

Managing Change: Mental Models of SME Managers

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ABSTRACT

This study fills some of the gaps in existing studies on organisational change in SMEs by considering the management of change in SMEs in Queensland, Australia, built around the concept of employee participation. First, the paper examines what mental models SME managers espouse in relation to the management of organisational change; and whether small and medium organisations differ in relation to how they manage change. Data was obtained from a state-wide survey of 340 Queensland SME managers, conducted in 2008. The findings confirm the paucity of consultation in Australian workplaces. Within the context of change management, SMEs could benefit from combining their positive views on widespread involvement (including inspiring a shared vision and personally communicating the future vision; communicating the change message repeatedly up and down and across the organisation; and enabling others to act: by energising, empowering, building teams, tangible support with appropriate resources and structures) with a greater degree of ‘actual’ participation from employees in decision making.

INTRODUCTION

The increasing importance of Small and Medium Enterprises (SMEs) has been acknowledged as a global phenomenon brought about by market forces, technological advances, personal career aspirations and the underlying demographic changes of the population (Curran and Blackburn 2001). Furthermore, in the international arena, the development and strengthening of SMEs is a priority area for the Asia Pacific Economic Cooperation (APEC) due to the significant potential that SMEs hold for future economic growth (APEC 2002). SMEs have also been identified as key to the economic future in Australia for a number of reasons, including the fact that SMEs are the major provider of jobs in Australia (54% of jobs, 89% of private sector firms, calculated from ABS 2001) and are very active in knowledge-based sectors such as the high technology sector, business and consultancy services and other areas where economic development comes from creativity and innovation (ABS 2005).

However, despite the strategic significance of SMEs to both national employment and economic sustainability, there remains a paucity in research on SMEs (Curran and Blackburn 2001; McAdam 2002). SMEs are assumed to not only survive, but to grow and contribute to the Australian economy and the Asia Pacific. However, very little attention has been given to the development of SMEs' ability to meet these expectations, especially in relation to their ability to utilise and implement human resource and organisational change capabilities.

The academic and professional discipline of organisational change, while well-researched in some areas, remains embryonic when translated to SMEs in a dynamic environment. Factors such as globalisation, advances in technology, and labour market conditions have created an external environment dominated by increasing competition (Anthony, Perrewé and Kacmar

1996). A key to managing these challenges is via the effective development and management of human resources and appropriate change capabilities which could create competitive advantage within SMEs (Caudron 1999; Wright McMahan and Williams 1994). It is the unique combination of individuals employed within an organisation that develops and maintains an organisation's sustainable competitive edge (Pfeffer 1995; Lado and Wilson 1994; Kydd and Oppenheim 1990). However, in SMEs, where lower functional differentiation, lower administrative intensity, and less organisational slack are more common, less is known about how to apply basic change principles, particularly with respect to its functional and tactical elements, than is understood for large firms. The teaching and application of organisational change is to a large degree synonymous with large firm organisational management.

Studies of SMEs have been continuously eclipsed by a much greater research effort involving large firms. More recently, studies have emerged on the contribution of employee management and organisational change initiatives to the competitive advantage of firms (Huselid 1995; Arthur 1992; Ichniowski, Shaw and Prennushi 1994; Delery and Doty 1996). However, once again, these studies have mostly been conducted in large organisations and amongst large firms. Amongst small and medium-sized enterprises, this topic is still very much unexplored. There is very little evidence of international and Australian studies focusing on the link between change initiatives and the generation of competitive advantage in SMEs. Welbourne and Andrews (1996), Kotey and Meredith (1997) and Heneman and Berkley (1999) are examples of studies that provide statistical support for the relationship between employee management and firm performance in smaller firms. However none of these studies were large scale studies and they only focused on very narrow areas within the employee management domain.

Various researchers report this distinct lack of studies on SMEs in general (Curran and Blackburn 2001; Wilson 2002; Wiesner and McDonald 2001; Hammond 2001) and, more specifically, the challenges faced by SMEs in implementing change initiatives such as Total Quality Management (TQM) (Mohd and Aspinwall 2001), their ability to implement reengineering (McAdam 2000), their ability to innovate (Todtling and Kaufmann 2001), their effectiveness in new product development, (Huang, Soutar and Brown 2002), how they handle the practice of strategic management (Woods and Joyce 2003) and the relationship in SMEs between quality and innovation, (McAdam and Armstrong 2001). However, none of these studies were large scale studies which offer a more complete exploration of organisational change characteristics.

As evident from Heneman, Tansky and Camp's (2000) study which after a literature review of more than 400 articles concluded that the available research appears to be rich in prescriptions, limited in sound descriptive surveys, and sparse in analytical research. He points to the dearth of studies of a quantitative nature, in which hypotheses on employee management and organisational change within SMEs are specified and tested empirically (Heneman, Tansky and Camp, 2000, p. 15). Within the Australian context, apart from McDonald and Wiesner's (1999) study in 1998, there has been no large scale survey work on the nature of organisational change in Australian SMEs. This study will assist in filling this gap in the current Australian SME research context.

Furthermore, a substantial amount of employee management and change research exist internationally and in Australia in relation to the causes, processes and outcomes of organisational change in large organisations (eg., Dunphy and Stace 1992, Innes and Littler

1994). However this does not reflect how change is being managed in SMEs. It is only recently that there has been active research on aspects of employee management and organisational change in SMEs, particularly among British (Duberley and Walley 1995; Bacon, Ackers, Storey 1994; Reid, Morrow, Kelly and McCartan 2000) and North American scholars (Heneman, Tansky and Camp 2000; Wagar 1998).

Unlike content issues which involve the specific characteristics of the change itself, the focus of this paper is on process issues of organisational change that refer to the actions taken by change agents during the introduction and implementation of the proposed change (Walker, Armenakis and Bernerth 2007). It has been argued that change agents must prepare employees for change through open, honest communication. Armenakis et al. (1993, p. 683) explain, 'creating readiness involves proactive attempts by a change agent to influence beliefs, attitudes, intentions, and ultimately the behaviours of a change target'. Armenakis et al. (1999) suggested a successful change message must address five key areas. *First*, the discrepancy component involves an explanation of the gap between the current state of the organisation and the desired state. Management may choose to point out the organisation will not survive long-term if the current state of operations continue. *Second*, the appropriateness component is more specific and conveys the idea that the proposed change (i.e. content) is appropriate in bridging the gap between the current state and the desired state. The change agent should focus on the factors guiding the choice of a given change effort in comparison with other possible courses of action. Efficacy is the *third* component and expresses confidence in the organisation's ability to successfully implement the change. The change target should have confidence in their ability to successfully implement the change. *Fourth*, knowing that the leaders of the organisation, both internal and external leaders, are behind the change is also important to ensuring readiness. The principal support component addresses

this objective. It is important for change agents to demonstrate that management is serious about the change and that this attempt is not just another “program of the month.” Personal valence is the *final* component. It helps clarify the benefits of the change to the employees. The change target should clearly see the personal benefits of successfully implementing the change. For example, they may be able to perform their job better, pay might increase, or long-term job security may increase.

The ability of the management team to address these five message components is influential in the change target’s ultimate commitment to the change (Armenakis et al. 1999). Other researchers adopt a similar approach to Armenakis et al. (1999) five key message components, placing emphasis on honest and open communication by the change agents (Galpin 1996; Judson 1991; Kotter 1995).

Furthermore, one could argue that how SME managers think about organisational change will impact on the actions taken by change agents during the introduction and implementation of the proposed change. How they think about organisational change is critical in devising and managing change strategies. An essential part of this thinking about change is the importance they attach to effective change management skills since this could play a critical role in how they behave as agents of change (Graetz et al. 2006). Therefore, the views that SME managers espouse regarding the participation of employees in the organisational change decisions and the degree of consultation they employ when introducing organisational changes in their organisations, are likely to impact upon the effectiveness of change. These views that SME managers espouse regarding the participation of employees in the organisational change decisions are integral to the notion of strategic thinking about organisational change.

Stumpf defines strategic thinking as ‘identifying different ways for people to attain their chosen objectives’ (1989, p.31). If actions are to qualify as ‘strategic’, they need to be directed at achieving an organisation’s purpose through important decisions that impact on the long-term direction of an organisation (De Wit & Meyer 2005). Strategy has an ‘intended’ component, pointing to a pattern of decisions formulated before action (De Wit & Meyer 2005) which is also referred to in the literature as the desired strategic direction (Johnson, Scholes & Whittington 2005). Another component of strategy is the term ‘realised’ strategy, which refers to the resulting strategic behaviour and can be deliberate when the intended strategy is realised or achieved (Johnson, Scholes & Whittington 2005). The component of ‘emergent’ strategy is the strategy that transpire through everyday activities and processes in an organisation and it occurs irrespective of the intended strategy (De Wit & Meyer 2005; Johnson, Scholes & Whittington 2005).

Further to this argument, one could argue that integral to the implementation of organisational change strategies is the issue of SME managers’ mental models about organisational change. Mental models are frameworks (Denzau & North 1994; Jacobs & Heracleous 2005) that provide representations of reality that influence individuals’ thinking processes (Senge et al. 1994) in understanding, interpreting, processing, ordering and predicting the environment (Denzau & North 1994; Jacobs & Heracleous 2005). These mental models are based upon the manager’s core beliefs and values (Langfield-Smith 1989) and are also relevant experiences to which the individual is exposed. When a manager thinks, a mental model about a specific domain is activated (Langfield-Smith 1989) and based on the manager’s beliefs, values and experience, this domain is conceptualised, understood and predicted.

Within the context of this study, mental models could be described as the mental frameworks that SME managers have about a specific domain. In this study the domain is the management of organisational change. SME managers' mental models influence their thinking processes in understanding, interpreting and predicting the environment and its impacts upon the change implementation strategies they employ. It is based upon their core beliefs and values in relation to organisational change and it is also relevant to their previous experiences (Gentner & Stevens 1983).

SMEs provide an ideal context to study the change management mental models of managers. Whether the SME fails or succeeds is very often the result of external factors such as economic, political, social-economic and technological factors. These factors are mostly beyond the control of a single owner-manager. For example, the recent economic events in the form of a credit crunch during late 2008, which led to speculation of entering into a global recession, illustrates the susceptibility of the Australian and Queensland economy to global events (Skill Info 2008). However, the strategic choices of the owner-manager and the choice of employing particular change management practices in the organisation are within the control of the owner-manager. Furthermore, in contrast with the situation in large organisations, the SME owner-manager has much greater control over the utilisation of management strategies. Furthermore, SMEs are less likely to be unionised as evident from the results of the 1995 Australian workplace industrial relations survey. Only 17% of workers in small businesses were unionised compared to 74% in large organisations (Morehead, Steel, Alexander, Stephen and Duffin 1997). In the present study, more than two thirds of organisations estimate a union membership of less than 10%. This allows SME owner-managers a greater degree of managerial prerogative than in larger organisations.

The dominant role of the SME owner/manager is not only due to the owner's personality and characteristics, but also to the lack of other stakeholders in the decision-making processes. Often, the employer combines the roles of CEO, board of directors and HR staff. In addition, work councils, if present, have fewer rights than in large firms. Consequently, managers' internal room for manoeuvre is larger for smaller companies. This is illustrated by Simon (1996), who has examined over 500 successful small and medium-sized enterprises: *'I frequently ask managers what percentage of their energy they waste fighting internal resistance. In large corporations, the answer usually lies between 50 and 80%, small to mid-size companies usually cite a range of 20 to 30%'* (Simon 1996, p. 197).

MENTAL MODELS REGARDING ORGANISATIONAL CHANGE

This study explores two aspects of the mental models that Queensland SMEs espouse through *firstly*, examining the extent to which SME managers view change management skills as important in successfully managing change in their organisations; *secondly*, through examining their change management styles in the introduction of organisational change. Furthermore, in this study, management styles are operationalised through (i) the extent to which organisational change objectives have been pursued through management initiative or through consultation; and (ii) the degree to which employees are consulted in the introduction of organisational change.

Achieving change through management initiative or consultation

There is no consensus in the literature regarding the extent to which organisational change objectives should be pursued or achieved through management initiative or through consultation. In other words, whether strategic thinking about organisational change should take place at the senior management level of the organisation (including the CEO and senior

managers) or if employees from all organisational levels should be involved in strategic thinking about organisational change.

Drawing from conventional literature, creating the long-term direction for the organisation in relation to organisational change (strategic thinking about change) is viewed as the responsibility of the strategic decision makers and the senior managers in an organisation (Koontz & Weihrich 1988; Pearce and Robinson 1994). These managers have to ensure that an organisational change strategy is created that will ensure sustainable competitive advantage for the organisation. Contrary to this perspective, literature on change management suggests that the organisation should ideally involve employees from all levels in the change process and strategic thinking at multiple organisational levels is proposed as essential in creating and sustaining competitive advantage (DiVanna and Austin 2004; Hanford 1995; O'Shannassy, 2003).

Key words in the glossary of this newly emerging organisational model include novelty, quality, flexibility, adaptability, speed, and experimentation. In view of these requirements, the traditional organisational structure, with its hierarchical, top-down approach, centralised control and historically entrenched values of stability and security, is seen to be an outdated concept. The momentum is rather towards flatter, more 'flexible and agile organisational forms' (Bahrami, 1992, p. 33). In these organisational forms the boundaries are 'fluid and permeable' (Useem and Kochan 1992; Kanter et al. 1992). It is argued that these changes have triggered a radical shift in the role of senior managers from the traditional authoritarian, command and control style to a more open, participative management style. There is a new emphasis on cooperation, collaboration and communication, and therefore SME managers need to develop a completely different range of leadership skills. Traditionally, SME managers focused on the technical or operational dimensions of management, however if

SME managers are to be effective leaders in an environment of change, a second, interpersonal dimension becomes critical (Goleman 1998; Javidan 1995).

Degree of consultation on change

In examining the extent to which SME managers include their employees in the decision making of setting objectives and introducing organisational change initiatives, this study draws on the work of Dunphy and Stace (1992). Dunphy and Stace dealt with the concept of degree of participation in decision-making by developing a model of change leadership. They identified four styles of managing change: collaboration, consultation, direction, and coercion. The collaborative leadership style is characterised by the widespread participation of employees in important decisions about the organisation's future and about the means of bringing about organisational change. The consultative leadership style involves consultation with employees, primarily about the means of bringing about organisational change. Employees would possibly have limited involvement in goal setting relevant to their area of expertise or responsibility. Where the main form of decision-making about the organisation's future, and about the means of bringing about organisational change, rests in the exercise of managerial authority and direction it is characterised as directive leadership. Finally, where managers, or executives, or other outside parties force or impose change on key groups in the organisation, the leadership style is said to be coercive (Dunphy and Stace 1988).

Dunphy and Stace (1990, p. 78) called collaboration and consultation, 'participative' style, and the directive and coercive types, 'directive/coercive style'. The directive/coercive style could also be referred to as a way of excluding employees from the decision-making process. McDonald and Wiesner (2000) developed a typology of management style in SMEs which

applied both the degrees of involvement suggested by Dunphy and Stace's leadership styles and the range of matters upon which managers consult employees. They identified two management styles around the degree and range of consultation: inclusionism, which referred to Dunphy and Stace's first two styles; and exclusionism, which is a style applied by those managers who do not consult employees on most decisions. This typology was adopted because it is not altogether clear that managers who exclude employees from decision-making are also coercive, while they might be directive.

An 'inclusive' management style is defined as the involvement of widespread involvement of employees in decisions but also consultation with employees with their possible limited involvement in goal setting. An 'exclusive' management style is defined as the use of managerial authority and direction as the main form as decision-making but also as a situation where managers initiate and implement change (McDonald & Wiesner 2000).

There may be any number of reasons why managers might be prepared to use an inclusive style in making decisions. When a SME manager asks for employees' input in a decision, she/he treats her/himself on par with them and does not emphasise any status differences between her/himself and the employees. She/he does not coerce them to accept a solution she/he favours nor does she/he impose her/his opinions. Consequently employees sense a situation of trust, inspiration and responsibility for making a good decision. Furthermore, from a group or organisational standpoint, including employees in decision making improves availability and flow of information for decision making. For example, employees have more current information regarding work tasks than do managers, and their involvement produces better decisions, made with more timely information (Miller & Monge 1986).

Other categorisations which are similar to the 'inclusive – exclusive' dichotomy are task-oriented versus interpersonal styles; autocratic versus democratic decision making; transactional versus transformational leadership; direct control versus responsible autonomy; the tell-sell-consult-join styles; and control classifications of employer control (fraternalism-paternalism-benevolent autocracy-seat shop); and the commitment-control continuum relevant to HRM systems (see Howell and Costley 2006).

There is limited research available on change management styles in SMEs. However, in a case study of 8 medium sized enterprises in France and England, Barnes and Morris (2000) identify four themes of management style, participative/flexible, bottom up or two-way communication, HRM policies/strategies, and promotion of issues by the HR manager. While Barnes and Morris were not concerned to develop a model of management style, the problem with this framework is that it is conceptually unclear, containing elements relating to style, process, strategy and roles. Barnes and Morris base their analysis of 'quality awareness' upon an assumption that management styles within medium sized enterprises encourage a participative system, in which communication flows freely in both directions. The particular scope of this study recognises the importance of participation but does not accept it as an *a priori* assumption.

The understanding of the deliberate management of SME organisational contexts through strategic change management has the potential to provide size-specific models critical to driving productive capacity within a relatively understudied organisational context. Where the management of employees in SMEs has been researched, practices have been examined from a number of different perspectives in terms such as control strategies (Chapman 1999), HRM strategies (McDonald & Wiesner 1998) and management style (McDonald & Wiesner

2000; Barrett 1998). The foundations of management in SMEs might also be considered in terms of the interrelationship of managerial behaviour and managers' ideology (Wagar 1998; Sutcliffe & Kitay 1988). Management style has been considered in the context of analysing management strategy (Purcell & Ahlstrand 1987; McKinlay & Taylor 1994). However, the issue of strategy elicits a raft of problems associated with such questions as intent, planning, goals and objectives and raise issues as to whether strategic studies adequately and accurately deal with notions of management behaviour (Lewin 1987; Hyman 1987; Lawler 1990). It could be argued that an understanding of managerial behaviour is better served by analysing the modes of decision-making about key matters in the running of the business and the role of employees in those decisions. Decision-making modes, as distinct from their strategic context are therefore considered in this study in terms of management style.

Research objective, research questions and hypotheses

In view of the discussion above the research objective of this study is twofold: to examine the mental models SME managers' espouse in relation to the management of organisational change; and to determine the impact of organisational size on these issues.

Two **research questions** were developed to inform the research objective above. These research questions are as follows:

RQ 1 – What mental models do Queensland SME managers espouse in relation to the management of organisational change?

This paper explores two aspects of the mental models of Queensland SMEs managers including:

RQ 1a – to which extent do SME managers view certain change management skills as important in successfully managing change in their organisations?

RQ 1b – which management styles do SME managers use in pursuing change objectives and in deciding to introduce organisational change initiatives?

In RQ 1b, management styles are operationalised through (i) the extent to which organisational change objectives have been pursued or achieved through management initiative or through consultation; and (ii) whether SME managers employ an ‘inclusive’ or ‘exclusive’ style in the decision to introduce organisational change.

RQ 2 – What is the impact of organisational size on: the extent to which the main change driver in SMEs possess effective change management skills; and the mental models that they espouse in relation to the management of organisational change.

The following hypotheses have been developed to inform RQ2. The null hypothesis was employed in testing this research question. The significance of the task in employing tests of null hypothesis was to establish whether there is a significant difference between small and medium size enterprises in relation to. Owing to the dearth of research on these research topics, the null hypothesis was employed. Where a null hypothesis is rejected, a significant change has occurred in relation to two measurements (Zikmund 2003).

Ho₁: There is no significant difference between the views of managers in small organisations on the one hand and medium organisations on the other, in relation to their views on the importance of change management skills.

Ho₂: There is no significant difference between small and medium firms in relation to the management style they employed regarding the pursuit of change objectives.

Ho₃: There is no significant difference between small and medium firms in relation to the management style they employ in the decision to introduce a range of organisational changes.

Research Methodology

The survey questionnaire originally developed by Wiesner and McDonald (1997) was adopted for the purpose of this study. This paper only utilised certain sections of the original survey questionnaire developed by Wiesner and McDonald (1997) – the demographic section and the section which contains statements pertaining to organisational change. The content validity was determined by asking a panel consisting of SME managers, HR experts and academics in HR, to comment on the suitability of each item. A reliability analysis was conducted on the updated questionnaire which indicated Cronbach Alpha Coefficients of between 0.70 and 0.90 for each section.

The demographic section of the questionnaire collects information regarding the respondent and the SME. The sections employed in this paper asked respondents whether the objectives were pursued principally on management initiative or through consultation with employees/unions, employing a nominal scale of 'yes' or 'no'. Respondents were also asked to what degree they consult with employees in the decision to introduce 14 specific organisational change practices. A four point ordinal scale has been employed: 'involves widespread involvement of employees in decisions'; 'involves consultation with employees with their possible limited involvement in goal setting'; 'managerial authority and direction

is the main form of decision-making; managers initiate and implement change'. However the four point scale was recoded into two categories indicating whether SME managers are 'inclusive' or 'exclusive' in their management style regarding the introduction of organisational change. As a result this section measures whether SME managers employ an 'inclusive' or 'exclusive' style in the decision to introduce organisational change. Furthermore, respondents were asked how important they view eight change management skills to be in successfully managing change in the SME. This section employed an ordinal scale of 'extremely important', 'somewhat important' and 'not important'.

The survey was sent out to 1000 Queensland small and medium-sized enterprises. A Dun and Bradstreet database stratified according to the following criteria was employed: all Australian Bureau of Statistics (ABS) industry categories excluding agriculture; employee size between twenty and two hundred employees; a personalised address label targeting the CEO or MD. In this study, small businesses are constituted by one hundred or fewer employees, (applying the Australian Bureau of Statistics definition of small business in manufacture to all industries) and medium-sized businesses ranging from one hundred and one to two hundred employees. However, we used twenty employees as the lowest extremity for size because the research project is about the management of resources in a context of change and such organisations are expected to have a management structure.

After allowing for incorrect mail addresses and closed businesses (approximately 6% or 60 questionnaires of the total sample), a response rate of 34% was achieved (N=340). This constitutes a very good response rate since comparative studies in SMEs estimated a figure of 10-20% (Mohd and Aspinwall 2000). Action to encourage organizations to respond to the survey included a covering letter explaining the purpose of the survey, provision of a reply paid envelope, follow-up letters and an assurance of confidentiality.

Descriptive statistics were used to summarise and describe the demographics of the respondents, as well as the frequency of responses to individual questions in the questionnaire. These are presented in the form of frequency and percentage distributions in chapter 4 in order to identify trends in the data (Moore 1995; Healy 1991).

In order to test the hypothesis in relation to the impact of size, the Chi-Square Goodness of Fit test was conducted. Cross-tabulations were used to indicate the prevalence of the organisational change within each SME size category (Coakes & Steed 1997). Inferential analysis through the Chi-Square Test for Relatedness or Independence was used to analyse questionnaire data with the purpose of determining the impact of size on the prevalence and nature of organisational change. The intention with this is to confirm the generalisability of the results (Moore 1995). Chi-Square is also suitable for the inferential analysis of non-parametric nominal level data and interval data (Coakes & Steed 1997).

Demographic Profile of the Sample

In terms of the organisational demographics of respondent firms small businesses (fewer than 100 employees) constituted 53 percent of the sample and medium businesses (100 – 200 employees), 47 percent. The ABS industry categories were used to describe the main operations of the organisations. Manufacturing organisations dominated the responding organisations, with retail organisations in second place. Each of the remaining categories represented 10 percent or less of the sample.

Forty-six percent of organisations were family organisations of which family members managed 64 percent of these organisations. Sixty-two percent exported their products or

services, of which 85 percent had been exporting for more than three years. Only 3 percent of SMEs were franchise operations.

Twenty-seven percent of organisations operated from a single location and 58 percent in 2 to 10 locations. The remainder operated in more than 10 locations. Almost all SMEs could be said to be ‘surviving’ businesses that have been established for more than five years.

Fifty percent of respondents had both a HR department and/or a specialist manager responsible for HR. Sixty percent of respondents said their organisation has at least one union member with more than two-thirds of the sample estimating that there was less than 10 percent union membership. All SMEs had access to the internet, with 88 percent in possession of a web site.

As far as the personal demographics of respondents are concerned, more than a third of respondents (38%) indicated they are an owner or part owner of the business; more than two third of respondents (71%) have been with the firm for more than 5 years and posses tertiary qualifications (74%). Sixty-one percent of respondents are older than 45 years and almost two thirds are male (64%).

RESULTS

Mental models of Queensland SME managers

Two aspects of the mental models of Queensland SMEs managers were explored, including:

- to what extent do SME managers view certain change management skills as important in successfully managing change in their organisations?; and which management styles do SME managers use in pursuing change objectives and in deciding to introduce organisational

change initiatives?

In this study management styles are operationalised through (i) the extent to which organisational change objectives have been pursued or achieved through management initiative or through consultation; and (ii) the degree to which employees are consulted in the introduction of organisational change.

Importance of Change Management Skills

The results in table 1 inform research question – to what extent do SME managers view certain change management skills as important in successfully managing change in their organisations? Five of the change management skills are viewed as extremely important by more than 70% of SME respondents, with ‘personally demonstrating senior management involvement’ viewed as extremely important by the highest number of respondents (88%). A close second is the skills of inspiring a shared vision and personally communicating the future vision. The change management skill regarded as least important was ‘using rewards and recognition to gain support’, with only 35% of respondents indicating they view this skill as extremely important.

A significant difference between the views of managers in small organisations on the one hand and medium organisations on the other, were found in relation to only three of the eight change management skills, including: inspiring a shared vision and personally communicating the future vision; enabling others to act: by energising, empowering, building teams, tangible support with appropriate resources and structures; and taking decisive action in identifying and addressing resistance.

Table 1: Importance of Change Management Skills

| Practice | N | All SMEs | | | Small | | | Medium | | | Chi-Square |
|---|-----|----------|---------|--------|---------|--------|--------|---------|--------|--------|------------|
| | | EI | SI | NI | EI | SI | NI | EI | SI | NI | |
| Personally demonstrating senior management involvement | 325 | 286(88) | 36(11) | 5(2) | 147(86) | 22(13) | 2(1) | 139(89) | 14(9) | 3(2) | 1.517 |
| Inspiring a shared vision and personally communicating the future vision | 333 | 282(85) | 48(14) | 3(1) | 141(80) | 36(20) | 0(0) | 141(90) | 12(8) | 3(2) | 13.730 * * |
| Communicating the change message repeatedly up and down and across the organisation | 327 | 259(79) | 57(17) | 11(3) | 125(73) | 43(25) | 3(2) | 134(86) | 14(9) | 8(5) | |
| Enabling others to act: by energising, empowering, building teams, tangible support with appropriate resources and structures | 321 | 242(75) | 65(20) | 14(4) | 121(73) | 35(21) | 9(6) | 121(78) | 30(19) | 5(3) | 1.276 |
| Challenging the status quo and creating the readiness for change | 333 | 235(71) | 89(27) | 9(3) | 105(59) | 66(37) | 6(30) | 130(83) | 23(15) | 3(2) | 23.203 * * |
| Creating additional supporters for change at different org levels and involving people , building commitment to change | 331 | 224(68) | 102(31) | 5(2) | 121(68) | 51(29) | 5(3) | 103(67) | 51(33) | 0(0) | 4.872 |
| Taking decisive action in identifying and addressing resistance | 325 | 201(62) | 114(35) | 10(3) | 99(59) | 65(39) | 5(3) | 102(65) | 49(31) | 5(3) | 1.773 |
| Using rewards and recognition to gain support | 324 | 114(35) | 170(53) | 40(12) | 54(32) | 93(55) | 21(13) | 60(39) | 77(49) | 19(12) | 1.479 |

* p< 0.05 **p<0.01

A significant difference between the views of managers in small organisations on the one hand and medium organisations on the other, were found in relation to only three of the eight change management skills, including: inspiring a shared vision and personally communicating the future vision; enabling others to act: by energising, empowering, building teams, tangible support with appropriate resources and structures; and taking decisive action in identifying and addressing resistance.

In view of this finding, Ho₁: *There is no significant difference between the views of managers in small organisations on the one hand and medium organisations on the other, in relation to the importance of change management skills*, could not be rejected.

Change Management Styles

Together, Table 2 and Table 3 inform the research question – what management styles do SME managers employ in managing change? Table 2 summarises the extent to which SME managers pursue change objectives through management initiative or consultation; and table 3 reflects the extent to which SME managers employ ‘inclusion’ or ‘exclusion’ as change management styles in introducing organisational changes?

Table 2 Extent to which SME managers pursue change objectives through management initiative or consultation

| Objectives | Achieved Through | | | | | | | |
|---|------------------|-----------------------|--------------|----------------|---------------|----------------|---------------|------------|
| | N | All SMEs | | Small | | Medium | | Chi-Square |
| | | Management Initiative | Consultation | Mgt Initiative | Consulta tion | Mgt Initiative | Consulta tion | |
| (1)Significant Market Revenue Opportunity | 172 | 140(81) | 32(19) | 65(76) | 31(24) | 75(87) | 11(13) | 3.839 * |
| (2)Reduced Operational Costs/Expenses | 217 | 166(77) | 51(24) | 78(68) | 36(32) | 88(85) | 15(15) | 8.714 * |
| (3)Increase of market Share | 171 | 131(77) | 40(23) | 71(77) | 21(23) | 60(76) | 19(24) | 0.036 |
| (4)Decrease Threat to Survival | 136 | 103(76) | 33(24) | 54(69) | 24(31) | 49(85) | 9(16) | 4.211 * |
| (5)Increased Competitiveness | 211 | 158(75) | 53(25) | 84(74) | 29(26) | 74(76) | 24(25) | 0.038 |
| (6)Improved Decision Making | 239 | 179(75) | 60(25) | 113(80) | 29(20) | 66(68) | 31(32) | 4.079 * |
| (7)Meet Strategic Plan Objectives | 215 | 160(74) | 55(26) | 72(69) | 33(31) | 88(80) | 22(20) | 3.686 * |
| (8)Improved Internal Communication | 275 | 202(74) | 73(27) | 104(71) | 42(29) | 98(76) | 31(24) | 0.788 |
| (9)Reduced Labour Costs | 153 | 115(73) | 38(25) | 70(81) | 17(20) | 45(68) | 21(32) | 3.031 |
| (10)Improved Labour Productivity | 236 | 169(72) | 67(28) | 96(76) | 31(24) | 73(67) | 36(33) | 2.143 |
| (11)Improved Business | 234 | 159(68) | 75(32) | 75(65) | 41(35) | 84(71) | 34(29) | 1.146 |

| Processes | | | | | | | | |
|--|-----|---------|---------|--------|--------|--------|--------|----------|
| (12)Lower Absenteeism Rates | 149 | 98(66) | 51(34) | 46(60) | 31(40) | 52(72) | 20(28) | 2.575 |
| (13)Reductions in Waste | 170 | 105(62) | 65(38) | 58(62) | 36(38) | 47(62) | 29(38) | 0.000 |
| (14)Improved Quality of Products/Services | 232 | 144(62) | 88(38) | 71(57) | 54(43) | 73(69) | 34(32) | 3.196 |
| (15)Cultural Change | 158 | 97(61) | 61(39) | 48(57) | 36(43) | 49(66) | 25(34) | 1.366 |
| (16)Improved Services to Customers/Clients | 276 | 162(59) | 114(41) | 89(60) | 59(40) | 73(57) | 55(43) | 0.273 |
| (17)Increased Employee Consultation | 215 | 120(56) | 95(44) | 63(58) | 46(42) | 57(54) | 49(46) | 0.353 |
| (18)Increased Employee Commitment | 207 | 113(55) | 94(45) | 74(68) | 35(32) | 39(40) | 59(60) | 16.430 * |
| (19)Improved Labour Flexibility | 208 | 94(45) | 114(55) | 61(52) | 56(48) | 33(36) | 58(64) | 5.207 * |

According to the results in Table 2 the majority of SME managers pursued 18 of the 19 objectives through management initiative instead of consultation. Consistent with the next finding in Table 5, the objectives on which SME managers used the strongest management initiative are mostly strategic issues. They seem to be more consultative in relation to the more operational types of objectives.

Medium size organisations pursued only 4 of the 19 objectives to a significant greater extent through management initiative than their smaller counterparts. These objectives include: significant market revenue opportunity, reduced operational costs/expenses and meet strategic plan objectives. In contrast, small businesses were more likely to pursue the following 3 objectives through management initiative than medium organisations: improved decision making, increased employee commitment and improved labour flexibility. There were no significant differences between small and medium firms in relation to the management style they employed regarding the pursuit of change objectives.

In view of this finding, H_{02} : *There is no significant difference between small and medium firms in relation to the management style they employed regarding the pursuit of change objectives*, could not be rejected.

Table 3: Do SME managers employ ‘inclusion’ or ‘exclusion’ as change management styles in introducing organisational changes?

| Changes | N | All SMEs | | Small | | Medium | | Chi-Square |
|---|-----|-----------|-----------|-----------|-----------|-----------|-----------|------------|
| | | Inclusive | Exclusive | Inclusive | Exclusive | Inclusive | Exclusive | |
| (1)Major change issues | 331 | 170(51) | 161(49) | 106(60) | 72(40) | 64(42) | 89(58) | 10.342 ** |
| (2)Occupational health and safety | 334 | 243(73) | 91(27) | 123(68) | 57(32) | 120(78) | 34(22) | 3.850 * |
| (3)Changes to job design and work organisation | 328 | 240(73) | 88(27) | 135(77) | 40(23) | 105(69) | 48(31) | 3.015 |
| (4)Quality and cost improvement | 329 | 180(55) | 149(45) | 99(56) | 79(44) | 81(54) | 70(46) | 0.129 |
| (5)Plant layout | 312 | 196(63) | 116(37) | 100(61) | 65(39) | 96(65) | 51(35) | 0.735 |
| (6)Training and skills development | 336 | 223(66) | 113(34) | 125(69) | 55(31) | 98(63) | 58(37) | 1.643 |
| (7)Reliable customer service and delivery | 331 | 237(72) | 92(28) | 129(74) | 46(26) | 110(71) | 46(30) | 0.421 |
| (8)The performance of the firm | 336 | 172(51) | 164(49) | 100(56) | 80(44) | 72(46) | 84(54) | 2.956 |
| (9)Corporate planning | 324 | 118(36) | 206(64) | 61(35) | 114(65) | 57(38) | 92(62) | 0.401 |
| (10)Market performance | 321 | 149(46) | 172(54) | 83(48) | 89(52) | 66(44) | 83(56) | 0.504 |
| (11)Employee amenities | 333 | 249(75) | 84(25) | 128(71) | 52(29) | 121(79) | 32(21) | 2.788 |
| (12)Major change decisions | 330 | 124(38) | 206(62) | 68(38) | 112(62) | 56(37) | 94(62) | 0.007 |
| (13)Major policy decisions | 330 | 118(36) | 212(64) | 71(39) | 109(61) | 47(31) | 103(68) | 2.343 |
| (14)Securing enterprise efficiency and productivity | 320 | 188(59) | 132(41) | 101(59) | 69(41) | 87(58) | 63(42) | 0.066 |

It is clear from Table 3 that SME managers employ inclusion to a greater extent than exclusion in relation to 10 of the 14 changes measured. However even though they were generally more inclusive, SME managers were highly inclusive in relation to four changes including employee amenities, occupational health and safety, changes to job design and work organisation and reliable customer service and delivery. Furthermore the issues on which they engaged employees were change issues which are of a more operational nature. Managers employed exclusion in relation to four strategic changes including corporate

planning, market performance, major change decisions and major policy decisions. Less than half of the SME respondents involved employees in decisions regarding these few issues.

A significant difference in change management styles between small and medium organisations was found in relation to only two change issues.

In view of this finding, H_{03} : *there is no significant difference between small and medium firms in relation to the management style they employ in the decision to introduce a range of organisational changes*, could not be rejected.

DISCUSSION

McDonald and Wiesner (2000) argue that the issue of strategy elicits a raft of problems associated with such questions as intent, planning, goals and objectives and raise issues as to whether strategic studies adequately and accurately deal with notions of management behaviour (Lewin 1987; Hyman 1987; Lawler 1990). In their view, an understanding of managerial behaviour is better served by analysing the modes of decision-making about key matters in the running of the business and the role of employees in those decisions. Decision-making modes, as distinct from their strategic context are therefore considered in this section.

To what extent do SME managers view certain change management skills as important in successfully managing change in their organisations? The first three skills which SME managers view as important include personally demonstrating senior management involvement; inspiring a shared vision and personally communicating the future vision and communicating the change message repeatedly up and down and across the organisation.

Overall, a positive profile emerged regarding SME managers' views of the importance of certain change management skills. More than two thirds of SME managers view five of the eight change management skills measured in this study as extremely important. In contrast, using rewards and recognition to gain support was clearly the change management skill which SME managers do not value as high as the other change management skills with just more than a third indicating that they view this skill as extremely important. However, more than half of respondents did indicate that they view this skill as somewhat important.

In managing change effectively, managers and leaders ought to attend to two roles, including an instrumental role (operational know-how) and a charismatic role (strong interpersonal skills) (Graetz 2000). It has further been argued that while the two roles perform distinctive functions, they complement and strengthen each other (Graetz 2000; Goleman 1998; Javidan 1995). The conclusion which Graetz et al (2000), Jackson (1997), Kouzes and Posner (1995) came to in relation to these two roles are therefore extremely relevant to this study. They argue that the ability to conciliate and balance the two roles depends primarily on whether a leader possesses certain qualities and attributes required for effective change leadership. These qualities and attributes, that demarcate strong interpersonal skills as a key binding ingredient, provide the nexus between the charismatic and instrumental roles. By melding charisma and widespread involvement with instrumental factors, that focus on developing roles, responsibilities, structures, systems and rewards, the critical building-blocks for driving organisation-wide change are set firmly in place. In this study the majority of the main change drivers in Queensland SMEs seem to lack the skills of taking decisive action in identifying and addressing resistance and using rewards and recognition to gain support.

In this respect, SME managers need to use their considerable discretionary power to drive organisational change through the strategic use of symbolic and substantive actions (Graetz 2000). This includes symbolic and substantive actions through the use of rewards and recognition and recognising short-term gains or success stories caused by organisational changes. It also includes recognition of the new behaviours; and taking decisive action in identifying and addressing resistance (Jackson 1997; Useem and Kochan 1992; Kotter 1995; Bertsch and Williams 1994; Kanter et al. 1992; Johnson 1992, 1990). Ironically, according to Jackson (1997) Useem and Kochan (1992); Kotter (1995); Bertsch and Williams (1994); Kanter et al. (1992); and Johnson (1992, 1990), the power of these types of mechanisms is often undervalued. However, the low skill level in relation to this change skill in Queensland SMEs could be due to undervaluing the power of these types of mechanisms. This would be a valuable topic area to pursue in follow up research.

Another dimension of mental models measured was *which management styles do SME managers use in pursuing change objectives and in deciding to introduce organisational change initiatives?*

The results in this study paint a picture skewed in favour of decision-making through mainly management initiative. The majority of SME managers pursued almost all (with the exception of one) objectives through management initiative instead of consultation.

This finding contradicts the finding that they employ inclusion to a greater extent than exclusion in relation to 10 of the 14 changes measured. However on inspecting the results further it becomes clear that even though they were generally more inclusive than exclusive, SME managers were only highly inclusive in relation to two changes including occupational health and safety and changes to job design and work organisation. Furthermore, the issues

on which they engaged employees were change issues which are of a more operational nature. Managers employed exclusion in relation to four strategic changes including corporate planning, market performance, major change decisions and major policy decisions. Less than half of the SME respondents involved employees in decisions regarding these issues. In other words, SME managers tended to employ an 'exclusive' management style in relation to strategic issues and an 'inclusive' style in relation to the more operational types of objectives.

The findings therefore reflect the view that managers tend to support forms of participation and consultation which imply only a limited loss of managerial decision making power and minimal disturbance to the traditional organisational authority structure (Deery and Dowling 1988). Exclusion is marked in the case of a reluctance of SME managers to consult on corporate planning, market performance, major change decisions and major policy decision making. These are matters which are central preoccupations in the exercise of managerial prerogative. The provision of employee amenities, occupational health and safety, changes to job design and work organisation and reliable customer service and delivery appears less challenging to managerial prerogative.

The findings are reflecting what other studies have indicated in relation to consultative methods in SMEs. Other studies have indicated that consultative methods are far less formal and relatively unstructured in smaller organisations, both in Australia and elsewhere (Duberley and Walley 1995; Wright 1995; Bacon et al. 1996; Morehead et al. 1997).

The results are similar to McDonald and Wiesner's (2000) study which found that of the range of matters on which SME managers consulted employees, only in one quarter of the cases can the manager be described as exercising a participant style.

Furthermore, the findings also feed into another debate which entails the notion of SMEs being characterised as 'bleak houses'. Sisson initially defined 'bleak house' as an absence of human resource practices or a trade union (1993). The finding that smaller firms, in general, pay lower wages, employ less HRM practices and consult employees to a lesser extent than their larger counterparts (Black, Noel and Wang 1999; Patton, Marlow and Hannon 2000) seems to support the 'bleak house' notion. The bleak house scenario asserts that smaller firms are highly controlled by owner managers who run their businesses in an autocratic manner, with employees suffering poor working and inadequate safety conditions who have little involvement in the running of the business (Rainnie 1985). There are also low levels of unionisation and few strikes owing to the absence of the collective element (Edwards 1995; Goss 1988; Rainnie 1985; Sisson 1993).

In a bleak house scenario, flexibility is more akin to instability, better communication is authoritarianism and conflict is not low but expressed through more individual means (Cully, O'Reilly, Millward, Forth, Woodland, Dix, G. and Bryson 1998; Wilkinson 1999). However, these contradictory views have been questioned (Bacon et al. 1996; Hill and Stewart 2000; Ram and Holliday 1993; Storey 1994). As Ram (1991 p. 601) notes, workplace relations in SMEs may be 'complex, informal, and contradictory' instead of simply either pleasant or repressive.

However, in this study the results confirm findings in larger surveys concerning the paucity of consultation in Australian workplaces with either unions or employees generally.

Furthermore, within the context of the findings on mental models of Queensland SME which indicate that Queensland SME managers view the skill of personally demonstrating senior management involvement as extremely important and tend to favour managerial prerogative; in combination with the low incidence of union membership (less than two thirds of

organisations estimate a union membership of less than 10%); it seems that there are shades of the bleak house notion within Queensland SMEs.

Within the context of change management, SMEs could therefore benefit from combining their positive views on widespread involvement (including inspiring a shared vision and personally communicating the future vision; communicating the change message repeatedly up and down and across the organisation; and enabling others to act: by energising, empowering, building teams, tangible support with appropriate resources and structures) with a greater degree of 'actual' participation from employees in decision making.

IMPLICATIONS FOR SME MANAGERS

In order to overcome resistance to change the SME manager must create the proper attitude and flood the organisation with communications about the change. SME managers must also set a good example, solicit opinions from employees and reward acceptance (Folger and Scarlicki 1999). Hendry, Arthur and Jones (1995) suggest that leaders must be able to articulate the rationale for their strategy of change and be prepared for anticipated normal resistance. In a more comprehensive theoretical approach, Armenakis, Harris and Field (1999) suggested seven very specific influence strategies that should prove very useful to SME managers in the implementation of change. They cited where these strategies have been applied in practice. The strategies include persuasive communication, participation by those affected, alignment of human resource management practices, symbolic actions, diffusion programs, management of internal and external communications, and formalisation practices. However, if ideas behind modern change initiatives, such as the development of high-trust and collaborative relationships, are seen by employees largely as management rhetoric rather than as reflecting their own lived experience, then serious questions need to be

asked about the strategic purpose of continuing to engage in an ever growing raft of such change initiatives.

SME managers need to move beyond the search for simple, generalisable solutions or recipes for success, accepting that change is a complex dynamic within which employee attitudes and future expectations will be shaped. As such, the pursuit of organisational change should not simply serve a drive for competitive advantage (often resulting in a deterioration of employment conditions), but, rather, it should accommodate the needs of employees, who should also directly benefit from these change initiatives. The advantages of involving employees in change initiatives are numerous. The agenda in Australian SMEs therefore needs to be shifted away from managers/company-driven change (with rhetoric of employee involvement) to genuine and greater employee participation in change initiatives.

Because SME managers tend to exercise managerial prerogative in introducing organisational change they need to reflect critically on the nature of any changes proposed. Apart from being able to identify when to change and when not to change and steering change in particular directions, they also need to assess attitudes and behaviour of employees in introducing change initiatives. Fads and fashions should not dictate the nature and pace of change. Attention should focus on broadening participation, giving employees a say in the introduction of new change initiatives so that they do not see themselves as merely 'victims' in a never-ending barrage of reactive and externally driven change initiatives and management fads.

For most SMEs the initial years of company foundation require them to be 'micro-managers', constantly engaged in the everyday details of the business (Mazzarol 2003). In the first one to

three years of operation, companies founded by one or two owners are largely dependent on these owners for their survival. However, as the business grows becomes more mature, it is necessary for the owner(s)/manager(s) to develop a team and learn to delegate. Formichelli (1997) describes the problem as 'nanomanagement' and points to the risks of the owner failing to break free from the constant micromanagement associated with the early stages of the firm's lifecycle. These risks include a lack of time for the owner/manager to undertake important planning and business development tasks, failure to get the best out of their people and owner/manager 'burn-out' under the work pressure. Smith (1992) has highlighted the need for fast growing companies to develop good teamwork and delegation skills among senior managers. Baker (1994) also emphasizes the importance for CEOs to empower their team by learning how to 'step back' and let empowerment take effect. As he explains, to abdicate responsibility completely is a recipe for disaster as control can be lost. Meddling around with teambuilding frequently fails because subordinates are not permitted to have real authority. What is needed is a manager who is able to adjust his/her style to what the situation requires (Dunphy and Stace 1993) and not just predominantly rely on one particular style of change management.

Finally, it has been argued in the literature (Dawson 2001) that whilst it is possible to identify guidelines there are no simple recipes for success. The management of organisational change is a political process, which cannot happen overnight, but takes time and will ultimately involve a range of political players who may shape the speed and direction of change at certain critical junctures during the process.

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