

Skillnets Network Series
No.7

SMEs, Human Resources Development & Networks

This guide recognises the special and unique difficulties faced by SMEs in developing human resources management strategies and looks at how networks can influence the scope, rate of up-take and quality of training undertaken by SMEs. As part of this we give a brief glimpse of the potential of the concept of the "learning organisation" and address some issues to do with how classic entrepreneurial behaviour of small firms influences their participation in networks.

The Human Resources Challenge for SMEs

When we look at the issue of HRD and Training trends within the SME sector we are faced with the undeniable fact that many SMEs simply lack the capacity to develop their personnel. This seriously hinders their capacity to achieve and attain competitiveness.

The European Commission's Green Paper Partnership for a New Organisation of Work (April 1997) points out that the informal and flexible structures of work organisation commonly used by SMEs have both advantages and disadvantages. Through them, SMEs can avoid many of the problems of rigidity experienced by large companies. On the other hand, small firms commonly lack the internal structures which would allow them to create a capacity for long-term personnel development. This prevents them from adopting new forms of work organisation which might improve their efficiency.

In Ireland the National Competitiveness Council - Statement on Skills (December 1998) identified the need for a significant increase in the level and quality of training and learning undertaken by employees within companies. In particular, increased levels of management development and training are required, especially among SMEs. In the absence of such measures, there will be a serious loss of competitiveness and consequent reductions in employment growth, especially in the SME and indigenous sectors.

The Network Option for SMEs

The fundamental "motivating force" which points SMEs in the direction of collaboration with other firms via networks is the force of change in the market and the need for firms to rapidly adapt their structures to respond to those changes and thus remain competitive. However, the evidence shows that well established small to medium sized enterprises are reluctant to pursue the path of co-operation with other firms because of a traditional belief in the dictum that strength comes with size and the possession, within the firm, of all the capacities and resources required to compete in the market.

Most small and medium firms laud the flexibility that is a consequence of their size, but when they come to meet increased customer demand or exploit nascent opportunities for profit maximisation they seem to instinctively go for growth through internal expansion rather than through external co-operation. However, there is strong evidence¹ that this concept is in decline. SMEs would do well to realise that large corporations have spent the past decade building up various team-based concepts, which are, to all intents and purposes, individual (and small) enterprises. These team-enterprises work together and with 'external' subcontractors in collaborative networks. Thus organisational borders begin to fade away when semi-independent teams of a larger company work together with a specialist subcontractors.

Joining or forming networks may not be so much an option for SMEs in the future as a necessity. Evidence² shows that firms who remain outside networks often experience severe problems coping with environmental changes. They represent the 'markets' theory and are often forced to sell their products and services at a fairly low (market) price. The result is that they make marginal profits or even losses. The other type of firm, which we described above, represent small 'hierarchies', which do not recognise their core competence and have an inclination to gather all kinds of assets inside the firm. Surely the lesson for them must be that if powerful large corporations with huge resource bases cannot be competitive in today's hard competition in the form of a hierarchy, how will it be possible for a smaller firm to be competitive with a considerably lower resource base, especially if it allocates those scarce resources to the development of various assets and competencies.

There is good evidence to suggest that the barriers for SMEs to develop and in particular to expand into external markets can be overcome through networking.³ This applies to all industrial sectors. The barriers to development for most SMEs relate to their position as producers of non differentiated products. This forces them to compete on cost without having

the economy of scale needed for such a strategy. Other barriers relate to financial resources and critical mass in terms of:- management strategic planning; price; human resources; technology; marketing; and production capacity. This allows the market standard to be set by larger sized companies. While SMEs cope to some extent with these barriers in the home market by, for example, personalising the service, customising the products and responding quickly to local market changes, these responses are inadequate in international markets. The barriers highlighted can effectively be overcome through appropriate networking.

Networks can enhance SMEs capacity to:

- strengthen expertise;
- improve product differentiation;
- develop high tech specialisation for niche markets;
- share risks and costs;
- gain critical mass;
- extend production volume capacity;
- compete successfully with the best of large companies; and
- play a part in setting the industrial standard.⁴

Networks Can also assist SMEs to:

Overcome Isolation

SMEs often suffer from isolation but may overcome their inability to innovate by sharing their experiences and resources (formally and informally) in various network arrangements and programmes.⁵

Seek Knowledge

The accumulation of knowledge is one of the underlying motives for companies to become part of co-operatives in the form of networks. Knowledge necessary for the realisation of a certain company goal may be supplied in this way. Casson (1990) called the accumulation of knowledge in co-operative agreements "internalisation". Knowledge of the partner is instilled into the organisation little by little and linked with existing knowledge, whereby learning of different orders is used.⁶

Small with Large

The research documents the flexible arrangements that small firms can productively develop to become successful, innovative collaborators with larger partners. For example, the emergence of trustworthy, loyal but independent relationship between large and small firms was crucial in the regeneration of Silicon Valley. Firms had to learn to mutually co-exist to maximise the potential for technological innovation⁷ In the biotechnology industry, the development of mutually beneficial interactions between large pharmaceutical firms and small, science-based, innovative firms has been well documented.⁸

New Industries

Conditions in new and emerging industries undoubtedly favour networking for SMEs. The main reason for this is that business organisations have not yet grown into hierarchies through wide resource allocations. Lean strategy, which is generally seen as a modern way to manage a business, does not allow 'hierarchy building' behaviour. It rather favours flexible specialisation, which, as a basic principle, can be seen as a central precondition for networking to emerge.⁹

External Forces

The existence of external forces can serve as powerful motivators. These include:

- Pressure from customers (usually large firms) for greater flexibility or new products or services
- New Statutory Regulations or Standards
- The need to introduce new Technology
- Banks and investors like to see technology driven small firms with links to other companies
- The existence of high-standard research facilities or third level institutions in proximity to firms can generate opportunities for co-operation

Networks as a means of fostering Organisational learning

Organisational learning has been described as the process whereby members of one organisation communicate among themselves and thereby change their own behaviour and that of the entire organisation. Because organisations are goal oriented, perceived discrepancies between expected and factual values trigger discrepancies that lead to learning processes.¹⁰

Both internal and external learning have been seen to occur as a result of network participation among SMEs. Internal learning refers to the increased knowledge, insights, or understanding that firms gain of themselves through their network participation. Ongoing exchanges among network members expand members' understanding of their own capabilities. External learning refers to the increased knowledge and insights firms gain of other member firms, even competitors, through network participation.¹¹

Research suggests that firms learn what they can and cannot do well through customer-competitor interactions in the marketplace. But these can be literally costly lessons. In networks SMEs appear to go through a process of enhanced learning about themselves relative to others through co-operative activities, rather than through being 'beaten up' by the competition. i Network exchanges appear to provide a more advantageous context for learning about a firm's own organisational capabilities than market exchanges.

It is important to note that "learning" can go well beyond the individual, such that knowledge learned by members of the organisation is retained by the organisation and passed on to future members, often through changes in organisational routines or beliefs. Thus it is the organisation that benefits from the learning of its individual members.¹²

Just like individuals, companies must continuously face new aspects of their environment and react to them proactively by unlearning old practiced behavioural models and acquiring new models. Organisational learning is the necessary mechanism to secure the survival of companies in the long run.¹³

The Learning Organisation and SMEs¹⁴

One possible solution to the HRM needs of SMEs may be found in the concept of the "Learning Organisation". This has been described as follows, in terms of vocational training in an SME:

"Employees will not only perform tasks planned and checked by others, but will work with a large degree of independence, including recognising their own training needs, and organising their training. Workplaces will be conducive to learning, providing learning media, making it possible to contact outside experts, and integrating learning and working in terms both of time and location. Interpersonal relations and group working will be used as a springboard for continuing training, and exchange of information will break down rigid divisions between

*working tasks, enabling the firm to react quicker. This ideal model might be called a learning organisation.*¹⁵

The importance of the learning organisation for SMEs

A learning organisation offers its workforce two powerful benefits: the authority and competence to make decisions about work, and the tools to execute it and to evaluate its quality. This approach consigns traditional factory tasks and command-control management systems to the past. The workforce itself becomes the agent of change, implementing and evaluating its own production and work organisation systems within a permanent process of working and learning. It encompasses changes like problem-solving through project groups, re-organisation of production through working groups, just-in-time manufacturing innovations like production islands, and the creation of intelligent working places.

More complex and enriching work encourages individuals to use and improve their skills, the company becomes a social entity and a place for personal development, as well as a place of production. Employees do not act alone, but in groups, promoting the exchange of knowledge. To put the philosophy of the learning organisation into practice, SMEs invariably need a good deal of close co-operation from external training providers, and frequently from other local businesses.

The culture of learning organisations

The learning organisation is not a prescriptive model. It is about a culture of continuous improvement in , companies. It requires a whole company approach, and is only likely to be successful if it builds on company : culture. But it must also be completely open to all available local, regional and sectoral assistance.

The most important factor in business culture is the drive to improve and conserve high levels of competitiveness within a rapidly changing environment. A successful learning organisation will always embody a powerful company culture, which is in itself a factor of key strategic importance affecting success in every aspect of design, production, employee relations and marketing.

All companies must consider a shift from a culture of traditional training to one of learning. Both practical and theoretical learning must be available at all times to meet the demands of the unexpected, and to underpin the quality objectives which all companies now share, but which many cannot effectively deliver. Conventional approaches cannot fully equip workers for modern market conditions.

The characteristics of a learning organisation

- Training ceases to be merely an option, and becomes a permanent necessity for the achievement of all company objectives and targets.
- Training becomes completely linked with work. It is triggered by the demands of work, and happens increasingly on the job.
- As a result of this close link with processes, training tends to become fragmented, delivered as and when it is needed to achieve specific results. Definitions of skills become less generalised, and more focused and precise.
- A learning organisation is one that involves its workforce in organised anticipation of its future opportunities and business and learning needs.

Roles change in a learning organisation

Trainers become coaches, facilitating both individual and collective learning. They are key to the successful transfer and exchange of skills, know-how, and technical, organisational, managerial and J methodological information. Trainers require specific knowledge and teaching skills. Coaches need these, and must also be able to) offer diagnostic and enabling skills.

Learning organisations require accessible training

Learning organisations can only flourish if they can acquire the learning materials they need when they need them. Large companies can often create these for themselves. Small companies cannot, and therefore depend to a very great extent on the accessibility of appropriate training from other sources, on the support of those who can help and supply them, and on working together with other companies in training networks.

Learning organisations require new forms of social partnership

In large and small firms, the transition to a learning organisation requires a transformation of the relationships between employers and their workers and their representatives. The emphasis of this relationship shifts in learning organisations and becomes developmental, based on a mutual desire to improve company performance, individual skills and job satisfaction.

The Entrepreneurial Culture and Networks

Most SMEs are managed by entrepreneurs or have developed within an entrepreneurial culture. How does this affect their approach to networks? Despite the renowned desire of entrepreneurs for independence of action it has been found that they normally fit well into the network context.¹⁶ Cooperation is not an unnatural act, even for individualistic businesses.¹⁷ In addition every set of relationships is unique and is determined by the person creating the network.

The argument has been advanced that the owner-managers' strong need for independence is supposed to be a major reason why they refrain from network exchange and associated assumed perceived dependencies. However convincing the argument sounds, it can be refuted for a number of reasons. The conclusion that the need for independence is a major cause for not using networks is misleading, if not inaccurate. When a network tie, including the development of personal relationships, is being established both parties are acting as independent individuals. Once the relationship is created the people involved become mutually dependent because exchange is, by nature, reciprocal.¹⁸

Networks, involving organised systems of relationships between entrepreneurs and the outside world, are particularly valuable to the small business entrepreneur. The fragility which accompanies small size can be offset by the supportive environment provided by resilient networks. This type of entrepreneur and small business are more inclined to make contacts with national and international colleagues. Growth-oriented small businesses networks will also appeal to entrepreneurs.¹⁹

Organisational-level processing of information is also an important entrepreneurial issue. The existing research suggests that larger firms exhibit a tendency toward bureaucratic behaviour at the same time that they begin to have the resources needed to become effective collectors of information.

Entrepreneurial firms have the opposite tendency: they are capable of demonstrating agility when acting on information, but lack the resources to collect it. To the extent that networks enhance these entrepreneurial firms' ability to collect information, they may also forestall the institutionalisation of dysfunctional bureaucratic mechanisms. Entrepreneurial firms that have developed effective networks may be able to remain "entrepreneurial" longer because they can avoid making their organisational structure more bureaucratic.²⁰

Characteristic of entrepreneurial behaviour is 'acting as if'. This is the kind of behaviour where an entrepreneur accepts challenges from the market, for instance in the form of a customer's order even though s(he) does not possess all the resources or the capability needed to fulfil the customer's needs. 'Acting as if,' an entrepreneur has to look for backup from his/her network. In this way a business opportunity can materialise into business for other network members, where excellent networking capability (in this case perception, possession of market information and network broker activities) is a valuable if not value-adding element in the chain.²¹

Successful entrepreneurs are also able to develop and utilise inter-organisational stakeholder networks for informational purposes. These stakeholders are not antagonists, but rather, they have a stake in the success of the entrepreneurial firm and are willing to provide valuable information that would be too expensive for a small firm to generate within its own organisational hierarchy.²²

End Notes

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20. It may also be possible that larger firms can make a more optimal trade-off between bureaucratic and entrepreneurial behaviour by structuring business units around existing inter-organizational networks rather than around intra-firm control mechanisms. Such behaviour was observed in the most successful of the larger Silicon Valley electronics corporations such as Hewlett-Packard, Apple, and Tandem computers (Saxenian 1994). (Brown and Butler. 1995).
21. Vesalainen, *ibid*.
22. Brown and Butler. *ibid*.