human capital and well-being as factors impacting on the business performance of their organisations.

Design/methodology/approach – The study from which this paper reports included qualitative data collected through 42 semi-structured interviews with senior managers of SMEs from the service sector in Bulgaria, Finland and Scotland (UK). These European Union countries are considered to be at different stages in the development of a knowledge-based economy.

Findings – It is evident that whilst SME managers are interested in knowledge, skills and experience as key elements of human capital, peoples’ soft skills and attributes, such as attitude, willingness and ability to learn and develop, and enthusiasm about the(ir) work are often considered more important. Human capital is seen as potentially an abundant resource, providing scope for competitive advantage at both personal and enterprise levels.

Practical implications – The key findings from this paper inform future policy and HRM practices in respect to the development of a knowledge-based economy through highlighting positive impacts for SMEs’ strategy management practice.

Originality/value – This paper indentifies SME managers recognition of individual’s potential to gain new knowledge coupled with a willingness to learn as important – and often more so than formal knowledge and experience. It gives valuable insights about well-being viewed through the prism of SME management. It offers opportunities for personal development as well as the acquisition of new knowledge and skills. These can have a positive impact on potential employability and also the evaluation job content.
Introduction

In this paper we present findings from a qualitative research project which identified and examined the extent to which managers of small and medium sized enterprises (SMEs)\(^1\) recognise human capital (HC) and well-being (WB), and consider these as factors that impact on the management and development of their organisations. Building on some of the ongoing debates on HC management (Barney, 1991; Peteraf, 1993) and WB (Beauregard, 2011; Malik et al., 2010) the paper sheds new light on these topical issues in the context of the EU push to a knowledge-based economy (KBE). It explores the relationships and impact of HC and WB on strategy management and performance as perceived by SME managers in their day to day business. Research was undertaken with SMEs in the service sector in three European Union (EU) countries: Bulgaria, Finland and Scotland (UK). Currently, these countries are considered to be at different stages in the development of a KBE and innovation (Tilford and Whyte, 2010)\(^2\):

1) *strong performer* – Finland: a leading knowledge-based economy with a strong welfare system;

2) *must do better* – Scotland: a country working hard towards the development of a strong knowledge-based economy with a mixed economy of welfare;

3) *laggard* – Bulgaria: a newer EU member-state with a changing economy, fragmented policies, and a weak welfare system.

Bulgaria, Finland and Scotland are historically, geographically and demographically comparable. They are part of the continent of Europe and complex historical evolution of the EU. All have populations of 5 to 7 million experiencing similar demographic trends such as ageing which place particular pressures on the economy and welfare regimes (Eurostat, 2010). At the same time they are economically and socially varied. Scotland’s economy has been described as trying to shift from agriculture, mining, and traditional manufacturing, to high-technology manufacturing, particularly information and communication technologies (ICT) and computer manufacturing and services
(Huggins and Thompson, 2010). Its economy is closely linked with that of the rest of the United Kingdom. The Finnish economy is an example of successful and relatively fast transition from a predominantly agricultural economy in the 1950s, to a well-developed industrial economy at the end of 20th century, to a successfully developing service-based economy today (Dahlman et al., 2006). The Bulgarian economy is shifting gradually from an industrial to a service-based economy. It is also making the transition from membership of the Eastern Bloc to membership of the EU, and the impacts of this change include risk aversion and economic instability.

Thus research with SMEs in these countries allows for comparisons as well as reflections on the role of policy and economic context on HC and WB. The different HC and innovation practices highlight the challenges for EU strategies that aim to standardise approaches to economic growth among SMEs. We also reflect on the opportunities for SMEs, in all three counties, to promote value creation. The paper comprises four sections, namely, human capital and well-being; methods, findings, and discussion and conclusions.

**Human Capital and Well-being**

*Context:* Labour economists focus their attention on the financial returns to formal education and training (Becker, 1993; Schultz, 1961), strategy management scholars (Barney, 1991; Peteraf, 1993) view human capital as a source of sustainable competitive advantage, and in knowledge management the debate has shifted towards the development and utilization of human capital (Nonaka et al., 2011). It is widely acknowledged that knowledge is created by people in their interactions with each other and the environment (Nonaka and Takeuchi, 1995; Sveiby, 1997), however there has been little discussion about the interrelatedness between HC and WB.
The newly adopted EU growth strategy (leading towards further development of a KBE), EUROPE 2020 (European Commission, 2010), outlines five priority areas: employment, innovation, education, social inclusion and climate/energy. Each member state is required to introduce concrete actions at national level to implement the strategy.

Across the EU governments are seeking ways to promote productivity whilst improving the quality of life. Perceptions and understanding of the concept WB vary across countries, sectors and communities but in general include minimal provision of welfare, health and safety regulations, access to education, training and opportunities for employment (McKie et. al, 2008).

By 2010, SMEs formed 99.8 % of all enterprises in the EU, and are therefore critical in both economic and social terms. According to recent data, they generate over half the value added (56.9 %) and employ the majority of the workforce (67.4 %) in the non-financial business economy of the EU (Eurostat, 2010). In 2010 the number of SMEs in Bulgaria was 278,984; in Finland was 217,129 and in Scotland was 297,905, all of them accounting for about 99 % of all enterprises.

SMEs are regarded by EU policy makers not only as providers of employment, but as key units for new knowledge creation and a natural channel for its further commercialisation. As such, they are also recognised as a crucial economic element and driver of the development of the knowledge-based economy across the EU. These dimensions are closely linked to the concepts of HC and WB. Crucial to the development of the KBE is strategic human resource management and investment in HC in terms of knowledge, health and innovation.

**Definitions:** Human Capital is most often conceptualised (Becker, 1993; Bell, 1999) as related to the attributes that are intrinsic to ‘individuals as resources for the company and which are usually not replaced by machines, nor written down on a piece of paper’ (Roos et al, 2005; p.19). These attributes include: individual competence, personal attitude, skills, knowledge (explicit and tacit),
personal networks, commitment and motivation, health (WB) and work ability, and experience gained over the years. Drawing upon previous theoretical and empirical research (Danna and Griffin, 1999; McKie et al., 2008), for the purposes of present study we define well-being as a two-dimensional concept comprising both personal well-being (work-life balance) and well-being at work (work ability).

Though the capacity of people as ‘the only true agents in business’ (Sveiby, 1997, p. 8) capable of creating value for an enterprise has been widely acknowledged, we lack a comprehensive understanding of this process. Becker (1993) was the first to acknowledge that though most people understand the term capital as relating to tangible assets providing the potential to yield revenue and other useful outputs in a future time, such as cash flows or physical means for production, it is much more than that. He introduced the term human capital, stressing that expenditure on education and training, as well as on health, is, in practice, investment. People cannot be separated from their knowledge, skills, health, or values in the way that they can be separated from organisations’ financial and physical assets, therefore they constitute (embody) what is known as HC.

However, our multidisciplinary literature review demonstrates that the concept of WB is interpreted in various ways: physical (Cooper et al., 1994); health (Coleman, 1997); emotional, physiological (Cartwright and Cooper, 1993); mental (Anderson and Grunert, 1997); and economic (Bell, 2005). There is also difference in the interpretation of the term among the three countries under study:

- in Bulgarian literature the concept of WB is associated with concepts as ‘quality of life’, ‘prosperity’, ‘standard of living’, ‘relationships’ and ‘living conditions’ (Tilkidjieiev, 2011).
- Across Finnish literature (Ilmarinen, 2006) the concepts of WB and work ability were often used interchangeably. However, it should be acknowledged that though tightly related they are not quite one and the same. From a company’s point of view work ability is the
employee’s ability to perform work tasks by professional competencies, health-related prerequisites and mastery of the task. It is important to see that health alone does not define work ability, but is the sum of physical, mental and social capacities. It is also depended on the requirements of the work task (Hussi, 2005; Rantanen, 1999).

- In UK literature WB is tightly linked to productivity, lower sickness-absence leaves, attraction and retention of talented people (Robertson and Cooper, 2011) as well as to the concept of work-life balance (Malik et al., 2010).

From the management perspective, WB is viewed as comprising the various life/non-work satisfactions enjoyed by individuals (i.e. satisfaction and/or dissatisfaction with social life, family life, recreation, spirituality, and so forth), work/job-related satisfaction (i.e. satisfaction and/or dissatisfaction with pay, promotion opportunities, the job itself, co-workers, and so forth), and general health (Danna and Griffin, 1999). Well-being can be defined in terms of needs or resources to influence and participate in working life. The focus should be upon the employee, and the balance between work and other spheres of life (McKie et al., 2008). Peoples’ perception and understanding of the concept of WB include different factors, which vary from providing the minimum conditions guaranteeing existence to including health and safety at work, motivation, social security and status, as well as opportunities for personal development and learning.

**Methods**

In an exploratory study semi-structured interviews were undertaken with senior managers of SMEs from what were considered to be four growth areas in the service sector – information and communication technologies (ICT); finance; tourism; and care. These industries were selected on the basis of EU and national forecasts and socio-economic trends in employment (Tallberg et al., 2011). The study’s project team decided to focus its attention on senior managers: in the context of SMEs, they are the key decision makers and the strategic management of these enterprises is largely
determined by their personal beliefs and behaviours. The interview approach was adopted in order to gain data that would provide a clear picture of day to day practice and enable comparison with existing theories, thus the questions were largely open ended. This methodology enabled us to gain new insights into less researched areas in SMEs, such as the personal attitude and understanding of senior managers of the role of HC and WB. This will inform further theoretical development and indicate areas for future empirical research. We believe that the sample of 42 interviews with managers in three EU countries offers valuable insights into practices and beliefs in SMEs.

The design of the interview was informed by a literature review of HC and WB (Roos et al., 2005; McKie et al., 2008); on-going empirical and conceptual work on WB (Hearn et al., 2009; Tallberg et al., 2011); and discussions across the research team. The interview questions were piloted with five managers. Following analysis of the interviews conducted, and transcripts of these, the wording and format of the interview schedule were amended. For example, originally, managers were asked open questions about the subjects of the research (HC, WB). Some respondents showed unwillingness to share, and one commented that he felt he was “being examined” (pilot interview 2). Therefore, the team decided to introduce more practical and understandable wording, such as: “What do you do in order to increase the value of your business?”; “What is it like to work in your enterprise?” It was also noted that interviewees tended to focus on the positive aspects of their organisations, even when asked if they considered there to be drawbacks to working within their enterprise. The revised interview schedule included questions which focussed on the “challenges of work” rather than “the drawbacks of work”.

The semi-structured interviews were undertaken in either English or Bulgarian by the lead author, who is a native Bulgarian speaker and fluent in English. Where the interviews were conducted in English, either only the interviewee was using their native language (Scotland), or, neither
interviewer nor interviewee was speaking their native language (Finland). Consequently, in some cases it was necessary to ask additional questions to ensure understanding of the respondents’ exact meaning. All the interviews were transcribed and (if necessary) translated into English by the lead author, and then analysed.

To ensure the anonymity of the interviewees during the analysis process, pseudonyms were used for individuals and businesses. Quotes from each interview contain information about the number of the interview in the dataset, the country, and the date when it was conducted. For the purposes of the present paper interviewees are given consecutive numbers from 1 to 42 (Table 1 and Appendix).

[Table 1]

During the study the lead author kept a field diary. In addition to basic information about the interviewee and organisation, each interview transcript is accompanied by short notes which describe the impressions and reflections of the researcher shortly after the interview. Where this was made available, additional documentation, such as the organisation’s HRM strategy and/or HR policies, and website information has informed the analysis.

The project team read and re-read the transcripts, identified themes and grouped these together in a draft schedule. In a series of team meetings to further analyse the data, themes were developed by exploring their key constituents. Reliability was ensured by re-checking categorisations following agreement of the final system. This is commonly known as open analysis in which the dominant messages and practices in the text were identified as well as ideas or experience of notable difference (Neuendorf, 2002). After again reading the transcripts, as well as the researcher’s field notes, the team gathered for a dedicated meeting to sum up initial findings. Data were managed
through the use of N-vivo software which allowed us to identify further the relevance and depth of ideas and practices as reported in the data. At the end of this process, the key themes were finally specified and four themes drawn out, namely:

1. People, human capital, and (business) value;
2. People and business challenges;
3. Well-being and work in SMEs;

In subsequent sections we present data on these themes.

**Findings**

**People, Human Capital and (Business) Value**

Data from the interviews illustrates the attitude of SMEs’ managers towards their employees. In many cases they identify their business as being the people working within it. For example, one Scottish manager commented:

“...the company is, as good as the staff within it. And while you can create systems and processes, which deliver consistent results to clients, the employees still make a huge difference in that” (Interviewee 1, male manager of a small ICT enterprise in Scotland).

Further investigation, based on the field diary, a study of websites and the firm’s documentation characterise this SME as highly innovative and open with effective communication between employees and senior management. This interviewee freely acknowledged that the performance of the firm’s employees contributes to its competitive advantage.

The identification of human factors as critical to performance is illustrated also by a Finnish manager who spoke of a straightforward relationship between the business performance of his
company and the people working within it – “our value is based on our personnel” (Interviewee 12, male manager of a small ICT enterprise in Finland).

Indeed, this attitude towards the impact of people on value creation is shared by a manager from Bulgaria. He described the main values of the company as being skills and mutual trust.

“The value [of our company] is in our experience and in our heads, in practice... the skills, the experience of the people working for us, as well as the culture, which we have established, and the trust we have between us” (Interviewee 37, male manager of a small ICT enterprise in Bulgaria).

In fact, analysis of the interview data confirms that most of the interviewees acknowledge the impact of people on their business, and specifically, their individual contribution to the organisation’s HC as a value creation factor directly impacting on the performance of their company. It is also worthy of note that they consider this a resource that is complex and expensive to replace, affecting both the performance and the image of the company. Thus, recruitment and retention of staff is viewed as being critical to performance and profit.

The manager of a small, well established Finnish tourist enterprise (a chain of hotels), who defines himself as an experienced entrepreneur successfully running his business for over 20 years, talked about the important aspects of hiring people.

“... for a restaurant manager a nice [i.e. suitable] person comes up and does not have any knowledge in restaurant, we think ‘ok, that’s a bit difficult – the restaurant is so specialized’, but if he/she is just a ‘wonderful’ person we will try to offer him/her a job ...” (Interviewee 14, male manager of a small tourist enterprise in Finland).
Perhaps surprisingly, this was also found in an industry that requires a much higher level of specialised knowledge and skills. The manager of a small ICT company described the important features of recruiting people:

“Things that are important for me are not where the people have worked and what kind of education they have, but whether they are ready to learn new things and if they are open for this kind of thing. The point is do they have a potential for further development” (Interviewee 26, male manager of a small ICT enterprise in Bulgaria).

What is notable about this small, innovative, and well-performing company of 13 employees (as concluded from analysis of its documentation and market activity during the last 3 years), is the management decision to overcome its financial challenges following the 2009 global economic crisis. They did not make people redundant but people worked from home or in Wi Fi cafes in Sofia, rather than in a shared office. This model allowed for major saving and so far has proved successful.

The data analysis shows that recruitment and retention decisions are often focused on peoples’ willingness to undertake further training, and on their potential for gaining new knowledge and skills. Further, characteristics related to ‘tacit dimensions’ (Polanyi, 1966), such as comprehension and learning ability, attitude to work and customers, a drive for personal development, competitive spirit, a disposition for cooperation and team work are considered as critical, and sometimes even more important than formal qualifications and diplomas. It should be noted that this was the case in most enterprises across all three countries.

These empirical findings shed new light on the view that when an enterprises ‘acquires’ an employee through an employment contract, it can only benefit from the outcome produced and
appropriated. The enterprise normally faces challenges about actual production, which in practice depends on whether or not employees put HC to the best use possible from the perspective of the enterprise (Von Krogh and Wallin, 2011). Therefore factors, such as personal attitude, willingness to learn and commitment to work are considered to be more important that formal knowledge and skills.

**People and Business Challenges**

The notion that the working environment and organisational culture in SMEs is different to that of large corporations is not new. In previous research on entrepreneurship and SMEs, the desire for more freedom, more relaxed relationships, and more flexible communication channels has been found to be among the main reasons that entrepreneurs give for having started their own businesses (Carsrud and Brännback, 2011; Zachary and Mishra, 2010). This study specifically investigated the subjective appraisal of SME managers of strengths and drawbacks of day to day work in their enterprise. In practice, issues and factors a SME manager perceives as important to the business performance informs the whole strategy making process of that enterprise.

Whilst most interviewees were reluctant to describe the drawbacks of working in their companies, they did discuss the challenges faced by their employees. The manager of a small Scottish finance enterprise pointed out that limited resources and capacity, as well as the high demands of the job had effects on personal lives.

“The downside of our business from our side is obviously we don’t have a huge amount of resources. We can only work to our capacity... in a small business another drawback can be that you never stop working. You can’t just kind of hand it to someone else, you are kind of always... you are always at work. Even when you are at home you are at work... mentally” (Interviewee 2, male manager of a small finance enterprise in Scotland).
The challenges that people face are related to high stress levels, resulting from, for example, heavy workloads and/or tight deadlines and, no less important, maintaining close interactions with customers. Another drawback often described is the lack of career development opportunities. As the manager of small tourist business in Bulgaria acknowledges:

“...in a small business you can’t... grow (in your career) to such extent that... if this is the goal of his life – the career – here you can’t have such a career” (Interviewee 27, male manager of a small tourist enterprise in Bulgaria).

However, the lack of a real career path may be compensated for by different means depending on the industry sector and the attitude of individual managers. Managers claimed, for example, that they take care to provide variety in work tasks, workloads, and skills development and thus enable staff to avoid monotony. Wherever possible, these would be challenging tasks requiring further knowledge and skills, thereby contributing to the personal development of the individual. The work itself is seen as an offering personal development and thus is spoken of as an important motivator. The manager of a highly innovative and entrepreneurial Finnish ICT business which operates internationally commented:

“...when it is small, where you have quite a lot of freedom... in setting your own priorities... there is no ... or almost no hierarchy. If you have a good idea, you can go and talk to the managing director, who sits on the desk next to you. And, if it is really good idea it can be implemented next week... the drawbacks are of course that small businesses are... somewhat more vulnerable to... business ... swings... and that ... it’s a ...it’s more of a lifestyle than a career – where do you progress from here.” (Interviewee 15, male manager of a small ICT enterprise in Finland).
The view that working in a small business is perceived as being a ‘lifestyle’ has important implications. It is a profound illustration of the differences in the working routine of a small company, and of the attitudes of owners and managers, by comparison with working in many large organisations.

In SMEs, maintaining work-life balance is often challenging and can be almost impossible. Evidence from former research suggests also that SME employees, often fulfilling multiple work roles due to organisational labour shortages are susceptible in blurring the boundaries between their work and private life spheres with consequences on family life and relationships (Guest, 2002; Malik et al., 2010). However, what is key is that SME managers recognise the limitations of work in a small company and try to find suitable solutions to counter these, or at least to balance drawbacks and strengths.

“I call them colleagues, since I tell them that they all are very important to me and as, you know...I tell them they are like the five fingers of my hand. This is exactly what I tell them. I depend on them as much as they depend on me. At times, I act more as an organiser; therefore I call them my colleagues” (Interviewee 27, male manager of a small tourist enterprise in Bulgaria).

In the case of this young Bulgarian entrepreneur, good morale was achieved through a democratic managerial style and by offering a friendly and appealing working environment. He also spoke of an employee who left to work for another business (with a better salary), but returned after a few weeks for the working environment and relationships. Similar cases were also reported in Scottish and Finnish businesses, where family-like relationships are among organisational values.

“... it is very important how people work together. This is the main point of organising our work... I keep all the communication lines open. I expect, but I’m also very flexible. We can
“always find the solution...” (Interviewee 13, female manager of a small tourist enterprise in Finland).

A friendly and engaging attitude towards employees, often defined as a democratic style of management, was also clear in a medium-sized child day care business located in Scotland:

“... we involve our staff in everything that we do... staff are asked, you know, what they feel about working for the company” (Interviewee 3, female manager of a small care industry enterprise in Scotland).

A highly developed sense of co-operation and team work is recognised by managers as an important positive factor in helping to overcome challenging and stressful situations. What is remarkable here is the extent to which working in a team and co-operating with colleagues enables both the sharing and acquiring of knowledge. Here again there is a common finding among the SMEs in all three countries under study. The potential for personal development resulting from the diversity and challenge of work tasks, communicating with a wide range of people, learning and personal development are seen as a main advantage of working in SMEs. These possibilities are seen as compensating to a substantial extent for the lack of an obvious career path.

Well-being and work in SMEs

During the pilot stage of the research it became apparent that there are a range of understandings of the term WB in the three study countries. While in Finland, managers would speak about “work related well-being” and “work ability”, in Scotland most of the respondents were familiar with the use of the term WB in the context of work-life balance and the workplace. However, the literal meaning of this term in Bulgarian relates to the material benefits and wealth of an individual.
Therefore, in order to gain comparable information during the main study, in each country the term used was that which would be understood as the English language meaning of the concept.

Unlike the themes described earlier, where the attitude and understanding of SMEs’ managers were similar in all three countries, differences in the interpretation of the concept of WB became evident.

The manager of a Finnish ICT enterprise shares the view that WB reflects both physical and mental health:

“...well-being that would mean that...in the end how persons or people... are feeling and how your mental health is. Then the other part is how physical health is and how you take care of those both... as a company for providing for employees” (Interviewee 12, male manager of a small ICT enterprise in Finland).

This company embodies some of those elements often seen as typical for the modern ICT business culture, such as premises in a modern building, a friendly environment, but at the same time a formal working atmosphere, and whose personnel have an appreciation of professionalism, knowledge sharing and personal development.

In the Finnish SMEs included in the study, the concept of WB was largely associated with the impact on the physical and mental health of employees arising from the work conditions and organisational culture established by their management. In some cases the importance of work-life balance was also acknowledged, as well as the importance of having a friendly and welcoming working atmosphere.

“...balancing the work and the personal life, so... one of the targets is that everybody..., who is working here, would be having a good base in ... in his life. That is a principle, so
that you feel good when you are working here, so even though that would mean we would
not get so much money then we are ready to, let’s say ‘pay the bill’, in that sense that, if you
lose a little bit of money, but you are feeling better that’s more important to us”
(Interviewee 12, male manager of a small ICT enterprise in Finland).

It is distinctive that most of the SME managers, acknowledge that often, they cannot pay as high a
salary as an employee could achieve within a large(r) enterprise. In many cases entrepreneurs try to
compensate for this drawback by offering other benefits, such as providing and supporting
opportunities for knowledge sharing and training. Thus, younger employees have a chance to add
practical skills to their formal training and develop further their potential to take advantage of future
opportunities.

The manager of a small Scottish enterprise providing financial advice, saw WB as the “right”
balance between work and personal life, and closely related to the extent to which people enjoy
their work.

“...people’s work-life balance... get job satisfaction, how much they enjoy their work, the
environment they work in, their relationship with their peers, with their subordinates, with
the bosses... how that translate to their personal life” (Interviewee 7, male manager of a
small finance enterprise in Scotland).

In Scotland WB was also associated with the enjoyment of work, as well as with the impact work
has on the employee’s personal life. A large number of SMEs’ managers directly associated WB
with the possibilities of gaining new knowledge and the intellectual challenge of work tasks.

“So, it’s how you manage people to develop them going forward, to get the business to come
in, yet don’t dominate people, educate them. It’s the knowledge, and knowledge will give
them power to then improve their skills” (Interviewee 5, male manager of a medium-sized tourist enterprise in Scotland).

This attitude towards WB links to the concept of organisational commitment to employees (Roca-Puig, 2005), which constitutes an intangible resource, as its value has its roots in the complex network of social relationships between individuals reflected in the performance management, recognition, compensation practices or communication programmes which are not easy to identify, which have been developed over a period of years and which cannot simply be acquired by a competitor in the market (Lee and Miller, 1999).

For the manager of a small care business in Bulgaria WB is perceived as:

“...normal working time, according to the requirements of the work; a reasonable salary... which in our case is above the average for the country; opportunities for sufficient time for holidays...” (Interviewee 35, female manager of a small care enterprise in Bulgaria).

In the Bulgarian context the concept of WB is not associated with physical and mental health at all. Occasionally, WB was related to work-life balance, but most usually salary levels combined with the potential to increase income.

“...but everything comes down to the fair financial evaluation of the labour...to me loyalty equals and even is a little above the competence. I don’t need competent, but disloyal people. And in order to be loyal the person should be evaluated fairly...” (Interviewee 37, male manager of a small ICT enterprise in Bulgaria).

Overall, views about WB can be grouped in several distinct categories that complement each other. The first is thinking of WB as closely related to work-life balance, including physical and mental
health. The second refers to WB from a work-related perspective, taking into consideration factors such as work load, capacity to cope with specific tasks, satisfaction with the work done, as well as enjoyment of the work itself. The third category is the relationship between work done, working environment and the financial reward for labour. Lastly, we also noted that for some managers, WB is founded upon the possibilities for learning and gaining knowledge and skills that promote personal development.

The relationship between WB and HC

Do SME managers consider that the impact of HC can be enhanced through well-being? Most of the interviewees acknowledged that these two concepts are indeed related.

“... well-being is... how can you exploit your skills, and how can you develop... if you have that capacity, and you want to bring your best in,... give your best at work,... if you have concerns, if you have some issues at work you are not unable to provide your best at work. That affects your, your results and I think in that sense [HC and WB] they are like directly linking there” (Interviewee 17, male manager of a medium-sized ICT enterprise in Finland).

A notable finding is that often, when talking about the interface between HC and WB managers again touched upon issues such as training, and the (cap)ability to learn and acquire new skills. The result anticipated is not only increased competitiveness for the company, but for the employees as individuals. That way they reaffirm Becker’s (1993) view that schooling, a computer training course, expenditures on medical care, and lectures on the virtues of punctuality and honesty are capital too in the sense that they improve health, raise earnings, or add to a person’s appreciation of literature over much of his or her lifetime.
Most of interviewees also referred to the working atmosphere, as well as the nature of work itself, and their ability as managers to offer employees the freedom to decide on the best way to do a task or project. A Scottish manager said:

“...people’s knowledge and experience, and the knowledge they can impart to others. I think they have great satisfaction, and I suspect that would improve their well-being by, you know, having a great workshop where you get excellent feedback, they would all grow very positive about that” (Interviewee 7, male manager of a small finance enterprise in Scotland).

These comments stress the opportunities for learning, and the importance of teamwork and cooperation. The sense of support created as part of SMEs’ organisational culture is also seen in the following comment from a Finnish interviewee:

“In a small business it is very important how people are working together” (Interviewee 13, female manager of a small tourist industry enterprise in Finland).

The most commonly applied methods used to improve WB in relation to HC are summed up by the manager of a small Scottish ICT company:

“I think well-being for a company, for an individual means that they have the necessary tools to do the job, as well as they can. They have support from the team and the manager and the overall company to help them improve their skills, whether that will be directly at the job that they do, whether it would be the other things they join in to make better. So, they feel supported, they feel they can do the job. It feels there is a path to learn, and be educated and grow and to be more experienced...To be fairly treated, to be respected” (Interviewee 1, male manager of a small ICT enterprise in Scotland).
The impact of company support and opportunities provided for further development are also acknowledged in Bulgarian SMEs.

“….they acquire new skills, working experience…” (Interviewee 30, female manager of a small finance enterprise in Bulgaria).

and

“Well, the good thing is that you can’t be bored ever and that you learn new things all the time” (Interviewee 36, female manager of a small ICT enterprise in Bulgaria).

There is strong evidence from the interviews that managers acknowledge whether explicitly or implicitly, the relationship between WB and HC. It is also clear that as a result of this recognition, they aim to enhance the working culture of their organisations by providing a motivating, friendly, and even family-like work environment.

Finally, when asked to offer a self-assessment of WB in their companies compared to what they perceive as the average for their sector, two-thirds of the respondents thought it above the average, and one third at least the average.

Discussion and conclusions

The impact of HC on the value creation process is widely acknowledged as an important issue (Bell, 1999; Sveiby, 1997). Our findings confirm this is intuitively shared by SME managers from the three countries despite the economic and social differences. This conclusion is in line with the Penrosian point (Penrose, 1959; Spender, 1989) that the value of resources is always dependent on knowledge, individual or managerial, and that HC opens up new ways of thinking about technology and its economic and social impact. Comparative analysis of the data obtained from these interviews shows that there are not substantial differences towards people and work in SMEs across
the three countries (Table 2). They do not use the term HC, but talk of its constituent parts, namely knowledge, skills, focus, personality and willingness to commit. It is clear that most of the SMEs’ managers acknowledge the impact of strategic human resource management, and thus HC, on their performance and competitiveness of their business. Further, most managers were clear about their recruitment, retention, and day to day human resource management policies and practices. All of these findings are relevant to the development of EU wide strategies.

[Table 2]

Interestingly, only two out of 42 interviewees reported having a written HR strategy. The general approach is encapsulated in the comment: “I have it all in my head” (Interviewee 31). Most of the managers considered that they did not need a formal HR strategy. Though, in practice there is evidence from the exploratory study that they had clear views regarding the strategic management of people (staff) and HC respectively. Data from the field study showed that often managers considered that due to the friendly working environment they were able to deal successfully with issues which in large organisations would be the subject of formal policies. It should be noted we did not interview employees whom may well have a different views. However, the tacit knowledge approach to aspects of work-life critical to HC poses challenges to EU attempts to promote standardised strategies.

People are widely recognised as a key factor contributing to the value creation process, and are often appreciated as being crucial to business success – people being described as being “the five fingers of my hand” (Interviewee 27). This has important implications for future research. HC is a distinctive resource which, if properly managed, has the potential to become an abundant source of competitive advantage both for the company and staff. This feature is particularly important in the
current economic climate; it is difficult to gain competitive advantage through access to and control over physical and financial resources. It is widely acknowledged (Spender, 1989; Sveiby, 1997) that human beings have the unique quality of embodying knowledge and that it is only through them that the benefits of knowledge can be utilised. Skills cannot be used without permission of the person possessing it. You cannot separate a person from his or her knowledge, skills, health, or values the way it is possible to move financial and physical assets while the owner stays put (Becker, 1993). An interesting finding is in contrast to a common and a widely accepted belief that managers consider HC only in terms of formal education, specific skills, and experience: most managers interviewed for this study appreciate so called ‘soft’ skills and a positive attitude towards work. They also recognise individuals’ potential to gain new knowledge coupled with a willingness to learn as important – and often more so than formal knowledge and experience. Whether or not employees share these views could be to focus of further research.

In all three countries there were specific cases in which managers expressed their willingness to hire “talent” and develop it further, even if the potential employee did not have the specific knowledge required to do the job from the outset. From their perspective, specific job related knowledge and skills can be learned, but what is more important and rare is the willingness to learn and achieve personal development, develop social and communication skills, and having a positive attitude towards work.

Becker acknowledged that productivity of employees depends not only on their ability and the amount invested in them both on and off the job but also on their motivation, or the intensity of their work. Economists have long recognised that motivation in turn partly depends on earnings because of the effect on an increase in earnings on morale and aspirations (Becker, 1993; p.57). There are a number of factors that impact on the motivation.
When considering the impact of the work environment and organisational culture on HC, SME managers noted that the main challenges were related to: ‘limitations for career growth’ (Interviewee 26); ‘working with difficult, nervous and demanding customers’ (Interviewee 1; Interviewee 36); ‘monotonous work’ (Interviewee 27); ‘demanding requirements’ (Interviewee 12); ‘demanding tasks’ (Interviewee 36); ‘thinking that there are better opportunities for professional development in bigger companies’ (Interviewee 1; Interviewee 26); ‘limited abilities to offer high salaries’ (Interviewee 3; Interviewee 27).

What was viewed by most SMEs’ managers as compensation for the sometimes relatively low salaries, high stress levels to meet deadlines, close and often challenging contact with customers are aspects of work such as: ‘friendly and supporting colleagues’ (Interviewee 36), ‘co-operation and team work’ (Interviewee 37), ‘flexible working time’ (Interviewee 26), ‘good and friendly working conditions’ (Interviewee 13), ‘financial support’ (Interviewee 25), ‘understanding’ (Interviewee 3), ‘learning-by-doing’, ‘gaining experience’ (Interviewee 32), ‘networking’ (Interviewee 20).

By contrast, in Bulgaria WB is in almost all cases related to the appraisal of labour and salary levels. Though SME managers in all three countries use the term WB they interpret it somewhat differently depending on the environment. However, analysis of our data shows the importance of interpersonal relationships, a friendly and co-operative working environment, as well as opportunities for learning and personal development as common elements in SME managers understanding of the concept of WB. A key finding on the perception of work related WB among SMEs’ managers is the notion of WB as knowledge and skills acquired while working for their company. Talking about well-being as “ability to learn new things”, “achieving something”, or “satisfaction with the work done” sheds a new light on the way in which WB has been treated in
the literature. The majority of the respondents from Finland and Bulgaria recognised work related WB through the opportunities provided to gain new knowledge and skills. Interviewees asserted that as a result of working in a company where people and WB are considered, employees have improved employment prospects and add score to start a business of their own. Though Becker (1993) also has acknowledged that individuals maximise their WB as they accumulate HC over their lifetime, he agrees there is no explicit theoretical model of this process developed yet. Further research is needed to investigate all factors that impact on these processes in order to have more precise strategic management tool for HC and WB management. The results from this research build on the views of former studies (Roca-Puig at al., 2005; Yoon et al., 2001) acknowledging that when employees realise that managers take their need into account, showing concern for their observations and valuing their organisation, they are more likely to show a greater dedication to their work and higher motivation and job satisfaction.

References


Tables

To be included in Methods section (p. 8 of present manuscript)

Table 1. Codes of Interviews by Country

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of interviewees</th>
<th>Codes of interview given for the paper</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td>18</td>
<td>25 – 42</td>
</tr>
<tr>
<td>Finland</td>
<td>13</td>
<td>12 – 24</td>
</tr>
<tr>
<td>Scotland</td>
<td>11</td>
<td>1 – 11</td>
</tr>
<tr>
<td>Total</td>
<td>42</td>
<td></td>
</tr>
</tbody>
</table>

To be included in Discussion and conclusions section (p. 22 of present manuscript)

Table 2. Table of similarities and differences

<table>
<thead>
<tr>
<th>Themes</th>
<th>People, HC and (Business) Value</th>
<th>People and Business Challenges</th>
<th>WB at work in SMEs</th>
<th>The relationship between WB and HC</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Similarities</td>
<td>Differences</td>
<td>Similarities</td>
<td>Differences</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>Potential to learn new things</td>
<td>None</td>
<td>Limited opportunity for career growth</td>
<td>Working with ‘demanding’ clients</td>
</tr>
<tr>
<td>Finland</td>
<td>Talent and personality</td>
<td>None</td>
<td>Direct communication channels</td>
<td>Mental and physical health</td>
</tr>
<tr>
<td>Scotland</td>
<td>Firm is associated with its employees</td>
<td>None</td>
<td>Limited resources; High work load</td>
<td>Work-life balance Mental and physical health</td>
</tr>
</tbody>
</table>
Due to the significance of SMEs to the EU economy and consequently the necessity to have coherent measures for their promotion and economic support, in 2003 EU (updated in 2005) agreed a definition which has been adopted by the legislations of all EU member-states. An enterprise qualifies as a medium-sized if the staff headcount is between 50 and 250 and in addition it meets either the turnover ceiling of 43 million Euro or the balance sheet ceiling of 50 million Euro. An enterprise qualifies for small if the staff headcount is below 50 and in addition it meets either the turnover ceiling of 10 million Euro or the balance sheet ceiling of 10 million Euro. This recommendation concerns all Community policies applied within the European Economic Area in favour of SMEs (Structural Funds, Framework Programme for Research and Development) as well as state aid, where SMEs can benefit from exemption provisions and higher aid ceilings.

For the purposes of the present study we follow the taxonomy used in the report of Tilford and Whyte (2010) by which EU countries are classified as: Strong performers (Denmark; Sweden; Finland; Austria and Netherlands); Must do better (France; Germany; and the UK (including Scotland)); Laggards (Spain; Portugal; Greece; Italy; Poland; Hungary; Romania; Bulgaria; Malta) in relation to their development as a KBE.

Scottish Government data (2011) found the number of SMEs in Scotland to have increased from 297,905 in 2010 to 305,540 in 2011, an increase of 3.3%. They account for 99.3% of all enterprises, providing 53.6% of employment and contributing 36.5% of national turnover. The number of SMEs in Finland in 2010 is accounting for 99.7% of all enterprises, providing 60.6% of employment and 54.9% of value added. The number of SMEs in Bulgaria in 2010 is accounting for 99.7% of all enterprises too, providing 66.9% of employment and 59.2% of value added.

The EU concept of a KBE echoes that of the OECD definition, which takes into consideration the higher dependence of more developed economies on knowledge, information, higher qualifications and the access to them provided by the business and public sectors (OECD, 2005).

On a number of dedicated meetings team members held discussions and considered various approaches for data collection and analysis. Eventually it has been decided that for the purposes of the present exploratory study SME managers would be interviewed since their beliefs, understanding and attitude impact mostly strongly on strategy decisions, as well as directly affect everyday practice.

Comparing general economic indicators for each of the three countries and the EU (EU 27 = 100) as a whole, illustrates that Finland has the highest GDP per capita (at current market prices) of 116; UK’s GDP is 114 and Bulgaria is lagging behind with GDP of 43. Further comparing the unemployment rates for the same period it is seen that Bulgaria has 10.2% unemployment, which is above the EU average of 9.6%; Finland is below the EU average with 8.4% and UK (Scotland) has the lowest unemployment rate – 7.8%. The expenditure on social protection as per cent of GDP in Bulgaria is lowest 15.1%; and Finland and UK (Scotland) have approximately same expenditure of 25%.

Clients not knowledgeable about the product / service; considering that they can require anything as long as they are paying...