

---

# Feudal institutions and small business governance: An exploration and comparison

---

**Ronald K. Mitchell and Stephen J. O'Neil**

University of Victoria, PO Box 3045, Victoria, BC Canada V8W 3P4  
Tel: (250) 721-6403; Fax: (250) 721-6067; E-mail: mitch@business.uvic.ca

*Received: 4th November, 1997; Revised: 20th May, 1998; Accepted: 24th June, 1998*

## **ABSTRACT**

*Decision-making institutions evident in today's small businesses display remarkable similarities to medieval feudalism. This paper presents: (1) the institutions of feudalism as applied to small businesses, (2) a theoretical framework as a foundation for explaining obvious parallels, and (3) propositions that furnish a basis for further research.*

## **MANAGERIAL AND POLICY IMPLICATIONS**

- Rationality-based explanations for decision making in small business do not fully account for practice. Much apparently dysfunctional or uninterpretable behaviour can be explained using the theory of small business offered here.
- Comparisons from history suggest a 'promise theory of small business', which utilises the institutions of feudalism (eg 'the law of fiefs') to explain decision-making anomalies in present-day small business.
- Small business owners, managers, and/or employees should — at their earliest convenience — examine their own situations for the presence or absence of small business feudal institutions such as vassalage (eg insidership), homage and fealty, mutual and personal obligation/loyalty, to determine ways to increase trust (promise) and thereby enhance decision making.
- Small business owners, managers, and/or employees should also examine their situations to ascertain the level of incentive alignment to identify ways to increase trust (promise), and thereby enhance decision making.

- A leading indicator that the 'law of fiefs' will affect a small business is the unrelenting need for: (1) face-to-face/hierarchical relationships, (2) submission to superordinate goals, and (3) the necessity to share values and beliefs, *before* decisions are taken.
- A direct implication of a promise theory of small business is that the decision-making behaviours of small business owners, which may appear to be irrational under the 'rational labour' assumptions of modern business, are, in fact, easily interpretable using feudal concepts of small business governance.
- Although the conventional wisdom suggests that for most cases *in order to grow the founder must go*, the promise theory of small business suggests that the use and understanding of feudal institutions (vassalage, homage, fealty, mutual/personal obligation etc) will increase trust and smooth decision making in the early stages of development, and that better coding and diffusion of information will move a small business out of the 'land of fiefs' on a less problematic growth path.
- Educational and community programmes should take account of the need to encourage and support the bilateral/mutual economic relationships that are made possible by utilising the promise model of small business governance.

## **KEY WORDS**

*Small business, governance, feudal institutions*

## INTRODUCTION

The health of small and medium-sized enterprises is vital for future employment and wealth creation in Europe, and in the West in general (Mulhern, 1995). Yet, as academic interest in small and family business research grows, the lack of theories upon which to base scientific inquiry poses a serious obstacle to analysis (Brockhaus, 1994). A search for sources of new insight in the field of small business and entrepreneurship has been called for (Chaston and Mangles, 1997), and an interdisciplinary appeal to 'contributing disciplines' such as history, for example (MacMillan and Katz, 1992: 4) has been suggested. Within these disciplines, key parallels may be observed which shed new light on the effect that time-honoured institutions have upon current assumptions about how small businesses are governed.

For example, those who have worked in a small business are likely to be familiar with a governance situation which, for purposes of this paper, the authors have termed the 'hourglass phenomenon'. Like the grains of sand piled high waiting in turn to pass through the fixed constraints of this ancient time-piece, decisions in a small business pile up waiting for the owner decision maker to pass upon their merit. Some decisions await face-to-face contact with the owner decision maker. Others depend for action upon the status of the requester. Still others are postponed simply to signal continued personal authority or to ensure that particular values or beliefs are respected. What theory of governance can explain this apparently irrational behaviour in small business?

On the surface, behaviour that defies the accepted decision-making norms of efficiency and effectiveness may seem to be irrational (Drucker, 1980; Williamson, 1985). Yet, there is reason to believe that deeper study of social relations might help to explain variations between so-called 'rational' norms, and actual practice in the governance of small business, since social relations are thought to impact the social embeddedness of economic transactions (Granovetter, 1985). This paper explores the extent to which the historically based notions of social relations collectively known as feudalism — for example, the 'law of fiefs' (Boisot and Child, 1988: 509), 'guaranteed loyalty through subinfeudation' (Kornai, 1986), and similar institutions applicable to management — explain the role of owners in the direction of small businesses, and the authority (or lack thereof) of non-owner

employees in the decision-making processes in these businesses.<sup>1</sup>

The debate over the separation of ownership and control, and a discussion of the role and authority of owners versus non-owner managers, resurfaces at regular intervals (Mintz, 1991), as stubborn real-world anomalies continue to challenge accepted explanations that are based in Western rational-legal tradition (Boisot and Child, 1988). Admittedly, with the triumph of contracts over status in Europe at the end of the Middle Ages (Maine, 1986), capitalism is consequently dominated by a set of assumptions that are 'based upon rational labour' (Weber, 1985 (1930): 162). However, in the small business sector the predictions of theories based in the rational-legal tradition are seriously flawed.

For example, Boisot and Child (1988: 509, 511) suggest that the 'unidimensional market-hierarchy continuum' of transaction cost economics is inadequate to explain organisational governance in situations where information processing is constrained by 'undiffused' and 'uncodified' information. Small businesses encounter these same informational constraints due to liability of newness-induced (Stinchcombe, 1965) bounded rationality and opportunism (Williamson, 1985). Feudal governance by social mechanisms that emphasise face-to-face/hierarchical relationships, submission to superordinate goals and the necessity to share values and beliefs (Boisot and Child, 1988: 509) offers a coherent explanation for apparent irrationality in small business governance. First, a framework which describes the impact of social relations on the social embeddedness of economic transactions is discussed. Then, several of the more prominent institutions of feudalism are reviewed, along with their applicability to small business. Finally, propositions are advanced that utilise several key institutions of feudalism to explain governance outcomes, and their implications are discussed.

## RELATIONSHIP-BASED GOVERNANCE OF TRANSACTIONS

Individual interactions form the basis for the relationships upon which social patterns are founded (Giddens, 1989). Two basic concepts affect the nature of such relationships: (1) relationship initiation, and (2) centre of interest. The first concept captures the notion of initiative in a relationship between two individuals. Where only one party to the dyad initiates interaction, this type of initiative

		Interaction Initiation	
		UNILATERAL	BILATERAL
Centre of Interest	SELF	1. Competition	2. Governance
	MUTUAL	3. Planning	4. Promise

Figure 1: Transaction-relationship states as a function of interaction initiation and centre of interest

is termed ‘unilateral’ initiation of interaction. Where both parties to a dyad initiate interaction, this type of initiative is termed ‘bilateral’ initiation of interaction. This construct is a categorical variable, since the source of the initiation of interaction in a relationship can be either one or both parties.

The second concept that helps to determine the nature of individual relationships involves the centre of interest. The centre of interest of parties to a relationship can vary between ‘self’ interest, and ‘mutual’ interest. It appears likely that centre of interest is a continuous variable, with most individuals’ centres of interest focused somewhere between self, and mutual. For theoretical convenience in illustrating a framework, however, the reader is invited to consider the possibility that the centre of interest for most individuals will probably be weighted more heavily toward one polar alternative or the other. Role theory (Merton, 1975) suggests that relationships define roles, or sets of behavioural expectations and cultural understandings. The nature of relationships between individuals transacting within a free enterprise system — characterised by bounded rationality, opportunism, and asset specificity (Williamson, 1985: 31) — may be illustrated as shown in Figure 1.

The initiation of economic interaction by a sole individual in his or her own interest is a fundamental tenet of the free enterprise system. Adam Smith’s notion of the ‘invisible hand’ (Smith, 1922 (1776)) is based upon the premise that unilateral, self-interested action in an economy will redound to the benefit of all, since — due to competition — the presence of bounded rationality and opportunism does not constrain transacting, and, in fact, creates wealth. Box 1 in the figure accordingly characterises this type of relationship as ‘competition’.

Box 2 describes a type of relationship where both parties (for reasons of their own, ie self-interest) enact their bilateral rights and duties through a hierarchy that ‘governs’ transactions that are specific to the parties. In this type of relationship, each party to the transaction takes on responsibilities for initiating interaction. Duties are performed and rights enforced within a self-interested governance system (a hierarchy) that controls the transacting hazards from bounded rationality — opportunism in an asset-specific situation (Williamson, 1985).

Where individuals acting on their own ‘plan’ for the mutual benefit of the parties (Box 3), a morality-based relationship appears. Business ethics scholars have written extensively to articulate the reasons why individuals in economic relationships

might unilaterally plan for and act in a 'socially responsible' manner (Wood, 1991). This type of planning minimises bounded rationality, thus overcoming potential transaction-relationship hazards from opportunism and asset specificity.

Finally, where a relationship is characterised by bilateral initiation, with intendedly mutual benefits envisioned (Box 4), the relationship may transcend the mere contract or moral imperative. The attribute of 'promise' or trust figures highly in this interaction. Much of the work on trust recognises the need for perfect information to replace 'bounded rationality' and control 'opportunism' for mutual ends to be accomplished in bilateral bargaining (Barney and Hansen, 1994; Williamson, 1985: 31). The invocation of 'promise' (eg in the form of reputation) is often considered to be a workable approach. Promise-based relationships are characterised by face-to-face and often hierarchical relationships, submission to superordinate goals, and the necessity to share values and beliefs. Additionally, they are shaped and constrained by the 'undiffused/uncoded' information required to maintain the relationship (Boisot and Child, 1988: 509). Interestingly, Boisot and Child (1988) identify the transaction-governance structure implicated by the promise-based relationship as one based upon 'fiefs', which is most clearly illuminated by an examination of the social relationships of feudalism, within which fiefs play a key role. A deeper investigation of the role of feudal institutions in the governance of small businesses is suggested.

### THE INSTITUTIONS OF MEDIEVAL FEUDALISM

The idea of utilising historically based social forms to aid in the interpretation of present-day realities is not new. In a signal discourse on the middle ages, noted historian Barbara Tuchman casts the 14th century as 'a distant mirror' (Tuchman, 1978) which reflects in its parallelism with the present, poignant insights in making sense of modern predicaments. Tuchman's thesis, that the conditions and problems of the 14th century have much to offer as a new lens for interpreting and understanding the 20th century, is provocative, and suggests a similar approach to understanding and learning to better manage present problems in small businesses. Echoing Tuchman, sociologists also suggest that in pre-industrial social patterns the antecedents of present behaviour forms may be found (Giddens, 1989).

Medieval feudalism arose formally in the 8th century as Charles Martel, Pepin and Charlemagne (the Carolingian emperors), faced with the need of defending and administering an enlarged kingdom, developed the post-Roman customs of Western Europe referred to as feudalism (Stephenson, 1942). Later, as the Carolingian Empire broke into pieces, the resulting disintegration might have continued almost indefinitely to chaos. Instead, the institutions of feudalism solidified to fortify and steady the declining civilisation, where '...only force could successfully resist force' (Johnston, 1914: 16). One of the best examples of the feudal state was England under William the Conqueror and his sons (1066-1135), which was '...not only the strongest but also the most thoroughly feudalised state of Western Europe' (Stephenson, 1942: 84).

Although a multitude of institutions existed as a part of medieval feudalism, 12 feudal institutions are traditionally cited as representative of the social pattern. These include vassalage, homage and fealty, mutual obligation, personal obligation, fiefs, primogeniture, military service, subinfeudation, aid and hospitality, suit to court, seigniorial justice and chivalry (Stephenson, 1942). A brief definition of each is provided in Table 1.

According to Stephenson (1942) the determining factor in the success of feudalism as a governance mechanism was vassalage. 'The peculiar association of vassalage with fief-holding' (Stephenson, 1942: 14) constitutes the working definition of feudal institutions employed in this paper.

Later historians, although disputing the high degree of sharing in property rights that traditional historians assert was enjoyed by a superior, nevertheless continue to accept the notions of personal loyalty and political subjection (eg to the policies of the king), that are implied by vassalage and fief-holding — especially as they relate to the institution of military service (Reynolds, 1994). Recent reinterpretation of the evidence related to fiefs and vassals suggests that several of the more romanticised institutions may not in fact have been as widespread as earlier historians had supposed (Lane, 1995). The exact nature of 'aid and hospitality', 'suit to court', 'seigniorial justice', and 'chivalry', have lately been open to reinterpretation, and have, therefore, been excluded from further analysis for definitional reasons. Further, based upon this more recent historical research, the institution of homage and fealty is applied in a more restricted context (ie as relating to military

**Table 1: Definition of feudal institutions**

<i>Feudal institution</i>	<i>Definition</i>
1. Vassalage	A relationship between members of society based on a highly developed notion of mutual honour.
2. Homage and fealty	Homage is the pledge by a vassal of his entire faith (faithfulness) to his lord, against all men who might live or die, accompanied by the formal acceptance by that lord (which acceptance bound the lord to a reciprocal duty towards his faithful man). Fealty is a sworn oath to serve a lord, with or without homage (fealty did not imply homage, but homage did imply fealty).
3. Mutual obligation	Although the lord took no oath of fealty, he pledged himself to a great deal by accepting the homage of a vassal. The institution of mutual obligation was at the core of the feudal ideal of 'honour'.
4. Personal obligation	The mutual rights and duties of vassalage were the 'personal' responsibility of each party to the relationship. The term 'felon' arose to label and identify the faithless (dishonourable) lord personally, as well as the faithless vassal.
5. Fiefs	Benefices (special remuneration for services) of vassals, held on condition of military service.
6. Primogeniture	The rule that a fief should pass intact to the eldest son, based upon common acceptance that a fief was legally indivisible.
7. Military service	The logical consequence of the supporting institutions of vassalage (homage, fealty, and personal obligation) meant that vassals had the responsibility 'in person' to defend the lord against adversaries.
8. Subinfeudation	The granting of a subsidiary fief in exchange for homage and fealty (used in a non-cash economy to ensure the reliability of military service).
9. Aid and hospitality	One of the basic obligations of vassals, which required payments to, or the 'no cost' entertainment of, the lord and his retainers. Originally open-ended, it was subsequently limited to minimise abuse by the lord.
10. Suit to court	In the reciprocal relationship of honour between lord and vassal, the lord did not set, define, or change laws. This was the function of the 'court', or set of vassals who declared, according to custom, the law under which they lived.
11. Seigniorial justice	The right to administer justice appertaining to the holding of a fief.
12. Chivalry	The system of rights and duties that supported the creation and perpetuation of the warrior class (the reliability of military service through vassalage). This system required those destined for vassalage (heirs and warriors who would do homage and swear fealty) to undergo arduous training, and to practise (among others) the virtues of bravery, prowess, valour, and fidelity.

*Source:* Stephenson (1942).

service). Also, Reynolds' (1994) reinterpretation suggests the level of serfdom to be substantially lower than traditionally asserted, with most people under the feudal system (between AD 500 and 1300) expecting to have full rights of property in their land, for example (Reynolds, 1994).

Several vassalage/fief-based institutions — as applied in the context of small business governance — appear to have an explanatory role in theory development. A preliminary small business inter-

pretation based upon observations garnered throughout a combined 40 years of experience by the authors is suggested in Table 2.

The reader is invited to note that not all of the key feudal institutions presented in Table 2 are expected to be found in any given small business; but that these institutions tend to be more present than they are absent. The implications of this comparison for small business theory are discussed briefly in the following paragraphs.

**Table 2: A comparison: feudal institutions in small business**

<i>Feudal institution</i>	<i>Definition</i>	<i>Small business application</i>
1. Vassalage	A relationship between members of society based on a highly developed notion of mutual honour.	A relationship with an 'insider', usually one who will inherit or gain some type of ownership or control over all or a portion of the business.
2. Homage and fealty	Homage is the pledge by a vassal of his entire faith (faithfulness) to his lord, against all men who might live or die, accompanied by the formal acceptance by that lord (which acceptance bound the lord to a reciprocal duty towards his faithful man). Fealty is a sworn oath to serve a lord, with or without homage (fealty did not imply homage, but homage did imply fealty).	Homage: The non-standardized, formal or informal, pledge of loyalty by certain employees (sometimes family members) to the owner(s) of the business.  Fealty: Merely providing expected performance in the employer-employee relationship.
3. Mutual obligation	Although the lord took no oath of fealty, he pledged himself to a great deal by accepting the homage of a vassal. The institution of mutual obligation was at the core of the feudal ideal of 'honour'.	The acceptance of reciprocal responsibility between owner(s) and 'insiders' for the personal welfare of the other. Seen in small business in the form of 'loyalty', which is often expected of employees by owners, but (under the norms of the free enterprise system) is not necessarily reciprocated. In modern small business, there appears to be no direct parallel except where family or kinship binds the relationship more tightly.
4. Personal obligation	The mutual rights and duties of vassalage were the 'personal' responsibility of each party to the relationship. The term 'felon' arose to personally label and identify the faithless (dishonourable) lord, as well as the faithless vassal.	The frequent repetition of the (1) personal commitment to, and (2) willingness to serve owners by 'insiders', most often accomplished through the 'access' of insiders to owners — which obviously becomes a point of friction among competing 'vassals'.
5. Fiefs	Benefices (special remuneration for services) of vassals, held on condition of military service.	Power bases within small businesses maintained by those who are viewed (or wish to be viewed) as 'insiders'.
6. Primogeniture	The rule that a fief should pass intact to the eldest son, based upon common acceptance that a fief was legally indivisible.	The repudiation of 'eldest son inheritance' in modern society wreaks havoc in small businesses, which lose most of their value if not preserved intact, and have consequently become a 'battleground' where succession and (related to kinship and partially to succession) nepotism issues are critical.
7. Military service	The logical consequence of the supporting institutions of vassalage (homage, fealty, and personal obligation) meant that vassals had the responsibility 'in person' to defend the lord against enemies.	The responsibility to defend the owner/business against all 'adversaries' in the competitive marketplace.
8. Subinfeudation	The granting of a subsidiary fief in exchange for homage and fealty (used in a non-cash economy to ensure the reliability of military service).	Analogous to the 'delegation of responsibility and authority' in business, except that in the free enterprise system few mechanisms exist to ensure 'promise' by either party (eg small business owners are free to undercut their delegates; and conversely 'insiders' (even family members) do not suffer the consequences of failed delegation as severely as do owners). Subinfeudation succeeded because of the incentive alignment made possible by a pre-existing manorial organisation that is absent in modern non-family business, and in such cases is only partially ameliorated by employee ownership and/or incentive programmes, relying instead upon the promise-based family relationships, which themselves depend for their veracity upon a common history.

### A PROMISE THEORY OF SMALL BUSINESS

Liabilities of newness — as noted earlier in this paper — tend to shape and constrain decision making in small business because roles are not defined, relationships therefore suffer, trust is absent, and stakeholders are difficult to attract and hold (Stinchcombe, 1965: 148–150). Transaction cost theory suggests that ‘promise’ and ‘opportunism’ are substitute states in situations of uncertainty and frequency of transacting, where boundedly rational economic relationships involve asset-specific transactions (Williamson, 1985: 31). In medieval society, the institutions of feudalism more recently referred to as the law of *ficfs* (Boisot and Child, 1988) developed to ensure a workable system of promise. Suggestions for a promise theory of small business arise where present practice can be seen to comply with past (fief-like) patterns, as well as where no such compliance may be observed.

#### Compliance of practice with past patterns

As shown in Table 2, the parallels between feudal institutions and behaviours that may be observed in small business are quite striking. Vassalage (insidership) with its modern versions of homage and fealty, personal obligation, and the holding of fiefs (eg ‘kingdom-building’) are readily observable within small businesses. Insidership, homage/fealty, mutual and personal obligation are each thought to engender trust, which promotes decision making (Barney and Hansen, 1994). The notion of ‘military service’ when viewed as the vigorous defence of the business against competitors in the marketplace might clarify, for example, why the sales department in small business is sometimes preferred above the regular operating and production staff in an owner decision-making situation. It is little wonder in the light of the feudal institution of primogeniture, that — when applied to small and family business — the preoccupation of insiders/family (vassals) with succession (fief holding) has been the main focus of many small/family business researchers. These observations suggest:

- *Proposition 1*: There is an association between compliance with feudal institutions, and governance processes in small business as follows:
  - *Proposition 1a*: There is a positive association between insidership, homage/fealty, mutual and personal obligation, and trust in owner decision making.

- *Proposition 1b*: There is a positive association between acts of loyalty, and trust in owner decision making.
- *Proposition 1c*: There is a positive association between access to owners, and trust in owner decision making.
- *Proposition 1d*: There is a positive association between ‘acts of competitive service’ (eg winning sales), and trust in owner decision making.
- *Proposition 1e*: There is a negative association between concerns over succession (primogeniture) and trust in owner decision making.

#### Non-compliance of practice with past patterns

Of additional interest are the areas where certain of the feudal institutions that maintained ‘balance’ in the feudal social system are absent from small business social systems. For example, there seems to be no direct parallel — at the same level of mutual commitment — to the feudal institution of mutual obligation, except where family or kinship ties bind the relationship more tightly. This same observation may also be made with respect to the institution of subinfeudation. As noted in Table 2, in the free enterprise system few mechanisms exist to ensure ‘promise’ by either party — for example small business owners often undercut delegates; and conversely, ‘insiders’ (even family members) do not suffer the consequences of failed delegation as severely as do owners. In the middle ages, subinfeudation succeeded because of the incentive alignment made possible by a pre-existing manorial organisation (Stephenson, 1942) that is absent in modern non-family business, and is only partially ameliorated by employee ownership and/or incentive programmes. It is further expected that:

- *Proposition 2*: There is an association between non-compliance with feudal institutions, and problems with governance processes in small business as follows:
  - *Proposition 2a*: There is a negative association between an absence of insidership, homage/fealty, mutual and personal obligation, and trust in owner decision making.
  - *Proposition 2b*: There is a negative association between acts of disloyalty, and trust in owner decision making.

It has also been argued that in businesses where the incentives are aligned, the ‘agency problem’

(Jensen and Meckling, 1976; Rubin, 1990) is reduced. One of the most highly recommended mechanisms for aligning incentives is employee stock ownership. Employee stock ownership is somewhat analogous to the feudal institution of fief-granting in exchange for the pledge of homage and fealty. Thus,

— *Proposition 3:* There is a positive association between incentive alignment and trust in owner decision making.

Finally, it might be observed that the correspondence between feudal institutions and the social arrangements that are in evidence in small businesses is not likely to be one-for-one. As a result, several variations in the application of feudal institutions to small business might be expected, which suggests:

— *Proposition 4:* Homage in small business is expected to be associated with dysfunctional (sycophantic, access-obsessed etc) behaviour by vassals.

— *Proposition 5:* Insiders (vassals) will evidence higher commitment to promise than will non-insiders.

Of course, the foregoing propositions are not intended to be an exhaustive list of the implications of the theory. They do, however, serve as a starting point for empirical investigation. Based upon these propositions, several implications for the use of a feudal metaphor as the basis for a promise theory of small business are suggested.

## DISCUSSION AND IMPLICATIONS

The example of the 'hourglass phenomenon' cited at the beginning of this paper may in itself be unremarkable, except that well over half the jobs in Western economies (Australia, Canada, the EU, Japan and the USA) are held by people working in small business (Fitzgerald, 1997; Howard, 1997; Mulhern, 1995; SBA, 1997; StatsCan, 1997; Wijewardena, 1995), each of whom is daily impacted by the idiosyncrasies of this unique decision pattern. Under the 'hourglass' decision pattern, action seems to be held hostage to face-to-face contact with the owner decision maker, the status of the requester, the need to signal continued personal authority, or to the assurance that particular values or beliefs are respected. Since the hourglass phenomenon is pervasive, persistent, and not under-

stood, it presently stands as an obstacle to entrepreneurs who try to build system as they try to delegate (Stevenson *et al*, 1994: 529) to keep up with growth. In the experience of the authors, the hourglass phenomenon seems to defy many types of attempts at organisational amelioration, including teams, flat organisations, matrix management structures, and traditional hierarchies, because these changes in organisational structure fail to address the key issues. Management scholars continue to bemoan this phenomenon when they pose questions such as: 'In order to grow, must the founder go?' (Willard *et al*, 1992). In short, a new way of viewing the governance of small business is needed that explains and can guide behaviour in small business 'kingdoms'.

'Uncoded' and 'undiffused' information in small businesses results in a unique information processing profile analogous to that of 'fiefs' (Boisot and Child, 1988: 509). The authors argue that in these situations, promise and trust are needed to facilitate better decision making. An appeal to the time-honoured institutions of medieval feudalism illuminates fief-based governance structures, suggesting ideas for theory and practice. Further, because of the unique information processing profile of fiefs, feudally based promise notions appear to be more important in the small business arena, than in the case of larger more developed businesses where better coding and diffusion of information exists. Although perhaps apparent only to readers with small business experience, the parallels between the institutions of feudalism cited herein, and the simple and practical patterns presently utilised in operating many businesses, are striking, and offer an alternative to the 'rational labour governance' metaphor that has seemed for so long to be the default alternative, and which suggests that for a small business to grow (for example) the removal, rather than the understanding of, the 'owner-royalty' of today's small businesses is the first option to be considered.

However, lest the obvious failings of one metaphor are discarded too quickly, only to adopt the possibly less obvious failings of another, certain weaknesses in making the comparison attempted in this paper should be noted. First, although well studied by historians, the characterisation of the feudal system utilised is at best an interpretation of a dynamic system, and as such may have missed much of the richness, and (as in any summary) many of the subtleties of the system as it actually existed. Such subtleties continue to be identified



and brought into scholarly consciousness (eg Reynolds, 1994). Secondly, the characterisation of the feudal system used herein is — due to space constraints — simplified, for just as there is no one small business system, certainly it cannot be said that there was any one feudal system (Lane, 1995).

These weaknesses notwithstanding, there does seem to be merit in the consideration of a promise-based alternative metaphor for the interpretation of small business. Where present practice complies with feudal patterns, then insights from the parallels may aid in the interpretation of otherwise uninterpretable phenomena. For example, where poorly performing ‘loyal’ employees are less likely to receive disciplinary action by owner-managers than are better performing employees whose loyalty is in doubt (or even merely unknown), improvements become possible. By understanding that this decision pattern results from the feudal/promise-based institutions of vassalage, homage, and personal obligation, behaviour can be predicted, and steps taken either to adjust accordingly, or to improve the coding and diffusion of information thereby effecting change by eliminating the need for such preferential behaviour.

Where present practice is not in compliance with feudal patterns (ie where there is no, or no strong, analogue of feudal institutions in modern small business), suggestions may be even more profound. For example, in the experience of the authors, mid-level managers in small and medium-sized businesses invariably complain of being circumvented by subordinates who obtain approvals directly from business owners, who themselves — although aware of the prerogatives of the mid-level manager — deal directly with subordinates and persistently disrespect mid-manager prerogatives. By understanding that this decision-making pattern arises as a direct violation of the fief/promise-based institution of subinfeudation (it is not present but should be), both owners and employees can come to understand the costs of remaining in an uncoded undiffused information environment without the clear grant of a fief (subinfeudation), or alternatively put a high priority on improving the coding and diffusion of information to achieve new benefits. Where the ‘promise’ relationship is not as much in evidence as might be desired, certain ‘enablers’ of subinfeudation, mutual obligation etc (such as trust-building, free flows of information, education, shared rewards) might be emphasised, while the ‘dis-

enablers’ (fear, insecurity, lack of information or knowledge, rivalries) might be de-emphasised.

To accomplish the increased levels of understanding and emphasis needed, educational and community programmes must take account of the need to encourage and support the bilateral/mutual economic relationships that are made possible by utilising the promise model of small business governance. To be effective, these programmes should explain and thereby legitimise the simple and efficient fief structure of small business governance, which in turn should reduce the frustration of those engaged in small business enterprises, facilitate smoother and better decision making, and aid in enterprise development.

In conclusion, the comparisons made suggest a different view of the small business. As a ‘promise system’ that utilises feudal-like institutions to govern in an information-lean environment, the small business depends upon very specialised relationships with its stakeholders. Decision making in these relationships is managed by owners using the simplicity of fief-like institutions which are employed to overcome liabilities of newness — lack of role definition, poorly defined relationships, lack of trust, and incomplete links with stakeholders (Stinchcombe, 1965: 148–150). The primary advantage of the use of feudal institutions to interpret behaviour in small business is that they simply reveal the *salience* of internal stakeholders — how power in small businesses is legitimised and utilised in urgent decision-making situations (Mitchell *et al*, 1997).

This approach raises several questions for future consideration. How should the bilateral, mutual stakeholder relationships that depend upon, but also foster promise be encouraged, so that the governance of small businesses will be more effective, and more satisfying; and so that primary stakeholder groups (Clarkson, 1995) will remain loyal? How can the articulation of company philosophy statements, the use of small business ‘constitutions’, and the communication by ‘owner-kings’ of their standards and values, be used to improve ‘life in the kingdom’? Further, how can such information coding and diffusing mechanisms for small businesses be encouraged? At a time when ‘big’ business is repudiating its commitment to ‘loyal’ employees in its quest (through downsizing) for economic viability, does the promise-based example of small business (viewed with a feudal metaphor) offer a better-understood decision-making pattern to the ever growing portion of our society

that now lives and works under the institutions of small business governance? A promise theory of small business suggests many such questions and possibilities for enterprise development, and the further exploration and testing of this somewhat novel — but hopefully useful — theoretical framework.

## NOTE

(1) Approximately 30 years ago an exploration of this type was utilised to analyse the 'big business' setting (Jay, 1967). Using feudal notions, Jay productively explored such phenomena as the 'great consolidations' (p. 31), 'territorial delineation' (p. 32), how the expression of personal needs of powerful corporate executives influences decision making (p. 33), and suboptimisation in the large corporation due to 'baronial wars' (pp. 35–42). While acknowledging the value of such a comparison in the setting of large organisations, the authors nevertheless suggest that Jay's analysis impacted but few individuals. As documented later in the article, the application of feudal principles to the small business setting, however, has the potential to provide greater understanding for an expanded audience.

## ACKNOWLEDGEMENTS

The authors gratefully acknowledge the intellectual and financial support of Fritz Faulhaber, and the helpful comments of the reviewers and editor.

## REFERENCES

- Barney, J. B. and Hansen, M. H. (1994) 'Trustworthiness as a source of competitive advantage', *Strategic Management Journal*, 15.
- Boisot, M. and Child, J. (1988) 'The iron law of fiefs: Bureaucratic failure and the problem of governance in the Chinese economic reforms'. *Administrative Science Quarterly*, 33 (4).
- Brockhaus, R. H. (1994) 'Entrepreneurship and family business research: Comparisons, critique, and lessons', *Entrepreneurship Theory and Practice*, 19 (1).
- Chaston, I. and Mangels, T. (1997) 'Core capabilities as predictors of growth potential in small manufacturing firms', *Journal of Small Business Management*, 35 (1).
- Clarkson, M. B. E. (1995) 'A stakeholder framework for analyzing and evaluating corporate social performance', *Academy of Management Review*, 20 (1).
- Drucker, P. F. (1980) *The effective executive*, New York: Harper and Row.
- Fitzgerald, N. (1997) 'Tomorrow's Europe', *European Business Journal*, 9 (3).
- Giddens, A. (1989) *Sociology*, Cambridge: Polity Press.
- Granovetter, M. (1985) 'Economic action and social structure: A theory of embeddedness', *American Journal of Sociology*, 91 (3).
- Howard, J. (1997) 'Bell starts government running', *Australian Accountant*, 67 (4).
- Jay, A. (1967) *Management and Machiavelli*, Holt, Rinehart and Winston, New York.
- Jensen, M. and Meckling, W. (1976) 'Theory of the firm: Managerial behavior, agency costs, and ownership structure'. *Journal of Financial Economics*, 3.
- Johnston, R. M. (1914) 'General introduction,' in W. A. Nielson (ed) *Lectures on Harvard Classics*, P. F. Collier & Son, New York.
- Kornai, J. (1986) 'The Hungarian reform process: Visions, hopes, and reality', *Journal of Economic Literature*, 24.
- Lanc, S. G. (1995) 'Book review: Fiefs and vassals: the medieval evidence reinterpreted', *The Medieval Review*, 12 (1).
- MacMillan, I. C. and Katz, J. A. (1992) 'Idiosyncratic milieus of entrepreneurial research: The need for comprehensive theories', *Journal of Business Venturing*, 7.
- Maine, S. H. S. (1986) *Ancient Law*, University of Arizona Press, Tucson, AZ.
- Merton, R. K. (1975) *On Theoretical Sociology*, The Free Press, New York.
- Mintz, B. (1991) 'Book review: A family business? The making of an international business elite, by Jane Marceau', *Administrative Science Quarterly*, 36 (1).
- Mitchell, R. K., Agle, B. R. and Wood, D. J. (1997) 'Toward a theory of stakeholder identification and salience: Defining the principle of who and what really counts', *Academy of Management Review*, 22 (4).
- Mulhern, A. (1995) 'The SME sector in Europe: A broad perspective', *Journal of Small Business Management*, 33 (3).
- Reynolds, S. (1994) *Fiefs and vassals: the medieval evidence reinterpreted*, Oxford University Press, Oxford.
- Rubin, P. H. (1990) *Managing business transactions*, The Free Press, New York.
- SBA (1997) *SBA Strategic Plan*, Small Business Administration, Washington, DC.
- Smith, A. (1922 (1776)) *Wealth of Nations*, J. M. Dent & Sons, London.
- StatsCan (1997) *Small Business Overview*, Statistics Canada, Ottawa, Ont.
- Stephenson, C. (1942) *Mediaeval feudalism*, Cornell University Press, Ithaca, NY.
- Stevenson, H. H., Roberts, M. J. and Grousbeck, H. I. (1994) *New Business Ventures and the Entrepreneur*, Irwin, Homewood, IL.

- Stinchcombe, A. L. (1965) 'Organizations and social structure', in J. G. March (ed), *Handbook of Organizations*, Rand-McNally, Chicago.
- Tuchman, B. W. (1978) *A distant mirror: The calamitous 14th century*, Knopf, New York.
- Weber, M. (1985 (1930)) *The Protestant Ethic and the Spirit of Capitalism*, Irwin, Boston, MA.
- Wijewardena, H. (1995) 'Determinants of growth in small Japanese manufacturing firms: Survey evidence from Kobe', *Journal of Small Business Management*, 33 (4).
- Willard, G. E., Kreuger, D. A. and Fecser, H. R. (1992) 'In order to grow, the founder must go: A comparison of performance between founder and non-founder managed high-growth manufacturing firms', *Journal of Business Venturing*, 7 (3).
- Williamson, O. E. (1985) *The Economic Institutions of Capitalism*, The Free Press, New York.
- Wood, D. J. (1991) 'Corporate social performance revisited', *Academy of Management Review*, 16 (4).

**Ronald K. Mitchell** received his PhD from the University of Utah. A past recipient of the Academy of Management Edgar F. Heizer Award for Outstanding Research in the Field of Enterprise Development, he leads the small business and entrepreneurship program in the Faculty of Business at the University of Victoria, BC, Canada. His research utilises expert information processing, organisational economic, strategy and stakeholder theories to study entrepreneurs, ventures and the venturing environment.

**Stephen J. O'Neil** is an executive in the electronics industry. He received his Masters degree in mediaeval economic history from Marquette University and his PhD from Loyola University of Chicago. His research interests centre on understanding the organisational issues that affect long-term competitiveness in the small business environment. He is currently at 14881 Evergreen Avenue, Clearwater, Florida 33762-3008; Tel: 727 572 0131; Fax: 727 573 5918; E-mail: [steve.o'neil@micromo.com](mailto:steve.o'neil@micromo.com)