EMERGENT STRATEGIES FOR BUSINESS DURABILITY OF SMALL FIRMS

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ABSTRACT

There is little information regarding how, or whether, small-firm owners use their own and their management team's skills and experiences as part of a strategic approach to achieving business goals, durability and, if desired, growth. It would appear that firms which do utilize a strategic approach, however informal, are more likely to endure.

To investigate the proposition further, this paper focuses primarily upon strategic human resource management (HRM) in small firms, arguing that the efficient use of labour in small firms is a critical activity for such firms to achieve durability and if desired, growth. This paper will, therefore, briefly consider the debates surrounding design school and emergent strategies; examine the role of strategic HRM within the enterprise.

The need for strategic awareness is appreciated by the majority of small-firm owners and managers; the challenge is in developing the capacity to act strategically. If strategic activity is emergent, flexible and adaptable, smaller firms can utilize a strategic capability to contribute towards firm durability. There is considerable scope for advisers to promote a strategic approach to the management of labour to maximize the productive capacity of employees.

Keywords: Business Durability, Emergent strategies, Small-Firm, Strategic Human Resource Management, Design School Approach.

I. INTRODUCTION

Small firms have made a substantial contribution to net job creation (Gallagher et al., 1990), but as a group remain highly susceptible to the vagaries of the economic climate. Evidently, the majority of small firms are destined for a short, volatile life, where relatively few achieve a durable existence, and even fewer achieve substantial growth. Despite the considerable resources invested in analyzing and investigating small-firm behaviour, the heterogeneity of the sector makes it difficult to identify a single, prescriptive approach which small firms might follow to attain greater security and success. It is, however, possible to identify critical areas of managerial activity which underpin firm durability and growth, and through analysis and empirical study of such activity offer "good practice" examples of such to guide the development of appropriate management competence. Drawing from a number of sources (Training Commission, 1988; Collin, 1989; Woodruffe, 1991), the essence of competence can be defined as the ability to utilize skills and knowledge in a work activity which can be accessed through performance. There is recognition of the value of tacit knowledge based on experience, which can be distinguished from formal knowledge, indicated by qualifications. Investors in People (1995) define competency, however, as `the proven ability to perform to standards required in employment' (p. 41). Hence, varying levels of competence are present in any viable enterprise, whereas competency can be demonstrated by the attainment of an accredited standard of performance such as that designated within the Management and Enterprise National Training Organization (MENTO), previously the Management Charter Initiative. MENTO was established with the `primary aim to establish a generic set of standards and qualifications based upon areas of activity the majority of managers would be expected to perform competently (Doyle, 1997: 434). Such programmes have been criticised for being overly functional and behaviourist (Stewart and Hamlin, 1992) and also, bureaucratic, simplistic and static (Canning, 1990). Despite the controversies surrounding the issues, the notion of competence and competency is useful for small-firm owners and managers. While they are less likely than their larger firm counterparts to under- take formal qualifications for a number of reasons, for example, cost or time (Stanworth and Gray, 1991), they will have a range of tacit skills and experiences which can then be recognized and valued through notions such as competence. Moreover, Kandola (1996) argues that competencies are now firmly established as the basis of a strategic approach (p. 21).

HRM is a managerial strategy which focuses upon the individual employee with the intent of gaining compliance and commitment to the labour process. This may involve training and developing employees to gain new skills and qualifications generating autonomous commitment to the firm (soft HRM) or subjecting individuals to repressive forms of labour discipline through supervision and contract to ensure compliance (hard HRM). In essence, labour should be perceived as a resource to be efficiently managed to gain competitive advantage. An essential element of HRM is its integration into the wider strategy of the organization. Thus, employees must be re- evaluated as a strategic resource (rather than a production cost) for achieving strategic advantage.

The managerial focus within this paper is upon strategic HRM and is adopted for a number of reasons:

- As modern economies has become more volatile since the 1980s (Worthington and Britton, 1997), it has been argued that employees are the most important resource in the firm, so should be perceived as a resource to develop rather than a cost to control (Mabey and Salaman, 1995). So adopting the most efficient and appropriate managerial strategy for the use of labour is critical for firm performance.
- Much of the contemporary debate around issues of labour management has focused upon the development of an HRM approach and the embeddedness of such within company strategy. It is argued that for labour management initiatives to fulfill the remit of HRM there must be indication that the process is utilised at a strategic level (Mabey and Salaman, 1995; Sparrow and Marchington, 1998; Bratton and Gold, 1998).
- Given the volatile existence of many small firms, it would be expected that adopting some kind of strategic approach to managing labour, would be desirable and advantageous to firm survival and stability.

- Within the remit of this paper, it is not possible to discuss every management function within the firm, so strategic HRM, an area which has generated considerable debate and is deemed to be a critical activity within the firm, is the primary focus.

II. THE DESIGN SCHOOL APPROACH

Until the early 1990s, the dominating theoretical context for the study of strategic management was that of the design school. In essence, the design school approach suggests that an enterprise, through the correct use of models which analyse internal and external business environments, can formulate and implement business strategies which will secure the successful development of the firm (Ansoff, 1979). However, there are a number of fundamental issues pertaining to smaller firms which question the applicability of this approach to their development. The models are not simple, requiring sophisticated management knowledge and skills in conjunction with considerable understanding and experience of the market environment within which the business operates.

Consequently, the design school approach is often deemed inappropriate to all but a few small businesses, as most rarely have:

- The time to invest in sophisticated strategic planning techniques;
- The knowledge to formulate such strategies;
- The ability to forecast the security of their product, market or labour force in the longer term;
- The funding necessary for the changes/developments which strategic planning can entail;
- The scale benefits that would compensate for the significant outlay in terms of money, time and other resources;
- Management expertise to develop strategic awareness.

As such, the underlying theme within strategic management has been the notion of a long-term vision developed by the most senior directors of large firms. This vision is translated into a `plan' to be actioned by professional, functional management with an assumption of a shared body of knowledge and vision among the management team. To develop an effective strategy requires considerable insight into the potential for the firm's products within the market, an ability to forecast change in markets, an in-depth knowledge of the external environment in which the firm presently operates, plus managerial talent to trans- late such knowledge into coherent policy.

III. THE EMERGENT STRATEGY ‘CRITIQUE’ AND THE SMALL FIRM

The idea that strategy is not an exact science has, for some time, found support within academic literature. Even in 1959, Lindblom suggested that there was a `science of muddling through', involving the cautious comparison of successive options and careful maintenance of consensus. This was given indirect support by the approach of Cyert and March (1963) on `bounded rationality', where it was argued that managers have a limited ability to appraise all factors pertaining to the business process and have neither the time nor the will to gain all this information.

There are a number of characteristics and circum- stances associated with the small-firm sector that ensure a degree of compatibility with this emergent approach. Given the heterogeneity of the sector, it is unfeasible to argue that all firms will share the same characteristics and circumstances, but some generic differences between the behaviour of large and small business can be identified, in that smaller firms are more likely to display:

Informal learning-- owner-managers are likely to have acquired most of their business skills and experience `on-the-job'; management is less likely to have engaged with formal training and development schemes. Thus, competence in task performance will be foremost rather than formal qualification, this can lead to a narrow outlook with little external input but also, to a profound understanding of how the firm works and its immediate operating environment.

Management tasks-- owing to the probability that small firms will not offer similar remuneration packages or promotion hierarchies to those available in larger firms; this can lead to difficulties in recruiting skilled managers and stimulate an internal recruitment policy. This can encourage the management team to contribute to differing management functions, but the restricted size of the team may lead to an emphasis on certain areas at the expense of others. Clarke (1972) argues that in such circumstances, managers find it difficult to recognize new challenges from the external environment, but the small size of the team, the likelihood of good communication and awareness/insight into other management roles can constitute an advantage in managing change.

Finance-- small firms are most likely to be financed through personal equity or bank loans and overdrafts with a restricted resource base. Thus, short-term demands related to production are likely to be prioritised over longer-term investments in activities such as training.

Owner identification—"the business is the ego" (Gibb, 1988: 14). This implies that small-firm owners perceive their firm as a reflection of themselves, and are likely to maintain a firm holds upon the decision-making process. Underpinning this personal decision-making process is a considerable reliance upon owner intuition. Many small-firm owners have relatively few areas of business expertise, particularly during the start-up period, and these are generally related to production issues (Wynarczyk et al., 1993). Thus, other business-related decisions are more likely to rely on owner intuition rather than specific skills and/or experiences. This can result in suggestions for change, or criticism of the firm being construed as personal attacks. This can then lead to reluctance by members of management to suggest changes and an additional `ego' hurdle for the firm to meet when instigating changes. Professional HRMs may also meet resistance to advice if it runs counter to the owner's intuition and personal view of the HRM and its environment. (Bridge et al., 1998).

Therefore, activities which can improve the sustainability of the sector should be promoted. It has been noted that firms which utilise some form of strategic approach, however informal, do perform better and are more likely to endure (Bamberger, 1980; Gibb and Scott, 1985; Hannon and Atherton, 1998). O'Farrell and Hitchens (1988) suggest that involvement in a strategic development process may separate successful firms from those who experience problems in survival and long-term viability. In a study of firms with differing growth trajectories, Cosh and Hughes (1996) found that the stalled firms were characterised by ill-defined strategic direction. From an overall evaluation of the literature pertaining to planning activity and strategic competence, Hannon and Atherton (1998) conclude that strategic awareness is a `valuable tool for owner managers' (p. 112). Moreover, building a strategic awareness capability linked with action planning creates considerable potential for business durability. Thus, it can be seen that developments within the strategic discipline indicate that a strategic activity may be intuitive, informal and ad hoc. Such activities may be identified in smaller firms where, it is suggested, they might enhance the survival, durability and, if desired, growth prospects of such firms.

IV. STRATEGIC HUMAN RESOURCE MANAGEMENT AND COMPETITIVE BEHAVIOUR

The critical precept of strategic HRM is that, as labour makes a crucial contribution to firm performance, the management of labour must form a central part of the organisation's strategic policy. Labour must be re-evaluated as a resource to develop, rather than a cost to control. Thus, if labour is the vital business resource, the efficient utilisation of labour must be approached in a strategic manner to ensure the most efficient use and development of the human resource. Strategic HRM is also termed a `new managerial strategy' (Clark, 1998: 23), as its implementation has been made possible, certainly in the UK, by a determination by successive Conservative Governments since 1979 to undermine the traditional collective base of industrial relations and facilitate management in regaining their prerogative in labour management. The weakness of organised labour, combined with the growth in managerial prerogative, in a context of competitive volatility during the 1980s and 1990s, has encouraged the growth of HRM, with its focus upon individuality, flexibility, resource efficiency and strategic integration. However, there is some debate regarding the efficacy with which management have welcomed and adopted the HRM model on any large scale. As Legge (1995: xiv) remarks, `while exemplars of its strategic implementation do exist, from case study and survey evidence the general picture is one of techniques associated with HRM receiving widespread support but implementation being largely ad hoc, opportunistic and fragmented'.

There is a relatively limited literature referring to labour management in smaller firms (Scase, 1995). Some interest in the area was generated in the 1980s, partly in response to the popular sentiment that smaller organisations could successfully overcome industrial relations tensions and conflict evident in larger firms (Bolton, 1971; Department of Trade and Industry, 1986). As Goss (1991) and Rainnie (1989) found, however, small-firm employees were likely to experience poorer terms and conditions of employment than their large-firm counterparts and, while not engaging in overt forms of industrial action, employees certainly did manifest discontent through strategies such as high labour turnover. Overall, such studies indicated an informal and ad hoc approach to managing labour which resulted in poor employment practices but, with an owner manger perception of harmony and team working. The reality of small-firm employment did not meet the rhetoric of its supporters' claims.

More recent studies of the employment relationship do indicate a growing recognition of labour management as a critical activity within smaller firms (Abbot, 1993; Bacon et al., 1996). In terms of strategic labour management in such firms, there is little evidence relating to the efficacy of the practice, but Hoque (1999), in an extensive study of HRM in the UK hotel industry (dominated by smaller establishments), found a link between HRM practices, strategic integration and enhanced business performance. In a survey of strategic development in growing firms, New-church and Co. (1990) noted that investing in staff was vital and developing an effective HRM strategy was an essential condition for successful growth. The findings of this study led the authors to suggest that `government assistance for the development of people should form an important strand in policy towards growing business' (New-church and Co in the SME Research Database, 1997: 150). There is, however, some evidence to suggest that employment management strategies within small firms are constructed upon short- term goals devised by owners and their management teams, but the policies to achieve such goals are not constructed by dedicated HRM professionals (Wynarczyk et al., 1993). Rather, given the primary stakeholder interest of the owner/senior managers in the firm, there is a strong emphasis placed upon retaining personal control and interaction with employees. Given that owners are unlikely to be HRM professionals, policies to achieve such goals will be based on intuitive approaches to labour, markets and production, although still with the aim of achieving identifiable business goals, both short- and long-term. Thus, strategic employee management in smaller firms can be investigated as a set of actions in response to the external environment, interpreted through internal competencies, leading to strategy formation which is emergent, flexible and founded upon personal interpretations of appropriate actions.

V. CONCLUSION

The aim of this paper was to ascertain whether there is any evidence that small firms might use emergent strategic approaches in managing their employees. To investigate this issue, it has been argued that strategic management has in the past, been most closely associated with larger firms, owing to the prevalence of the design school approach to analysing and prescribing strategic action in corporate enterprises. A critical appraisal of this approach suggests that strategic activity is far more informal and `hands on' than has previously been suggested by design school advocates.

Indeed, it is argued that in the majority of firms, strategy is emergent, rather than design based (Whittington, 1993; Minzberg, 1994). This approach recognises that management decisions are often based on information which is imprecise and subject to fluctuation. This is not to suggest incompetence, but to acknowledge the volatile and short-term nature of contemporary market conditions. Hence, a strategic approach which is emergent is more appropriate and efficient for most firms to utilise when integrating business activity and the competitive environment.

This paper developed the issue further by suggesting that such informal and flexible approaches to strategy might be utilised by owners and management teams in smaller firms, where decisions are frequently based on short-term projections, incomplete knowledge and subject to market volatility. It has been acknowledged that the small-firm sector is volatile, so any activity which offers greater stability is to be encouraged. Evidence suggests that small firms which adopt some form of strategic approach are likely to achieve greater stability in the market than those who do not (Hannon and Atherton, 1998). To examine this proposition in greater depth, the discussion focused specifically upon the issue of strategic HRM in small firms. As a managerial strategy, HRM perceives employees as a resource to be efficiently managed, rather than a cost to be minimised.

Thus, appropriate HRM policies, strategically integrated with other management activities, can offer a major source of improved competitiveness for businesses. While evidence from the 1980s and early 1990s suggests that small firms were likely to utilise very informal and ad hoc approaches to managing their staff (Scase, 1995), more recent work now suggests that small firms are recognising the potential of HRM to add value to the firm (Abbot, 1993; Bacon et al., 1996; Hoque, 1999).

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