



e-Governance Issues in SME Networks

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Abstract

Much public policy interest in small and medium enterprises (SMEs), the 25 million or so EU firms employing less than 250 people, has increased in recent years and springs from three perceived SME strengths:

1. their role in promoting flexibility and innovation;
2. their labour market function in creating jobs and absorbing unemployment;
3. the enormous size of the sector (99% of EU firms and 70% of EU jobs).

For these three points alone, it is clear that SMEs need to be taken into account when issues concerning citizenship, democracy and governance are considered. However, there are more compelling reasons to include SMEs, especially with ICT now improving communication and offering enhanced participation outside the usual structures and channels of communication. SMEs are not only diffused through every community and locality and, indeed, are often the mainstays of many small communities, they also form a major part of the marginalised sections of society with the lowest rates of participation in political processes. One important segment of the whole SME sector, the self-employed, are generally from a *milieu* where personal independence and autonomy are prized. SMEs often organize themselves informally in structures that lie outside official organisations as networks that address a mix of business, social and political needs. It is through these networks that many SMEs interface with the larger firms and government organisations that basically run our economies. Because of their importance, and their potential for mediating the participation of SMEs in the e-society, the different types of SME networks and how they function require some attention. The 2002-2004 NEWTIME project, which investigated the impact of broadband on networks of microfirms in 8 EU member states, identified 10 different network types – differentiated according to structure (formal or informal), purpose (business or social) and organisational density (strength or weakness of ties between members). In addition it was recognized that power relations affect governance issues in SME networks in four major areas:

1. Transactions costs and vertical disintegration of larger firms;
2. Local clusters of complementary SMEs;
3. Communities of practice;
4. Family and community ties.

This paper draws on NEWTIME and subsequent surveys in Britain to analyse the key issues in each of these areas and the potential that ICT holds for increasing the participation of SMEs in decision making at a local, regional and national level.

1 Introduction

The past decade has seen an upsurge in interest in small and medium enterprises (SMEs) – independently owned and managed firms that employ less than 250 people - and the potential role they are expected to play in promoting innovation, productivity improvements and ensuring the effective and efficient working of networks and clusters. Public competition and innovation policies aimed at promoting SMEs in order to achieve these goals tend to adopt a top-down or ‘hub and spoke’ perspective that subordinates the role of SMEs to that of large firms, especially those seen as national ‘champions’ in an era of global competition. This contrasts with earlier policies when most of Europe faced mass unemployment and SMEs were promoted because of their capacity for generating new jobs, an approach that now survives mainly in social policies aimed at combating social exclusion of different kinds and in a number of local regional development policies. In both these policy approaches, SMEs are treated instrumentally.

There are very few initiatives or directives that are designed to address the current needs of the SME sector as opposed to proclaiming the hoped for future policy benefits. There are also few policies that take into account the everyday importance of SMEs as a social, cultural and economic sector. The Lisbon European Council launched the Charter for Small Enterprises in 2000 as part of a wider drive to make the European Union (EU) ‘the most dynamic economy by 2010’ through stimulating entrepreneurship. These are laudable aims but will only apply to a small minority of the EU’s 25 million SMEs. It is left to the activities of industry associations (usually dominated by large organisations) and SME lobby and representative organisations to raise the concerns that the majority of SMEs feel affect them – or at least those SMEs that are members of these business association networks. The smallest and least successful SMEs generally remain unrepresented at policy level. These are, overwhelmingly, the microfirms with less than 10 employees and the self-employed 70 per cent of all ‘firms’ that employ no one other than themselves, together accounting for more than one third of the working population. Potentially, this leaves huge participation and representation gaps that pose important challenges of governance for the firms and for society as a whole.

1.1 SME sector in the EU

Of more than 25 million firms in the European Union (EC, 2003c), less than 40,000 employ more than 250 people (the dividing line between SMEs and large firms). Some 99 per cent of all EU firms are SMEs and, before the recent Accession of ten

new Member States, they accounted for 70 per cent of Europe's 122 million jobs. They also accounted for 57 per cent of Europe's €25 trillion sales. Roughly half are the self-employed who employ no one other than themselves, followed by microfirms with less than 10 employees (42 per cent), 6 per cent small firms (10 – 49 employees) and one per cent medium firms (50 -249 employees). There are strong size effects in relation to productivity, export activities and engagement in economic development initiatives. The SME sector is very heterogeneous with significant differences between different industries, regions and sizes of firms.

In addition, and possibly more importantly, there are also huge differences in capabilities, resources, capacities, management abilities and styles, inter-firm linkages and strategic objectives. Many of these differences correspond to uneven power relations between and within firms, imbalances that good governance is intended to correct. Indeed, it is the main purpose of this paper to show that the very heterogeneity and dispersal of the sector through many different smaller economic segments and community groups implies that SMEs are an indispensable element in democracy at all levels. Furthermore, it is the disparities of concentration and power between SMEs and other elements in the political economy that bring governance issues to the fore when considering the wider socio-economic role of SMEs and what part the adoption of more advanced information and communication technologies (ICT) might play. Certainly, timely access to better quality information is very important though there is then a further challenge of ensuring that the SMEs know how to make best use of the information. To better understand this, and to provide a clue as to why SMEs – especially the microfirms - appear to be reluctant to engage in public initiatives, it is important to be aware of the dominant work motivations that drive most SME owners and of the precarious nature of their relations with the economy and other firms. A special EU report on cooperation between SMEs revealed a surprising degree of stability in the network relationships formed by SMEs but also showed that cooperating firms were a minority (EC, 2003b).

1.2 SME behaviour in Britain

The number of businesses in Britain topped 4 million for the first time in 2003, an increase of more than 5 per cent on the previous year (DTI, 2004). Apart from 26,000 medium-sized firms (50-249 employees) and 6,000 large firms (250 or more employees), all these were small firms, including 2.9 million own account self-employed without any employees (71 per cent of all firms, an increase of 9 percent on 2002). Some 13 per cent of these are partnerships, 24 per cent are companies

and 62 per cent are sole proprietors. Thus, most of the SMEs in Britain, as in the rest of the EU, are self-employed, accounting for some 13 per cent of employment. There has been a sharp increase in self-employment since 2001, mainly in business services and construction. Some self-employed are technically employees of their own companies as sole directors. When responding to Labour Force Surveys, however, most self-classify themselves as self-employed 'because of the flexibility and control they have over their employment' (Lindsay and McCauley, 2004), even though many work for agencies or as sub-contractors where there is often strong external control over their work. This is not just a statistical point but a significant indicator of the culture that pervades the SME sector, especially the self-employed. One of the main reasons for SMEs across Europe not opening up to and working with other firms was a fear of loss of independence (EC, 2003b). That the desire for autonomy and independence is the main career motivator of SME owners in Britain has been known for a long time, as Small Enterprise Research Team findings over time demonstrate (Table 1).

Table 1. SME main personal career motivation 1990-2004 (column %)

	1990	1996	1999	2004
Independence/be own boss	50	52	46	42
Make money	19	16	17	15
Security for future	9	10	14	13
No alternative/avoid unemployment	6	11	8	6
Family tradition	5	5	5	6
Other	11	8	10	9
Sample size (n)	1349	753	1121	808

Source: NatWest SERTeam Quarterly Survey of Small Business in Britain, 20:1.

There is little doubt that where the desire for independence equates to a resistance to 'being told what to do' or to sharing, then cooperation, sharing and openness will be seriously impeded. Gray (1999) found that 78 per cent of 'life-style' owner-managers were reluctant to delegate and had a directive management style. The owner-managers with clearer business/economic objectives are more likely to delegate, but still 59 per cent described themselves as having directive and non-participative management styles (Zhang et al, 2004). Fortunately, it is clear that many SME owners, especially those with employees, are driven more by a need for autonomy in decision making and in responsibility, which is very compatible with the overall objectives of good governance, rather than a need to be in control or to be left alone (Gray, 1998). Furthermore, in their external relations other than business,

large proportions of the self-employed, if not always a majority, do engage in political processes which is another important element of good governance in society.

The British Social Attitudes survey of 2002 (a large scale annual survey of 2,290 households conducted by the UK government which includes a self-employed sub-sample of 245) found that two thirds of UK citizens believe that they have no influence on government . The most alienated included 14 per cent of self-employed, compared with 10 per cent overall (Park, 2002)). However, as Table 2 shows, the self-employed are only a little less likely than other citizens to engage.

Table 2. SME community/political involvement 2002 (row per cent)

<u>Action/attitude</u>	With employees	No employees	Sample (n)	%
Interest in political issues	37	63	64	40
Go on protest/demonstration	30	70	34	37
Not go on protest/demonstration	38	61	125	63
Not involved in campaigns	40	60	127	80
No impact on government	34	65	112	70
All	59	100	159	100
% (n= 159)	35	65	100	

Source: British Social Attitudes survey 2002.

If most SMEs believe they have little direct impact on government, some 40 per cent of the self-employed are interested in political involvement and more than one third (37 per cent) are happy to go on protests or demonstrations to support their positions. In general, politically and socially engaged people appear to be more inclined to use the Internet to gather information. In political terms, the self-employed do tend to vote centre-right (35 per cent Conservative), particularly those who have employees. However, a large proportion (30 per cent) tends to vote centre-left (Labour) with around 11 per cent preferring liberals and 4 per cent environmental parties. In all these non-conservative or minority party options, it is the self-employed without employees who are strongest in their affiliations. This may be another reflection of a non-conformity associated with their need for independence and autonomy (which, it could be argued, is an essential element of democracy and good governance in society).

For many SMEs, however, governance issues have less to do with political issues and more with how they relate to their stakeholders – investors, staff, customers and

suppliers. It has also been long recognised that a serious barrier to SME development and participation with other firms has been poor management capabilities compounded by reluctance to engage in systematic management or staff development (Gray, 1998; EC, 2003a). Once again, the main exceptions seem to be those SMEs that have a clear growth strategy and link their development of internal competences to that strategy (Thomson and Gray, 1999; Gray, 2004). To some extent, this is linked to educational levels and the type of industry. There is a tendency for graduates to be more likely than non-graduate owner-managers to offer systematic staff and management training (though they do not always feel a need for it themselves). One important implication of this is that firms with a more systematic approach to staff and management development also appear to have structures in place for consultation and information sharing with staff and they appear to be more open to engaging in business networks and public initiatives aimed at improving business performance and local economic development. This openness, participation and acceptance of responsibility for staff development are, of course, signs of good management but they are also the characteristics of good governance. Although such SMEs also appear to have a stronger tendency to grow, however, there are plenty of SMEs with very directive management styles that also grow. Performance is not necessarily a sign of good governance and good-governance SMEs are very much a minority (Gray, 1998, 2002).

1.3 Key issues

The purpose of this paper is to explore what governance means in the SME context and whether more widespread use of ICT may offer wider and more effective SME participation in society. EU policy on governance sees the role of networks as crucial. The EC White Paper on governance points out that (2001, page 18) 'new technologies, cultural changes and global interdependence have led to the creation of a tremendous variety of European and international networks, focused on specific objectives. Some have been supported by Community funding. These networks link businesses, communities, research centres, and regional and local authorities. They provide new foundations for integration within the Union and for building bridges to the applicant countries and to the world.' However, the White Paper also recognized that 'many of these networks, whose roots reach down deep into society, feel disconnected from the EU policy process. By making them more open and structuring better their relation with the Institutions, **networks could make a more effective contribution to EU policies.**' (emphasis in the original). Before examining

how SMEs network it is first necessary to examine the concept of governance as it relates to SMEs.

2 Management and governance issues

In 2001, the EC published a White Paper on governance in order to address the increasing problem of non-participation by EU citizens in EC decisions and to stimulate debate on the main issues. The EC sees that there are five main governance issues that good governance and the changes proposed in the White Paper - *openness, participation, accountability, effectiveness and coherence* – and stated that each ‘principle is important for establishing more democratic governance. They underpin democracy and the rule of law in the Member States, but they apply to all levels of government – global, European, national, regional and local.’. The White Paper stressed the importance of good governance for effective democracy which it noted (page 11) ‘depends on people being able to take part in public debate. To do this, they must have access to reliable information on European issues and be able to scrutinise the policy process in its various stages.’ However, the focus of the White paper was on institutions and not on the role of businesses, and even less on the role of SMEs.

More recently, in a paper on governance issues among SMEs in the new Accession States, Smallbone (2004) notes that governance ‘is concerned with the rules, procedures and practices affecting how power is exercised. These issues are central to the democratic process, because they influence the legitimacy and effectiveness of institutions, which ... can have major impact on entrepreneurship development.’ This implies that there is both an internal and external dimension to governance when applied to SMEs. It is clear that the internal dimension is linked to good management, especially the management of human resources (in the sense of consultation and clear communication), information, quality and effective compliance with regulations. This is linked to the external dimension where sound practices in relation to regulations and standards, as well as respect for the environment and participation in the political process, are also very important. Given the huge size of the SME sector (including the related contribution to national revenues from the associated direct and indirect taxation), therefore, issues concerning good governance within and between SMEs form an important part of a functioning democracy in a modern industrial society.

However, information gathering and regulatory compliance can pose problems for many very small firms, not necessarily because of a desire to evade the regulation but often because of higher resource and time costs associated with search and

compliance (Bannock and Peacock; 1989). Conformance with regulations and other aspects of good governance practice generally involves not only the completion of paperwork but also the management of various stakeholders inside and outside the firm. Nevertheless, most SMEs take the trouble to conform with regulations that they perceive as relevant. Generally, those that have employees may not always consult them on business matters but do try to keep them informed and involved in decisions that affect them (Marlow and Gray, 2005). The May 2004 final report of the EC forum on fostering corporate social responsibility among SMEs, a very important dimension of good external governance, observed that:

‘... many SMEs are committed to environmental, social and community responsibility is certainly clear. Much of this will not be called “CSR” by those who are doing it! Successful SMEs are regularly providing excellent goods and service. They provide employment. They engage their employees and harness their motivation and skills for the long-term success of the enterprise. They recognise the value of informing and consulting employees, and of creating participative workplaces. They are intensely alert to human rights issues and to health and safety considerations; they encourage staff to acquire new skills; help them achieve better work-life balance; recruit and promote on merit – irrespective of gender, race, disability, age, sexual orientation. Many SMEs are striving to operate sustainably: conscious of their use of natural resources; mindful of their sourcing; seeking ways to reduce their energy and water consumption and their excess packaging and waste. Many SMEs are also putting something tangible back into their local communities: such as providing work experience for local schools, sponsoring local community organisations, supporting environmental clean-up drives.’

Clearly, the economic, political and social impact of SMEs is further strengthened when they operate through networks and it seems reasonable to suppose that the effective use of ICT will enhance those impacts. As there are many different types of SME, however, they also belong to different types of networks. It is important to have a clearer understanding of the role of different types of SME networks and how they mediate the behaviour of SMEs.

3 SME network typologies and effects

3.1 Networks

In a recent EU study (EC, 2003b) on cooperation between SMEs, networks are described as ‘nodes and branches where the enterprises form the nodes and the

relationships between the enterprises form the branches. The relationships are described in qualitative terms, the most important being trust, and as transactions or flows'. This is similar to the communications model of networks used by many ICT providers and, although this particular definition envisages that 'co-operation in the network is assumed to generate synergy', the model seems rather mechanistic. In contrast, social network theory argues that social action and behaviour can be understood by considering the positions which individuals hold within these networks and the relationships which they share (Mitchell, 1969). A contemporary review conducted for the UK government's Small Business Service adopted a more transactional approach to networks as complex patterns of 'formal and informal linkages between individuals, businesses and other organisations such as government and voluntary agencies' (Blundell and Smith, 2002). This extensive study found that SMEs in Britain do tend to join different networks and that business networks in particular, were evolving and developing their own governance needs relating to changes driven by global competition and technological change.

In the NEWTIME study, an EU-funded project led by OUBS on the impact of broadband on networks of microfirms (Gray et al, 2003), it became apparent that the social dimension of networking was as important for many firms (especially the smaller microfirms) as the business dimension. It was also clear, as the EU study on cooperation also acknowledges, that not all nodes are equal (some a more central anchors whilst others are more peripheral) and the branches or lines joining them are of varying strengths and represent different frequencies of contact. Furthermore the network structure and links or ties can be formal (contractual), informal or a mix of both. This unevenness in power and structure clearly has governance implications for both the stronger and weaker SMEs.

In the context of this paper, this is very important because stronger ties between nodes or SMEs often imply the firms and the network itself are more deeply embedded in local communities but often more resistant to change and new entrants (Granovetter, 1985). Weaker ties imply more openness and flexibility, which are both crucial to the encouragement of innovation. Both these dimensions are important with respect to the effective functioning and governance of networks, as are the firms and people who form the centre or *anchor* of a network. Variations in the strength of ties and the 'anchoredness' of nodes reflect, as previously mentioned, an unevenness in the power relations between firms, an unevenness that needs to be considered when discussing governance issues in relation to SMEs. Using the common social/business and formality/informality dimensions to categorize different networks, NEWTIME identified four broad network types that

involve and impact on SMEs – supply chains/ production systems, business associations, industry clusters and local/regional clusters. In general, it is almost impossible to consider governance issues such as accountability, cooperation, competition and participation without taking into account the networks that SMEs use to communicate with each other and with other and with other important groups or individuals in business and in society. However, different governance issues emerge with respect to each of the four network types

3.2 Supply chains

.As pointed out above, supply chains and production systems are usually dominated by larger and more powerful focal firms. The major issue is how can SMEs negotiate an equal voice for their views and concerns in the face of dominant focal firm routines and accustomed business practices. Apart from the 'natural justice' and fairness issues, this is of great importance to effective innovation and knowledge management practices. The emergence of supply chains or production systems has been widespread for more than 30 years as large firms contract out previously internal operations. Following the seminal work of US economist Ronald Coase (1937), Oliver Williamson (1975) popularised the 'transactions costs' approach with its strong focus on supply chain management. The underlying rationale is that large firms developed and grew to enormous size in the 19th and first half of the 20th centuries in order to manage a very risky and uncertain external business environment. Large organisations generally found it more economic and safer to control, as much as possible, all their transactions in-house. As the rule of law and trade regulation became more established, large corporations began to find it more economic to focus on their core activities and to sub-contract, out-source or, more recently, off-shore production, distribution, and services. In some cases the contracted firms were the original internal departments set up as new small firms but often they are existing SMEs that offer the particular product or service. However, it is always the competitive position of the larger, core *focal* firm that is dominant.

Relations between small and large firms is more complex than a simple jobs substitution or a 'slimming down during recession' by large firms, though this unintentional large firm disintegration played, and still does, a key role in the rise of self-employment. Much of the rise in new small firm formation rates during the 1980s was due to a number of large firm fragmentation strategies as they 'vertically disintegrated', a process that was seen by some as ultimately favourable to the interests of large firms and of international capital (Shutt and Whittington, 1987; Storey, 1994; Rainnie, 1991). This process certainly exposed unequal power

relations between large firms and small firms, and within firms between owners, managers and workers. This does not create a climate conducive to democracy, participation or good governance. Indeed, in various parts of the SME sector with its traditional milieu of family firms and self-employment where independence and autonomy are prized, the following differences emerged as many newer and more specialist SMEs were drawn into large firm strategies:

- (1) *traditional* - independent and well established locally (mainly survival, not growth-oriented);
- (2) *independent competitor* – use their flexibility to grow through competing with other small firms, large and small;
- (3) *dependent* - sub-contracting and supply chain relations;
- (4) *independent niche* - compete in specialised or very local markets;
- (5) *innovators* - exploiting a new field or technology to compete or be acquired

by a large firm or investors.

During the 1980s, many key governance issues appeared in attempts to encourage SMEs to adopt 'total quality management' (TQM) systems and international standards such as ISO 9000. Although the main standards setting bodies, CEN and CENELEC, attempt to involve SME networks and representative bodies, standards such as ISO 9000 are seen by many SMEs as applying mainly to large firms (hence not relevant to them) or as an extension of the control from large focal firms. As global competition intensified and supply chains began to be seen more as production and distribution systems, the more mechanistic and formal relations gave way to more collaborative relations (albeit, in many cases, still dominated by larger focal firms). However, where these networks became formalised through contractual relationships, the emergence of lists of preferred supplies privileged a small minority of SMEs that were prepared to forgo their independence, leaving many more out in the cold. The short term advantage to the large focal firms is quite clear. In the longer term, however, there is a risk that the strongly tied SME partners may have become too attached and lack the independent flexibility that is essential for adaptability in the face of major changes thrown up unexpectedly by forces such as competition and technology. The 1990s saw renewed local and regional development interest in clusters which tend to rely more on labour market dynamics than formal contracts.

3.3 Clusters

The special EU report on cluster and network policies in Member States (EC, 2002) noted that firms are 'often concentrated in small geographic areas where the

business environment seems to be more favourable and where companies can get access to qualified manpower and expert knowledge ...'. Such geographic concentrations of competing and co-operating firms, suppliers, services, research institutions and associated organisations are defined as clusters. The clusters that link SMEs, networking and innovation traces its roots back to Marshall (1961) and his 'industrial districts', where independent firms and workers are linked together through their shared specialisations which they trade - almost as commodities - regionally, nationally and, increasingly, internationally. Successful industrial districts are characterised by their capacity to transmit, exchange and react to new information extremely rapidly. Marshall talked of his industrial districts having a 'special atmosphere' that encouraged participation, cooperation and innovation.

The industry clusters of northern Italy have been studied and held up as local economic development models since the 1970s (Piore and Sabel, 1984) albeit it with critical reservations. Unlike the unidirectional power relations that characterise supply-chains and contracting-out arrangements, the power and information relations between firms is more balanced, dynamic and open.

The real boost to the cluster network model of wider economic development came from Michael Porter (1990, 1998) who views clusters in the context of global competition where different clusters that enjoy particular comparative advantages tend to specialise and trade their expertise in an analogous way to the many individual firms in a single cluster. Although very influential in current local economic development policies, Porter's approach to clusters has been criticised for conceptual imprecision and for not recognising that effective clusters are embedded in their local or regional economies through cultural and social ties (Martin and Sunley, 2001). The defining feature of Porter's clusters is their capacity for boosting local and national business competitiveness through drawing on local skill specialisations and other factor advantages, and both the competitive and cooperative relations between firms in related industries, usually driven by prevalent supply-demand conditions.

With respect to governance issues, clusters offer more open and mutually constructed systems of shared attitudes, behaviours and norms that can replace, on one hand, the informality and lack of structure found among many individual microfirms and small firms and, on the other, the formal, legalistic and rule-driven relations found in earlier supply-chains and contracting-out relations between focal firms and SMEs. However, there is not a clear-cut dichotomy between the open and closed systems of relations between firms because many recent clusters have emerged from the same processes of vertical disintegration that created supply-

chains with their less even power relations (Scase, 2002). Table 3 summarises network membership from a 2002 national survey of 1,168 SMEs in Britain and shows clearly the more dynamic nature of cluster networks, compared with supply-chains and business associations.

Table 3. SMEs network use 2002. (column %)

Network use	Supply chain	Association	Industry cluster	Local cluster	All networks	All SMEs
Social contact	37	41	64	70	41	46
Business advice	43	53	58	69	50	42
Technology advice	30	31	39	38	29	25
New customers	25	20	32	47	23	20
New suppliers	18	15	25	30	15	14
Joint marketing	12	13	20	18	11	10
Joint purchasing	8	9	12	12	8	7
Recruiting staff	3	3	4	6	3	3
Sample (n)	343	810	291	125	992	1168
%	29	69	25	11	85	100

Source: *NatWest SBRT Quarterly Survey of Small Business in Britain.*, 18:2.

Multiple mentions;

The first point to note is that a large majority of respondents (85 per cent) belong to a business network of one type or another and they all derive significant benefits from their networks. The second point, as might be expected from cluster theory (Porter, 1998) and Marshall's (1891) earlier concept of the 'industrial district', is the high value placed on social contact as well as on cooperative business behaviour (and, in regional clusters, help in recruitment - a classic industrial district effect). Thirdly, networks are used widely as sources of business and technology advice. Increased use of broadband and mobile technologies has significantly improved this function, as well as communication between firms, an important element in establishing more effective governance in the SME sector.

Another important point of interest is the comparatively low value placed on social contact and business advice in the supply chains, where the ties between participants are often more formal and reflect the stronger power of the focal firms. Indeed, in many cases, this takes form as a preferred suppliers list with SME suppliers sometimes being obliged to furnish financial details to the focal firms and

often having to bear the burden of standards compliance (such as ISO 9000) and holding stocks so that the larger focal firm's just-in-time systems function effectively. Potentially, this can improve regulations and standards compliance in the supplier SMEs, one of the EU's governance objectives, but possibly at the expense of real participation, another key objective.

3.4 Associations

The most common form of network, where issues concerning regulations awareness and compliance are communicated and discussed by SMEs, is an association. These are mainly membership bodies and include organisations like chambers of commerce, industry associations, professional institutes and business clubs. In many EU Member States, membership of chambers of commerce is part of the official registration system and is obligatory. In Britain, membership of chambers and trade associations is voluntary yet a high proportion of firms – especially small and medium firms – do join these networks as Table 2 reveals. Indeed, it is the associations and various lobby groups that are also membership organisations through which policy makers and government attempts to communicate and consult with SMEs. Association networks, therefore, are important channels of communication and an essential element in the development of good governance in the SME sector. However, the more they are drawn into their role of channels of communication, the stronger becomes the role in lobbying, with the risk that official organisational views begin to dominate. This can have the effect of stifling genuine debate thus retarding the sharing of challenging views. Associations that focus more on functional business issues appear to be valued more by SME members. Increasingly, new or renovated associations – both formal and informal – are based on shared knowledge and professionalism, as communities of practice.

3.5 Communities of practice

The professions such as law, accountancy, medicine, architects, engineers and other knowledge-based specialists are often members of professional institutes and other bodies. In part, these function like other business associations but in part they can have a part to play also in maintaining and developing the skills and competences base of their community. Network members are bound together by their collectively developed understanding of what their community is about and a wider sense of common purpose. Members build their community through various interactions with each other, establishing norms and relationships of mutuality that reflect these interactions. Communities of practice develop shared

communal resources - language, routines, competences, sensibilities, artefacts, tools, stories, styles and so on (Wenger, 2000). With new business, communications and organisational opportunities emerging as a result of vertical disintegration and ICT-based innovations, communities of practice are becoming more frequent in the industries most affected directly (business services such as finance, employment agencies; the media and publishing; creative industries; computer services; and so on).

In general, SMEs prefer informal contacts from within their business community as information sources in preference to external or formal sources. Transactions and relationships with other SME owner/managers, provide a significant means of learning and knowledge, particularly when, these are clustered into communities of practice (Wenger, 1998). Work in small and medium firms is increasingly project-driven so it is important that specialists are able to work together, pooling their talents and skills in creative and productive ways. Trust relations – a key element in good governance – become more important, developed through working in ever-changing and fluid work teams. Work expectations are often stretched beyond specific personal technical and creative competences. Team members become interdependent upon each other for the success of shared goals (Scase, 2002). It is this interdependence of skills that is the key integrative mechanism which because of their external client and professional orientations - might fragment because of other conflicting pressures from customers and individual firm's strategies (Mintzberg, 1983).

Earlier work on organisational learning (Argyris and Schoen, 1978) re-emerged during the 1990s in concepts such as the learning organisation (Senge, 1990) and knowledge management (Amidon and Skyrme, 1997). Essentially, the model is one based upon knowledge sharing and, through constant and open communication, the making explicit of often buried or tacit knowledge held by all employees. The drawing together of experiential knowledge of key employees (including the owner/manager) and the making explicit the effective routines developed within the firm in order to share, combine knowledge and create new knowledge is the innovative process that lies at the heart of knowledge management. ICT is seen as providing support for this process both internally and also in relations externally with other firms. However, the British Social Attitudes survey 2002 revealed that only 16 per cent of the self-employed would be willing to form a group with like-minded people and those with employees were less likely to. Clearly, for some SME owners this could still be a problem but for many it reflects existing participative management styles. As communication and access to information improves with the

increased diffusion and use of ICT applications, this role in support of good governance is also likely to develop.

4 Role of ICT

Since 1985, there has been a marked increase in the use of ICT, especially the Internet, websites and networked computers by SMEs as. Table 4 shows.

Table 4. SME adoption of ICT in Britain 1985 – 2003 (column %)

	1985	1991	1996	1999	2001	2003	2005
Computer	36	68	81	81	88	92	92
Internet	0	5	14	45	77	86	87
e-mail	0	3	17	46	75	82	87
Website	0	0	6	26	49	58	63
e-commerce	0	0	0	0	7	8	11
Sample (n)	1090	984	1099	601	720	808	670

Source: Small Enterprise Research Team: NatWest/SERTeam Quarterly Surveys of Small Business in Britain

The European Foundation Centre (EFC, 2002), commenting on the EC White Paper on governance (2001) , sees a vital role to be played by the increased communication and access to information offered by ICT and strongly welcomed ‘the Commission’s proposal to provide up-to-date, on-line information on the preparation of policy through all stages of decision-making’. However, the EFC also noted that more clarity and transparency was needed on establishing the credentials, provenance and representativeness of bodies that purport to represent elements of civil society, including SMEs. In particular the ESF concluded that information of bodies consulted by the EC ‘should be made available, and should document who they represent, in particular for national and European umbrella organisations and networks, and what is their specific expertise/competence in the field(s) concerned’. In Britain, the SERT quarterly survey in the first quarter of 2002 revealed (Table 5) that SMEs were beginning to overcome some lack of trust and are using web-based search engines plus business and government websites to obtain information of relevance to their business and social lives as citizens.

Table 5. Business information and communication by technology used, 2002. (Column %)

<u>Source</u>	face2face	Internet	telephone	e-mail
professional advisor	67	62	64	63
government service	33	38	32	75

business associations	22	31	70	45
trade links	57	63	56	64
All (n)	408	301	218	190
% of total (n= 654)	62	46	33	29

Source: NatWest/SERTeam Quarterly Surveys of Small Business in Britain 18:2

Personal contact is still preferred by most SMEs but there is a growing interest in ICT-mediated communication to obtain information with e-mail being used very extensively by the 29 per cent of firms that use it when seeking business information (there were multiple mentions). Although SMEs are generally reluctant to use external advice they do make use of professional advice when it is relevant and clearly outside their areas of competence (most commonly accountants). There is a strong preference for face-to-face contact for this sort of information. For more business-related advice and information, they overwhelmingly prefer their trading partners (customers, suppliers, partners in joint projects and so on). These are contacts that are typical of clusters and there is a stronger preference for using the Internet and websites for communication. Many belong to trade and business associations but do not use them for business advice or information (except on specific matters). There is also a reluctance to use government sources of advice except for specific information often related to compliance with regulations (and this appears often to be information taken from government websites). This pattern of a remaining strong preference for face-to-face communication with a growing use of the Internet and websites by SMEs reflects the findings from the British Social Attitudes survey of 2002. This revealed positive links between political and social involvement and the use of the Internet to gather general information (in that more than one third of the 29 per cent of UK households that reported a lot of interest in such issues used the Internet for information compared with less than one in five of the 12 per cent who had no interest at all). Table 6 summarises SME Internet usage patterns with respect to information gathering among SMEs.

Table 6. SME use of Internet for information and communication 2002

Internet use	With employees	No employees	All
Home access to Internet	69	66	67
Internet e-mail	45	41	43
general information	36	43	40
Shopping	24	26	25
News + current affairs	17	14	15
Training + education	14	16	15

chat rooms	1	3	2
<i>Do not <u>use</u> Internet</i>	47	45	45
All	89	156	245
% (n= 245)	35	65	100

Source: British Social Attitudes survey 2002.

This is slightly more interesting from a governance perspective because this is a survey of households not businesses so the respondents are as individual citizens who happen to be self-employed, some with and some without employees. The first point to note is that the reported access to the Internet and use of Internet e-mail is lower for households in 2002 than for small firms in 2001 (see Table 3). Secondly, although more than half the self-employed do use the Internet, the usage rate is lower than the access rate. Even so, a large proportion of self-employed sole-traders without employees use the Internet for general information (43 per cent) and around one quarter of all self-employed use the Internet for shopping as consumers (far more than those who currently have a business use for the Internet as vendors). The use of the Internet for training and education (e-learning) was quite low in 2002 and the use of chat rooms almost non-existent among the self-employed.

5 Conclusions

The SME sector is extremely heterogeneous, split not only into different industries and different sizes but also distinct in their career aspirations, business strategies and their propensity to engage and network with other firms. Initiatives and policies designed to promote good governance need to take these different factors into account. Some SMEs, especially the larger ones and those founded on knowledge and technology specialisations, do have clear growth strategies and generally have no problems in complying with regulations, quality systems and staff development or in sharing their views with other network members or more widely. This minority of SMEs which have clear growth strategies often also have management and organisational systems that meet the five criteria of good governance, both internally with staff and externally with other stakeholders - *openness, participation, accountability, effectiveness and coherence* (Gray, 2004).

However, most SMEs, even those that are active in several networks, do not have the inclination, knowledge or resources to comply. They clearly need support and policy targets that are shorter term and more directly related to outcomes that will benefit their businesses in clear and obvious ways. They will also want reassurance that regulations and the demands of good governance will not threaten their independence. As policy often promotes control from government and business

relations and networking often reflect the unequal power enjoyed by large and focal firms, this poses severe policy challenges.

Turning to the opportunities that ICT may offer in bridging these gaps, the picture is not yet clear. Most firms already use computers and the adoption of the Internet, broadband and websites is already high and growing. Furthermore, SMEs are using the Internet, websites and e-mail to access business and regulatory information. However, there are fewer signs that SMEs have increased significantly their collaboration with each other – except in certain creative, financial and media industries – or in engaging in the determination of policies that affect them. It is the participation side of good governance that poses a major problem with regard to the SME sector and, although SMEs make good business use of the increased communication capacity offered by ICT applications, they are not yet using these to engage in political and policy setting debates. No doubt time is a key factor in this but so too are deeply entrenched SME attitudes and suspicion of government. This has to be addressed in a political not technological arena.

The medium-sized firms and larger small firms may have the resources and capabilities for engaging in this process. However, the very small microfirms and self-employed in the main do not. Despite almost universal adoption of computers by SMEs a small proportion of mainly microfirms and self-employed do not have a computer or know how to use them. Indeed, the proportion of these firms may be under-reported. Because of time, communication, cultural and, in some cases, educational constraints, these firms do not respond to surveys. It is hard to see how new ICT applications can directly improve the participation of these firms. Even among the smallest SMEs that do have computers, the low take up of e-learning and low use of informal chat rooms and ‘blogs’ suggests that these self-employed and SME owner/managers are reluctant to engage and use the Internet unless they have a clear purpose and can obtain relevant information. The business value of ICT know-how needs to be related to their circumstances and there may be a need for targeted developmental support if they are not to be further marginalised. The adoption and effective use of ICT programmes and services that support good governance among small firms are likely to flow from the relevance and value of ICT applications to the successful achievement of their business objectives.

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