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Working Conditions as a Factor of Productivity in SMEs

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Abstract

The theoretical framework by Diamond, Mortensen and Pissarides (Nobel Award in Economic Sciences, 2010) shows us how generous wages can determine the success in filling job vacancies. The empirical evidence is convincing: larger and more profitable enterprises pay higher wages. Nowadays, large leader companies are investing not only in paying efficient wages to prevent shirking, but also in the improvement of working conditions and even taking a rigorous analytical approach to etiquette. It is a common fact that small and medium-sized enterprises (SMEs) cannot compete in the same way with these high standards. However, recent examples have shown that a suitable work environment, techniques for reducing the stress factors, strategies to create workplaces with a more ethnical diversity and profound benefits for women, as well as the efforts in making the workers feel more liable to their jobs are possible in SMEs and have real benefits for their growth and productivity. At the same time, these approaches could be beneficial for developing countries in a large scale since SMEs play a major role in most of these economies. In this paper, we will conduct a study from the most popular current standards that the best companies promote and suggest some alternatives for SMEs in order to improve these factors.

Keywords: SMEs, working conditions, jobs, investment, current standards

JEL: J24, J30

Introduction

The quality of jobs in small and medium-sized enterprises (SMEs), particularly in developing countries, is often poor (Simon Bell, 2015). However, SMEs play a major role in most emerging economies, since recent studies have shown SMEs contribute up to 60% of total employment and up to 40% of national income (GDP) (Simon Bell, 2015). Small business owners and managers often view the obligation to apply better working conditions to their workers as a burden in terms of financing and administration (Carol Atkinson et al., 2016). As workers in SMEs make up for the majority of the global workforce (International Labour Office/Organization (ILO), 2012), the impact of these barriers on economic productivity and working conditions is crucial for encompassing a global dialogue on universal coverage, economic growth and development.
The effects of psychological, social, cognitive, and emotional factors on the economic decisions of individuals and institutions and the consequences for market prices, returns, and resource allocation have been deeply studied since the Adam Smith’s pioneer work (Nava Ashraf and George Loewenstein, 2005). Even famous and diverse approaches, such as the mathematical work of John Nash (Nobel Memorial Prize in Economic Sciences and the Abel Prize) (John Nash, 1951) or the recent biological studies on animals (Raymond C. Battalio et al., 1981), have shown this is the main point in the economical development and growth.

Social protection, wages, working hours, work organization and arrangements to adapt working standards to the demands of life outside work are core elements which are directly related to this topic (Tom C. W. Lin, 2011). It is a true fact in all countries of the world, the workers in SMEs are probably the most susceptible and most affected by adverse working: low payment, lack of employment security, long working hours, unstable workplaces, lack of social protection and no consideration for a work-life balance (Colette Fagan et al., 2014). Can productivity in SMEs be increased by investing in working conditions? Recent studies have shown better working conditions can improve the performance of SMEs (Richard Croucher et al., 2013). The research discusses some evidence which prove how good practices can have a positive impact in economic enterprise-level outcomes (Richard Croucher et al., 2013).

Nowadays, productive employees are connected with capable entrepreneurs that guarantee better working conditions and pay higher wages (Walter Y. Oi and Todd L. Idson, 1999). The fact is that big enterprises pay efficient wages to prevent shirking (Walter Y. Oi and Todd L. Idson, 1999). They are capable of doing that by making a balance between the actual wages and the costs of the company (Walter Y. Oi and Todd L. Idson, 1999). SMEs need strategies to fulfill their job vacancies and avoid the negligence of worker responsibilities in order to be more competitive and keep the economic growth in the future. This study represents the results (based on a suggested core criteria) in evaluating the current state of knowledge on the relationship between good practices relating to working conditions with feasible and positive outcomes in SMEs based on international references.

1. Core Methodology

A well-recognized Jobs Rated Methodology was developed with the data provided from the Bureau of Labor Statistics (BLS), a division of the U.S. Department of Labor, to measure what the riskiest or most profitable jobs in that country were (CareerCast.com, 2017). The core criteria is based on general categories that are inherent to every job: environment, income, outlook, and stress (CareerCast.com, 2017). We have discussed three core criteria: Environment, Benefits for Women and Diversity. These factors have experienced a certain boom since they have become very popular within the work force in the recent years (Fortune Magazine, 2017). Our methodology will focus on two aspects of each criteria: presenting innovations by large companies in terms of working conditions and suggesting practical strategies for SMEs regarding these subjects.

1.1. Environment

Quotes: “Employees who are felt part of positive workplaces are people who are excited to be part of a larger purpose on SME’s goals” (European Commission, 2013).

Positive aspects in the work environment are essential for workers’ mental and physical well-being (Örjan Hemström, 2001). Frequently, these aspects are focused on social security, including social and health protection as the key areas. Some ranking systems used to evaluate a job’s
environment, consider and measure the physical work environment as one of the basic compo-
nents (CareerCast.com, 2017). However, we have studied some other good working conditions
on this subject based on emotional environments since the Technological Advances have created
more intellectually demanding jobs (theguardian.com, 2015). Nowadays, the following aspects
have risen the companies values in the global market and are viewed as important by the work
force (Fortune Magazine, 2017).

1.1.1. Transparent and Open Communication

This aspect addresses the employees’ need to feel that they belong in the organization. Psy-
chologically, work becomes meaningful for them because they know how their contribution af-
tacts the organization which are affiliated with (Karen K. Myers and Sadaghiani Kamyab, 2010).
It is essential for staff to discuss the organization’s mission and values (Karen K. Myers and
Sadaghiani Kamyab, 2010). This is summarized in exact explaining, from time to time, the cur-
rent situation of the company during retreats, successful outcomes or even informing on the stock
values. This frequent open discussions could get people involved and allow them to share their
views and perspectives while the management can give their own perspectives on how to fulfill
the organization’s goal and mission (Karen K. Myers and Sadaghiani Kamyab, 2010).

Large company strategies. The airline industry is often criticized for rude employees and poor
customer service, but Southwest Airlines overcame those trends (business.com, 2017). Cus-
tomers loyal to Southwest often point to happy and friendly employees who try hard to help (En-
trepreneur, 2015). Southwest has been operating for more than 40 years (business.com, 2017).
During all that time, the company has managed to communicate its goals and vision to employ-
ees in a way that makes them a part of a unified team (Entrepreneur, 2015). Southwest also gives
employees the “permission” to go that extra mile to make customers happy, empowering them to
do what they need to do to meet that vision (Entrepreneur, 2015).

SMEs strategies. Recent research in the UK looked at how well businesses communicate sta-
ff benefits (European Cleaning Journal, 2014). It found an SME with 250 employees that o-
ffers good benefits but fails to communicate them. It spends 302,000 euros a year more on sta-
ff turnover and sickness absence than those that have comparable employee benefit packages, but
also have good internal communication processes (European Cleaning Journal, 2014). Some
SMEs strategies are suggested to face this problem:

Open door policy Encourage an open door policy for all managers so they are more ap-
proachable. Organize the employee workplaces (desks, offices, etc) on different floors inside the
company providing a diverse environments and therefore promoting more interpersonal commu-
nication. Use separate offices for meetings only.

Crisis communications tools Help you deal with emergency communications or to share
information on important priorities. Consider technological approaches such as video conference
calls or traditional ones such as small group meetings to encourage the employees in face-to-face
communication. Suggestion boxes are also a good option in critical or daily situations in the
company, because they enable the employees to raise their concerns and issues anonymously and
can prevent employees’ shirking or quitting if the company is uncapable to manage the appeals.
Technological and traditional tools  Company newsletter is an ideal medium for providing employees with information: including client testimonials, employee success stories and updates on company news, events and strategies. In the same way, create an intranet site to put important information online and update it regularly. Finally, use modern resources on the web such as encyclopedias, shared documents repositories and social medias like forums or chats.

It is optional to use internet or not for this purpose. On the one hand, the development of intranet web sites and multimedia infrastructure could be expensive, but can guarantee some interests for the company such as the security settings and secrecy of confidential issues. On the other hand, companies, using wider internet conditions, engage more work force since younger staff become increasingly switched on to sites like Facebook. At the same time, the traditional and still powerful tools such as posters in areas of high visibility within an office, factory or workplace, can make a useful impact.

1.1.2. Work-Life Balance

When employees fulfill their various needs and goals in life, such as those of family, spiritual pursuits and self-growth, then they can feel more confident and perform their best at work (American Psychological Association, 2010). On the one hand, hiring and expecting the best from employees can easily become a stressor if an enterprise does not allow for good work-life balance. On the other hand, the work-life balance can promote creativity and thinking out-of-the-box. According to many researchers studying the field of employees’ family needs, they agree this is one the most important issue that a working organization faces (United States Department of Labor: Bureau of Labor Statistics, 2017b). In addition, dealing with healthcare and recognition for hard work are also main points in work-life expectations (American Psychological Association, 2010).

Large company strategies.  Google has been recognized for years as the best company providing many of the recent perks in work-life balance (Fortune Magazine, 2017). Just to mention a few of them, Google offers free meals, employee trips and parties, financial bonuses, gym, hairdresser and laundry services (Fortune Magazine, 2017). At the same time, Google is not only famous for luxurious perks, but it also takes a rigorous analytical approach to moral ethics (Fortune Magazine, 2017). Besides, Google boosted its parental leave policies and this has directly impacted its productivity (Fortune Magazine, 2017). Google’s employees are known to be driven, talented and among the best (Business Insider, 2014).

SMEs strategies.  Results from working arrangements in SMEs have proved that the flexibility in this sector is vital. For instance in countries with emerging economies, such as Ireland, it has been estimated that 53% of SMEs operate one or more family friendly work arrangements, although the overall number of employees involved with such measures remains low (Fisher, H., 2000). Some SMEs strategies are suggested to face this problem:

Entertainment policy  Participating in hobbies provides a variety of benefits that extend into the workplace such as developing new skills, new thought processes and really challenges them to learn something new and develop the employee skill set (Fast Company, 2015). Arrange cultural activities (such as music concerts), playing team sports and providing indoor or outdoor colleague meetings such as parties or trips to enjoy the nature, camping, fishing or simply going to the beach. But mostly, try to involve the employees directly just by making them protagonists and possible organizers on these activities.
**Physical activity** Employee sickness and absence is a great expense for business. For example, 175 million working days were lost to illness in 2006 and 3 percent of people were off work due to illness frequently (Wayne N. Burton et al., 2005). Promote informal exercise classes for the employees inside the employees’ workplace through inexpensive alternatives such as lunchtime walks or 5 minute of instant recess with dynamic aerobic sessions. Employees who exercise for at least 30 minutes a day, three times a week are 15 percent more likely to have better job performance (Ray M. Merrill et al., 2013). Recent studies based on 618 employees from five SMEs diverse companies prove the exercise practices across these companies effectively improved employees’ health, performance and productivity (Ray M. Merrill, 2013).

**Emotional and subjective support** Psychological theory suggests that rewards are a positive reinforcement that can motivate employees to reach their full potential (Kelly Burton, 2012). This is usually used in organizational behavior management by rewarding employees who make effort in their work (Kelly Burton, 2012). In this way, SMEs cannot compete with large companies as the same level, but the reward here does not have to be monetary in nature (Kelly Burton, 2012). Rewarding employees sometimes even with a simple verbal recognition by the supervisor will give them more motivation (Kelly Burton, 2012). Apart from having a system of monetary rewards, daily interaction can also be a good means of recognizing efforts. Make these in a specific and personal way for the employee to feel that what they do is being taken seriously and appreciated (Kelly Burton, 2012). Organize and invest in teamwork relationships: one of which could be peer-to-peer recognition and reward. Recent researches, taken from over 200,000 employee responses and more than 500 organizations, found that peer relationships are the first factor in employees choosing to go the extra mile (TINYpulse, 2014).

1.2. **Benefits for Women**

**Quotes**: “There is almost universal interest among SME employers in finding out more about the arrangements and in being advised as to what other employer organizations are doing in this context” (Fisher, H., 2000).

SME employers have arrangements applying to female staff to help with childcare (Fisher, H., 2000). These arrangements predominate in those companies with a predominantly female workforce (Fisher, H., 2000). Likewise, very few SMEs have either established formal policies for their staff or have undertaken any formal evaluation of their operation: this subject is not the exception (Fisher, H., 2000). Increasing women education contributes to higher economic growth (OECD, 2012). The increased women education has produced 50% of the economic growth according to the Organization for Economic Co-operation and Development (OECD) over the past 50 years (OECD, 2012). However, there are still factors that directly and negatively impacts women’s participation in the labor force. For example, in the year 2014, the countries in the European Union had the 25% of women being absent from work due to childcare and other family and personal responsibilities, versus only 3% of men (EuroStat, 2014). In this way, efforts to promote gender equality often focus disproportionately on working mothers (Fortune Magazine, 2017). However, parents with young children represent only a portion of the female workforce in developed countries like the US (Fortune Magazine, 2017). For that reason, we propose some other progresses steps which have risen the income and prestige of well-known companies and have motivated their workforce (Fortune Magazine, 2017).
1.2.1. Women (like men)

Recent research found that women employees who said they were treated as full team members regardless of position were five times more likely to plan long-term career at their jobs, compared to colleagues who didn’t feel this way (Fortune Magazine, 2017). In a US survey, women who said they made a difference at their company were 27 times more likely to progress in their workplace (Fortune Magazine, 2017). Women’s management and senior positions have considerably increased in developed countries in recent years such as Canada (Statistics Canada, 2017) and Australia (Workplace Gender Equality Agency, 2016). It is a fact that very competitive economies have invested in professional development and managing positions for women. For instance, in 2016 around 40% of managers were women according to the Bureau of Labor Statistics from US (United States Department of Labor: Bureau of Labor Statistics, 2017a).

Large company strategies. Nowadays, large companies have been focusing on important investments for professional development for women in their working teams. It is not a coincidence that a recognized survey in 2017 shown us the No. 1 company on the list of 100 best workplaces for women from US was Texas Health Resources (Fortune Magazine, 2017). The company helps employees built their academic credentials from the General Educational Development (GED) through graduate coursework (Fortune Magazine, 2017). This programs places a particular emphasis on the specializations for licensed nurses (Fortune Magazine, 2017). These include a one-year residency and mentorship support for new graduates, as well as a flexible career program for mid-career nurses who can continue their patient care while learning new skills (Fortune Magazine, 2017).

SMEs strategies. Gender equality in SMEs is a moral and economic imperative and affects both women and men (Anne Marie and Rina Sen Gupta, 1996). The improvements in women’s working conditions require considerable commitment by development workers and a willingness to cope with the sometimes violent and disruptive consequences of challenging gender privilege (Anne Marie and Rina Sen Gupta, 1996). SMEs need a strong commitment to understanding of the constraints that women often have to overcome, due to the different traditional structural and social expectations and responsibilities of women and men (Syed Zamberi Ahmad and Aifda Mastura Muhammad Arif, 2015). Some SMEs strategies are suggested to concrete actions in order to translate commitments into reality.

Safe and comfortable workplace. Make workplaces safe and free from violence and sexual harassment through policies that guarantee confidential complaints with direct and clear warnings about the moral positions of the company regarding this subject exposing the possible consequences from its violation. Emphasize workplace hygiene, since clean work space is a powerful psychological factor especially for women (Darby E. Saxbe and Rena Repetti, 2010). Involve pregnant and mother of young children in alternative activities inside the workplace gathering them together in motivational meetings, since depression is common in pregnancy and some months in the first postpartum year (Norma I Gavin et al., 2005).

Empowering jobs. Connect women’s work to the overall mission on endorsing promotions, making them feel part of the company’s success. Support older and young women employees: visible patterns regarding professional and experienced women can help the younger ones to remain in the workplace longer. Promote well-paid jobs for women in realistic analysis of their talent and proficiency. At the same time, involve professionals women in the discussion and
participation in panels, conferences and training at the enterprise. Since women are very good communicators (William Labov, 2006), involve experienced and talent proven women inside the directive board.

**Unveil the myths**  
Change the employees’ minds on policies and open announcement of women support by the organization. Promote this indoors and outdoors. Inform the investors how good quality conditions for women enforce economic productivity, since it produces better performance for all employees in a long term (Fortune Magazine, 2017). Emphasizing this is also valid for SMEs, exhibit how these policies have been main points in current economic growth in developing countries, where SMEs play a vital role (Pierre-Richard Agenor and Otaviano Canuto, 2015). Put poster in public places regarding positive examples of intellectuals and businessmen supporting female workforce (Financial Times, 2015). Work on effective advertisement from the higher directives promoting talented women as an economical imperative for the organization (Nissan Motor Corporation: Global Newsroom, 2017).

1.3. **Diversity**

**Quotes:**  
“Reality is that world today is more diverse than it was 20 or even 10 years ago, making diversity policies more necessary than ever before for all companies, regardless of their size” (European Commission, 2016).

Nowadays, ethnic diversity management integration constitutes a major challenge (European Commission, 2016). Even post-graduate certificate or degree programs in management careers have started to focus some of their programs specifically on diversity and inclusion in business organization (Tufts University, 2017). Ethnic diversity has presented a growing presence in modern sectors such as IT, pharmacy and the media (Fortune Magazine, 2017). It is a fact that professional and qualified migrants represent a considerable economic contributions for local or regional economies (Max Nathan, 2013). Those migrants who later form foreign-owned businesses are notably changing globally economies (Laura Alfaro et al., 2006). Although these current tangible advantages can determine the economical growth of developing countries, the ethnic origin is still the most common form of discrimination in regions such as Europe (Eurobarometer, 2007). Nevertheless, recent news reveal China has set up a 10 billion euro (US$11.15 billion) investment fund to finance projects in Central and Eastern Europe (Asia Times, 2016). It is vital then for SMEs to address the diversity management which confronts these challenging circumstances and enables beneficial opportunities supporting their economical growing.

**Large company strategies.** The PricewaterhouseCoopers (PwC) is a company which consists of audit, tax and advisory businesses. The company’s global revenues were $37.7 billion in gross in 2016 (PwC, 2017). The company was recognized by The European Diversity Awards as the “Most Inclusive Employer of the Year” in 2015 (European Diversity Awards, 2015). The company’s policy was based on promoting dialogues, respect and tolerance about the inclusion inside and outside the company (European Diversity Awards, 2015). This has attracted the working force, assuring the productivity and income, since they guarantee a respectful work environment (European Diversity Awards, 2015). This good example of success joined with the diversity has gained followers among CEOs and Chairmen around the world (Richard J. Kramer, 2017).

**SMEs strategies.** Since the future point to this direction, there are many initiatives in promoting diversity in SMEs (Up2Europe, 2016). However, we need to go further since there is still tension about this topic in SMEs (Sara Carter et al., 2013). In July 2017, a report by Aldermore found
that 26% of SMEs have no plans to make workforce diversity a priority for their organization in the next 12 months inside the UK (Aldermore, 2017). We propose some aspects for SMEs which can help to build diversity into their organizations without causing significant costs.

**Team integration** Facilitate the adaptation to the culture of the employer’s country through dynamic interchanges between foreigners and native employees. Utilize the English as the principal language for the foreign beginners within the first months inside the organization. Involve foreign individuals from the enterprise as mentors for juniors and native employees. Empower foreign or non-white employees to have the chance for applying to management positions after proven experience and high skilled values.

**Recruitment operation** Provide interviews in English for foreign applicants. Use a range of recruitment channels with different languages such as using simple online web sites which clearly expose the reference to the skills needed. Use psychological alternatives so that a non-native applicant may feel comfortable during the interview sessions. For instance, start with short introductions asking about the homeland and point out the positive aspects of its culture even if these were covered in the curriculum. Furthermore, provide indispensable employment requirements such as visa appliance or health insurance.

**Respect and tolerance policies** Researches stress that, while discourses on ethnicity and nationality are shown as “fluid” by some SMEs, there is indeed tension and conflicts associated with such diversity (Helen Kopnina, 2004). In this way, avoid as much as possible the judgement or segregation in case of employees inside the company whose efforts have promoted diverse workplaces (The British Psychological Society, 2017). Enable open intercommunication between employees with diverse ethnical and religious cultures. Proceed to take steps forwards against work harassment in case of denouncement.

**Conclusion**

In this paper, we have introduced the core criteria to analyze working conditions as a factor of understanding the SMEs resources and capabilities in this context. We have studied the current strategies that have been developed by the large companies in contrast with SMEs and suggested good tactics for SMEs to counteract and guarantee the enterprise survival. Our starting and ending point was always focused on our proposed criteria which is a compendium of different well-recognized methodologies. Simultaneously, we have shown how these popular metrics have positively impacted in some case studies in order to illustrate the claim:

**Nowadays, work force demands better working conditions regarding Environment, Benefits for Women and Diversity and emerging economies are moving in that direction. The evolution of SMEs in these circumstances does not have a sole purpose of filling job vacancies, but also the guarantee of longer survival, economic growth and remaining competitive.**

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