

## **Organizational Change in Small and Medium Enterprises (SMEs)**

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## **Organizational Change in Small and Medium Enterprises (SMEs)**

### **Abstract**

This study fills some of the gaps in existing studies on organisational change in SMEs by reporting the introduction of a wide range of organisational change practices and strategic changes in Australian SMEs (N=1435). It further examines the triggers for organisational change in Australian SMEs and the impact of certain demographic factors upon organisational change practices and strategic changes. Owing to the dearth of national data on organisational change in SMEs, the results of this study are used to determine whether Australian SMEs could be characterised as “stagnating” or “transforming”. The results reveal a moderate adoption of organisational change practices and strategic changes. The findings by themselves do not support a “stagnating” scenario; however the lack of negotiated agreement in the introduction of strategic changes is not supportive of a “transforming” scenario either.

## **Introduction**

In response to the economic turbulence of the 1980s and 1990s, the Australian government engaged in macro- and micro- economic reform in an attempt to increase the international and domestic competitiveness of Australian enterprises. This has been reflected in a growing emphasis upon the role of organisational change strategies as a source of competitive advantage (Dessler et al. 1999). The Karpin Report regarded SMEs as having flexibility, speed, innovation and creativity. SMEs were thus regarded as playing a pivotal role in focusing on the behavioural and interpersonal aspects of leadership and management required by Australian industry to address the challenges of globalisation (Karpin 1995:10). However, despite the importance of small business and SMEs to the economy, there has been a shortage of data during the past decade concerning the broad nature of the patterns and trends in organisational change in SMEs. This study attempts to fill some of the gaps in existing studies on organisational change in SMEs by presenting the results of a national survey.

The following research questions are addressed in this paper:

- What changes have occurred in the composition of the workforce in Australian SMEs?
- What is the prevalence of a range of organisational change practices (changes implemented internally to achieve established strategic directions) in Australian SMEs?
- What types of strategic organisational changes (changes that redirect the organization at a strategic level) have occurred in Australian SMEs?
- What is the impact of size, the presence of an HR manager, the existence of a strategic plan and the presence of a union on the incidence of organisational change practices and strategic changes in Australian SMEs?
- What are the triggers for organisational change in Australian SMEs?

## **Organisational Change in SMEs**

SMEs are defined in many ways (Wiesner 2002; Johns, Dunlop & Sheehan 1989; von Potobsky 1992; Storey 1994; Cutcher-Gershenfeld et al. 1996; Osteryoung et al. 1995; and Baron, 1995), with variations across countries and industry sectors (Atkins & Lowe 1996, p.42). There is no consensus on the size range for defining SMEs between countries and within the same country there may be variations in the literature for determining the size of an SME. Generally, the criteria for the definition of a SME have included the number of employees (size), type of ownership, degree of independence, nature of managerial processes, use of business planning, turnover rates and value of assets (Atkins & Lowe 1996, pp. 42-3; Bacon, Ackers, Storey & Coates 1996, p. 85; Duberly & Walley 1995 p. 893; Hornsby & Kurato 1990, p. 9; Joyce, Woods, McNulty & Corrigan 1990, p. 50; Osteryoung, Pace & Constand 1995, p. 77).

Atkins and Lowe's (1996) review of the basis for defining an SME in 50 empirical studies found that 34 used employee numbers as the criterion for determining size. For example, in the United States of America (USA) upper limits as high as 500 and as low as 100 have been applied to small business (Hornsby & Kuratko, 1990; and Osteryoung et al., 1995). In the United Kingdom (UK), numbers as high as 500 have also been applied (Duberly & Walley, 1995) and, more frequently, an upper limit of 200 (Atkins & Lowe, 1996; Bacon et al., 1996; Joyce et al., 1990). The Australian Bureau of Statistics (ABS) defines small manufacturing businesses as having between 20 and 100 employees and medium-sized firms as having between 101 and 200 employees (ABS, 1990). The authors of this paper, following Baron (1995), and consistent with the ABS, have adopted employee numbers with the size range of 20-200 employees as the definition of SMEs on the basis that firms smaller than 20 employees in size would be unlikely to have organisational change issues to the same degree that firms in the range would be experiencing.

There are numerous definitions of organisational change (see Wong-Ming-Ji & Millett, 2002; Clardy, 2002; Kotter, 1996; Randolph, 1985). Dawson (2001) argues that one could formulate a general definition of organisational change which encompasses all aspects of change within any form of organisation. Under such a broad definition, change initiatives could range from corporate restructuring and the replacement of key personnel through to the minor modification of basic operating procedures within a particular branch or

plant. He acknowledges one problem arising from these common-sense definitions; that organisational change is not differentiated from the more general study of organisations and therefore the study of organisational change virtually becomes the study of organisations. For the purposes of this paper, we followed a simple definition of organisational change proposed by Dawson (2001, p212), “new ways of organising and working”. This definition is very broad and could typically include various types of organisational practices, however in this paper the focus is on a specific range of organisational change practices in SMEs other than specific Human Resource Management related practices which have been reported elsewhere by Wiesner and McDonald (2002). More specifically this paper focuses on a range of flexibility, quality and strategic change practices as well as the triggers for organisational change within Australian SMEs.

There are many reasons why companies embark on change initiatives. Within the literature the main external environmental triggers for change are seen to include government laws and regulations, globalisation of markets and the internationalisation of business, major political and social events, advances in technology, customer expectations, supplier requirements, increasing competition, organisational growth, and fluctuations in business cycles (Dawson, 2001). In examining internal environmental reasons for company change, the management literature has identified four broad areas technology, primary task, people and administrative structures (Leavitt 1964).

While there is extensive literature on the topic area of organisational change, the majority of published work focuses on organisational change in large organisations. Wiesner and McDonald (2001) reviewed studies on Human Resource Management in SMEs and argued that the growth in interest in this particular research area is a recent phenomenon. The same could be said about studies on organisational change in SMEs. Much of what is understood about organisational change and management practices in SMEs has been inferred from larger surveys such as the Australian Workplace Relations surveys (AWIRS) and the Workplace Industrial Relations surveys in the United Kingdom. The report of the 1995 AWIRS findings, for example, recognised the particular characteristics of smaller business and included a chapter on smaller workplaces (Morehead, Steele, Alexander, Stephen & Duffin,1997). Other studies have consisted of meta

analyses of large scale survey data (for example, Barrett 1995 and 1998). Some more recent examples of research that specifically considers change initiatives in SMEs include the implementation of Total Quality Management (TQM) (Mohd & Aspinwall 2000), new product development processes (NPDP) (Huang, Soutar & Brown 2002), human resource management strategies (Hammond 2001), re-engineering (McAdam 2000), quality and innovation (McAdam & Armstrong 2001), technological change (Raymond & Julien 1996) and internationalisation (Anderson & Boocock 2002). However, all of these authors identified a lack of research in their specific areas of interest and many opportunities for potential future research.

These kind of planned change approaches are increasingly being used by organisations to solve problems, to build learning organisations, to adapt to environmental changes, and to improve their positioning in order to influence future change (Cummings & Huse, 1989). Congruent with this growing interest has been the growth in non-traditional work arrangements within organisations including the shift to flexible work practices and team-based structures. Traditional approaches to work and the worker are based on the concepts of control (Gulick & Unwick, 1937), however, the modern approach is a much more socio-technical system perspective. Studies indicate that employees want to be involved in decisions about their work and that employees are interested in more than just economic rewards (Reilly & Di Angelo, 1988). The significant human problems that Bennis (1970) identified in the early seventies, are still confronting organisations today: how to integrate individual needs and management goals; how to socially influence alternatives to management authority and its exercise through the redistribution of power; alternatives to management authority rule; how to build collaboration through a shift from hierarchical control to interdependence; adaptation to increasing pace of change and unpredictability; and the ability of the organisation to revitalise itself through attention to process and evaluation.

However what is true for larger organisations may not necessarily apply to SMEs because SMEs are characterised by a set of unique features. By their nature, SMEs have more limited human, material and financial *resources* (Mc Adam 2002; Vossen as cited in Huang, Soutar & Brown 2002). With more limited resources, it is more difficult to direct efforts to organisational change initiatives. SMEs focus on

allocation of resources to achieve their maximum short-term advantage, which frequently leaves them to respond to external influences as they occur rather than taking a proactive approach (McAdam 2002). SMEs also have less market power than large organisations and consequently they are more subject to market changes (Todtling & Kaufman 2001; Raymond, Julien, Carriere & Lachance 1998 as cited in McAdam 2002). However, sometimes a smaller organisation can be more responsive than larger organisations and adapt to market changes as they occur (McAdam 2002; McDonald and Wiesner 2002). This is possible because SMEs normally have closer relationships with their market than large organisations. Both loyalty and geographic proximity can work in favour of the SME and they may have an advantage in being able to read the signs of change early (McAdam 2000). Early recognition and response to environmental change at the stage when it can be considered a challenge and not a crisis, is a key to long-run survival (de Geus 1999).

SMEs have a degree of *flexibility* that is frequently envied by larger enterprises, and many efforts have been made at emulation by the establishment of small business units within large organisations. The output of SMEs is more likely to be variable, high quality, and/or customised production and they normally have personal contact with other economic agents. This should allow them to get early warning signals on market changes (Cecora 2000). The inherent flexibility arising from strong leadership, specialisation levels and economic agent contact should assist SMEs in implementation of organisational change initiatives (McAdam 2002; McDonald and Wiesner 1997).

*Leadership* in SMEs is frequently dominant and centralised (Khan & Manopichetwattana, 1989; McAdam 2002; Wiesner and McDonald, 2002). In SMEs, personal identity and the firm's reputation are closely intertwined, as is business success and personal success. Three factors: personal reputation in the community; investment of personal assets; and hands-on involvement in the business, increase the likelihood that "enterprising, innovative, independent man" of the SME is highly committed to adapting to the changing environment (Cecora 2000). Visibility of the leader, and day-to-day involvement in the operations of SMEs is a potential advantage in implementation of change (McAdam 2000). Furthermore, the relationship between the personality of the business leader and organisational strategy and structure was

stronger in small firms than in larger firms (Miller & Toulouse 1986). However a relatively high proportion of SMEs (up to 40% in the United Kingdom) has two or more owner-managers/partners/directors (Curran & Blackburn, 2001). Consequently, interpersonal conflicts, in the absence of strong conflict resolution skills, can affect the business.

A high level of leadership commitment to the change process is a key for implementation of effective organisational change (Bruce & Wyman 1998; Kotter 1996; Want 1998). More than that, without strong leadership, there can be very little change (Shinn 2001). Astute leaders will be monitoring their environment including consideration of customers, capital markets, key supplies and suppliers, competitors, human resource practices, changing government regulations and technology (Burke 2002). The multi-tasking requirements of the leaders of SMEs, may overcome their capacity to maintain this watching brief.

SMEs normally have less formal, flatter *structures* than larger enterprises. Many of the downsizing reorganisations undertaken by larger firms had flatter organisational structures as their objectives. With fewer levels of management, culture and communication are more easily facilitated. The less formal, flatter structures more frequently found in SMEs should increase their opportunity to implement change (Francis & Macintosh 1997 as cited in McAdam; McDonald & Wiesner 1997). Yet in investigating implementation of ten management practices relevant to Just-in-Time (JIT) Manufacturing, differences between small and large firms were strongly co-related to firm size with large firms more likely to adopt the JIT practices (White, Pearson & Wilson 1999).

Having provided the unique context for organisational change in SMEs the main objective of this paper is to identify the prevalence and nature of organisational change occurring in Australian SMEs. The remainder of the discussion focuses on the methodology, demographic characteristics of Australian SMEs, survey results and discussion of the survey data and concluding comments.

## **Methodology**

A questionnaire measuring Human Resource Management and Organisational Change practices was originally developed for a study of Queensland SMEs during 1997. The validity of the questionnaire was addressed for the Queensland study by examining the content validity and reliability. The content validity was determined by asking a panel consisting of SME managers, Human Resources experts and academics in Human Resource Management to comment on the suitability of each item. The reliability analysis indicated Cronbach Alpha Coefficients of between .80 and .90 for each section. There were some minor revisions to the questionnaire after analysing the results for the Queensland study, in order to adapt the questionnaire for use in a national context. The questionnaire is divided in three parts: demographic variables, Human Resource Management (HR) practices, and Organisational Change practices. The main focus of this paper is on demographics and Organisational Change practices from the first and third part of the questionnaire. The organisational change issues examined as part of the third section of the questionnaire relate to: changes in the workforce; prevalence of a range of organisational change practices; types of strategic organisational change; objectives pursued in introducing organisational change; and objectives achieved in introducing organisational change.

The questionnaire was sent out to 4000 Australian small and medium-sized enterprises during October 1998. A Dun and Bradstreet database was used and a stratified sample according to the following criteria was employed: all ABS industry categories excluding agriculture; organisation size between 20-200 employees; a personalised address label targeting the Chief Executive Officer (CEO) or Managing Director (MD); and representation of each state and territory in Australia. The highest proportion of questionnaires was received from NSW (32 percent), followed by Victoria (30 percent), and Queensland (17 percent). The ACT, Northern Territory, South Australia, Western Australia and Tasmania comprised the other 12% of the sample. Action to encourage organisations to respond to the survey included a covering letter explaining the purpose of the survey, provision of a reply paid envelope, follow-up letters, an assurance of confidentiality, and participation in a draw for a one-day, tailor-made workshop for respondents who provided contact details.

After allowing for incorrect mail addresses and closed businesses (approximately 6 percent or 237 questionnaires of the total sample), a response rate of 36 percent was achieved (N=1435) by February 1999.

Statistical Package for the Social Sciences (SPSS) was used to analyse the data. Descriptive statistics were used to depict the demographics and summarise the data. These are presented in the form of percentage distributions in order to identify trends in the data. A chi-square analysis was used to determine whether there were significant differences in relation to the prevalence of organisational change in SMEs with and without a HR manager, organisations with and without a strategic plan, and unionised and nonunionised SMEs. The wording presented to respondents to determine the presence of a HR manager was “is there a manager in this organisation whose principal responsibility covers human resource management and who has one of the following terms in their title: (1) There is no specialist manager (2) Industrial Relations (3) Employee Relations (4) Human Resource Management (5) Personnel (6) Other (please specify)?” This question was re-coded into two categories to reflect the presence or absence of a HR manager.

### **Demographic Profile of Respondent Organisations and Respondents**

Small businesses (fewer than 100 employees) constituted 77 percent and medium sized businesses (100 – 200 employees), 23 percent of the sample. The ABS industry categories were used to describe the main operations of the organisations. More than one-third of organisations (36 percent) were in the manufacturing category. Each of the remaining categories represented less than 10 percent of the respondents. Forty-six percent of organisations were family organisations of which family members managed 60 percent of these organisations. Fifty-seven percent exported their products or services and of these 85 percent had been exporting for more than three years. Only five percent of SMEs were franchise operations.

One-third of organisations (34 percent) operated from a single location, 58 percent of SMEs operated in two to ten locations and the remainder in more than ten locations. Nine out of ten SMEs could be described as generally “surviving” businesses with almost all of them having been established for more than ten years (90 percent). Seven percent of the organisations that had been in operation for five to ten years and younger organisations (less than five years in operation) represented 3 percent of the sample. As expected,

most SMEs (69 percent) did not have a designated manager whose principal responsibility covered human resource management. A HR department was found in only 22 percent of SMEs. Fifty-three percent of respondents said their organisation has at least one union member with more than two-thirds of the sample (67 percent) estimating that there was either less than 10 percent union membership or no union membership at all among employees. Sixty-six percent of respondents reported the existence of a formalised strategic plan and 78 percent a business plan. Most SMEs (89 percent of respondents) had access to the internet; however, only 18 percent had installed human resource information systems.

As far as the personal demographics of respondents are concerned, 77 percent had a post-secondary school qualification, 72% were older than 45 years, 52 percent were owners or part-owners of their companies, and only 13 percent were female.

### **Survey Results of Organisational Change in Australian SMEs**

This section summarizes the survey results relating to various aspects of organizational change including: the changes in the composition of the workforce; organizational change practices; strategic changes; the objectives in introducing organizational changes; the extent to which organizational change objectives have been achieved; and the importance of various factors in deciding to adopt organizational changes (the forces of change).

#### ***What changes have occurred in the composition of the workforce in Australian SMEs?***

Data from 1998 (ABS 2000a) indicate that “permanent” full-time and part-time employees (defined as those who receive paid recreation and sick leave benefits) comprise 59 per cent of the Australian workforce. One-third of all part-time employees were employed in permanent positions, and these comprised 12 per cent of the permanent workforce. Casual employees accounted for approximately 18 per cent of the total workforce and 23 per cent of the employee workforce. Seventy-two percent of the casual workforce worked part time, with almost half of these indicating their preference to work longer hours.

Table 1 summarises changes in the composition of the workforce in Australian SMEs.

**Table 1****Changes in the Composition of the Workforce in Australian SMEs**

<b>Workforce changes</b>	<b>Increased (%)</b>	<b>Decreased (%)</b>	<b>No change (%)</b>	<b>N</b>
Permanent full-time	46	32	22	1397
Permanent part-time	41	12	47	1377
Temporary part-time	34	11	55	1357
Casual employment	43	13	44	1376
Women employed	46	7	48	1402
Junior employees	26	14	60	1378
Apprentices	21	11	68	1365
Non-English speaking workers	10	4	86	1365
Aboriginal & Torres Straight Islanders	4	1	95	1345

p\* ≤ 0.05

Table 1 shows that almost half of SMEs surveyed reported an increase in permanent full time employment (46%), permanent part-time work (41%), casual workers (43%) and women (46%). Slightly more than a third indicated an increase in temporary part-time workers (34%). The employment of junior employees (26%), apprentices (21%), non-English speaking workers (10%) and Aboriginal and Torres Straight Islanders (4%) have stayed largely unchanged.

***What is the prevalence of organisational change practices and what types of strategic changes have occurred in Australian SMEs?***

Respondents were asked to indicate what organisational change practices have been introduced in the previous three years. The prevalence of the change practices was measured by asking respondents which of these work practices occurred in the previous three years with a yes/no response. The first part of table 1 summarises the prevalence of work change practices and the relationship with certain demographic characteristics to the prevalence of these work change practices. These characteristics considered are organisational size, the presence of an HR manager, the existence of a strategic plan and the existence of a union. Respondents were also asked to indicate the types of organisational change strategies which have been introduced in their firm during the previous three years. We have called these “strategic changes” for

the purposes of this paper, to distinguish these broader categories of change from the more specific practices listed in the first part of the table.

**Table 2**  
**The Prevalence of Work Change Practices in Australian SMEs**

	Overall N. %	Size		HR manager		Strategic plan		Unionised <sup>1</sup>		
		Small %	Medium %	No %	Yes %	No %	Yes %	No %	Yes %	
<i>Work change practices</i>										
1. Job sharing	35	1365	35	36	31*	44	30*	37	36	34
2. Flexible hours of work	55	1390	54	57	52*	61	45*	61	57	53
3. Telecommuting	26	1386	25	29	22*	35	14*	33	31*	21
4. Contracting out work/outsourcing	45	1378	44	48	44	47	39*	49	42	48
5. Job rotation	44	1390	45	40	42*	48	37*	47	42*	46
6. Job enrichment	43	1364	41*	50	38*	54	28*	51	42	43
7. Quality problem solving teams	47	1377	45*	56	43*	55	31*	56	44*	50
8. Self managing work teams	43	1385	42*	48	37*	56	30*	50	44	42
9. Joint consultative committees	37	1364	32*	56	32*	48	24*	45	28*	45
10. Productivity improvement schemes	53	1378	51*	62	50*	60	36*	62	52	54
11. Cross functional project teams	25	1360	20*	42	18*	40	11*	32	22*	28
12. Total quality management	48	1389	46*	58	44*	55	38*	53	46*	51
13. Quality programmes (i.e. ISO9000)	55	1295	52*	63	54	54	50*	57	51*	58
14. Bench marking	37	1362	32*	56	32*	50	18*	50	34*	40
15. Best practice (comparison with other Australian organisations)	42	1376	36*	61	35*	58	22*	52	39*	44
16. Best practice (comparison with similar organisations overseas)	25	1372	22*	39	20*	40	9*	35	26	25
17. Use of consultants	62	1382	58*	73	57*	71	50*	68	63	60
<i>Strategic changes</i>										
1. Major change in product or service	19	1435	52	55	82	85	83	84	83	84
2. Major restructuring of how work is done	56	1152	53*	65	89	87	92*	86	89	87
3. New ownership of organisation	21	1157	20*	25	91	94	93	91	93	91
4. Reorganisation of management structure	66	1214	66	66	87*	83	88	85	86	87
5. Change in management personnel	68	1220	65	78	87	88	86	88	88	87
6. Major new plant, equipment and technology	63	1206	62	68	83*	89	79*	88	84	85
7. Changes to structure of workforce	45	1197	46	43	93	93	91*	94	94	92

p\* ≤ 0.05

<sup>1</sup> 'Unionisation' refers to the estimated presence of at least one union member in the workforce (Callus et al. 1991)

Overall the results in table 1 suggest a moderate level of adoption of work change practices and strategic changes overall. We defined a “high” level of adoption of an individual work change practice as occurring where 70 percent or more of SMEs employ that practice and a “low” level of adoption below 30 percent.

Two types of flexibility were measured in the questionnaire: numerical (which provides a range of total labour hours available to the organization) and functional (which provides the capacity to redirect labour hours to changing organizational needs) flexibility. Numerical flexibility relates to varying the amount of labour used in response to changes in the level and pattern of demand and functional flexibility refers to the adaptability and mobility of employees to undertake a range of tasks (Appiah-Mfodwa & Horwitz, 2000). Strategies to effect this include; the use of short term and temporary contracts, “hiring and firing” policies, and externalizing work through the use of sub-contractors (Appiah-Mfodwa & Horwitz 2000).

The results indicate a moderate level of adoption of four of the five change practices relating to *numerical flexibility*. These include flexible hours of work (55%), contracting out/out-sourcing (45%), job sharing (35%) and external consultants (62%). Telecommuting was adopted in only 26% of the firms.

Table 1 also shows a moderate adoption of five out of the six change practices relating to *functional flexibility*. The practices measured in this study include quality problem solving teams (47%), job rotation (44%), job enrichment (43%), self managing teams (43%) and joint consultative committees (37%). There was a low adoption of cross functional teams in responding SMEs (25%).

It is further evident from table 1 that SMEs adopted five of the six change practices relating to *quality improvement* to a moderate extent. These include quality programmes (i.e. ISO9000) (55%), productivity improvement schemes (53%), total quality management (48%), best practice (comparison with other Australian organisations) (42%) and bench marking (37%). This may well reflect the relatively high proportion of respondents in the manufacturing sector (36 percent). SMEs adopted best practice (comparison with similar organisations overseas) (25%) to a minor extent.

Twelve of the seventeen work change practices were significantly more prevalent in medium-sized enterprises. Fifteen of the seventeen work change practices were significantly more evident in SMEs

where there was a HR manager and all seventeen work change practices were more prevalent in SMEs with a strategic plan. There was a significant positive relationship between union membership and nine of the seventeen work change practices.

The *strategic changes* initiated to a moderate extent in Australian SMEs included a change in management personnel (68%), reorganisation of management structure (66%), major new plant, equipment and technology (63%), major restructuring of how work is done (56%) and changes to structure of workforce (45%). New ownership (21%) and major changes in products or services (19%) were initiated in the minority of SMEs.

Organisational size and the presence of a HR manager showed a significant relationship with only two of the seven strategic changes initiated by SMEs in practices. A similar trend occurred in relation to the existence of a strategic plan (3 of the 17 practices) and union membership did not show any significant correlation with the adoption of strategic changes in SMEs.

***What are the triggers for organisational change in Australian SMEs?***

Respondents were asked to indicate the extent to which they pursued certain objectives in introducing change in the previous three years and the extent to which they achieved the objectives in introducing organisational change. These objectives are listed in table 3. The extent to which objectives were pursued and achieved was measured by a three point scale – “not at all”, “minor extent” and “major extent”. Respondents were also asked whether or not these objectives were pursued through negotiated agreement with employees or unions, or principally on management initiative. Table 3 also summarises how important several factors were in introducing changes in Australian SMEs.

**Table 3**

**Objectives in Introducing Strategic Changes, Achievement of these Objectives and Factors Important in Introducing Strategic Changes in Australian SMEs**

<b>Objectives pursued</b>	<b>N</b>	<b>Not at all %</b>	<b>Minor extent %</b>	<b>Major extent %</b>	<b>Management initiative %</b>	<b>Negotiated agreement %</b>
↓labour costs	1234	25	37	38	84	16
↑Labour productivity	1201	14	35	52	77	23

↑Competitiveness	1191	12	28	60	89	11
↑Labour flexibility	1207	27	42	32	60	40
↑Decision-making	1178	18	38	44	86	14
↑Customer service	1215	8	27	65	81	19
↑Internal communication	1238	14	43	43	77	23
↑Employee consultation	1251	20	50	30	65	35
↑Employee commitment	1258	18	45	36	58	42
↓Absenteeism rates	1264	45	39	17	65	35
<b>Achievement of objectives</b>						
↓labour costs	937	15	52	33		
↑Labour productivity	1194	3	55	42		
↑Competitiveness	1235	5	49	46		
↑Labour flexibility	1054	11	59	30		
↑Decision-making	1117	7	54	39		
↑Customer service	1270	3	41	56		
↑Internal communication	1142	8	56	36		
↑Employee consultation	1089	10	62	28		
↑Employee commitment	1125	12	61	27		
↓Absenteeism rates	906	33	51	17		
<b>Importance of factors in decision to introduce strategic changes</b>						
Customer demands	1332	12	26	62		
Increased competition	1339	10	28	61		
Falling profits	1324	22	36	42		
Changing products	1309	33	36	31		
New technology	1327	22	36	42		
Changes to industrial relations	1287	66	24	10		

All ten objectives listed in table 2 were pursued by the majority of SMEs. More than eighty percent of SMEs pursued improved services to customers/clients, increased competitiveness, increased labour productivity, improved internal communication, improved decision making, increased employee commitment and an increase employee consultation to either a minor or major extent. These objectives, plus a reduction in labour costs and an increase in labour flexibility, were also achieved by more than 80% of SMEs to either a minor or major extent. Labour flexibility, labour costs and a lower rate of absenteeism

were the only objectives pursued by fewer than 80% of respondents although these objectives were still achieved by the majority of SMEs who did pursue these as objectives.

Table 3 shows that SMEs pursued all ten objectives in introducing changes overwhelmingly through management initiative and not negotiated agreement.

As evident from Table 3 the most important factors in introducing strategic changes were customer demands and an increase in competition although falling profits, new technology and changing products were also rated as somewhat or very important by the majority of respondents. Changes to industrial relations was the least important factor in introducing strategic changes with 66% of SMEs saying it was of no importance.

### **Australian SMEs: Stagnating or Transforming?**

To determine whether SMEs could be described as stagnating or transforming, we have tailored our discussion around the five research questions, the first of which relates to the changes in the composition of the workforce in Australian SMEs.

#### ***Changes in the composition of the workforce***

The significance of this research question relates to the controversies arising from the introduction of mixed employment options within organisations which “has represented a key issue ... if not *the* key issue in employment relations in several industrial societies” during the 1990s (Blyton & Morris, 1992 p.120). The transformation of the Australian labour market from a highly unionised, centrally regulated, male-dominated, mainly full-time workforce has resulted in a diverse range of direct employment and contractual arrangements in large organisations. It is clear from Table 1 that this trend is also reflected in the SME sector. The results show that more than half of responding SMEs increased permanent full time employment (46%), permanent part-time work (41%), casual workers (43%) and women (46%). Slightly more than a third indicated an increase in temporary part-time workers (34%).

Data from the Australian Bureau of Statistics (ABS) indicate that since the early 1980s part-time work has steadily increased to 13 per cent for men and 43 per cent for women, and that whereas high part-time rates for young men decline with age, high part-time rates for young women dip only slightly with age and remain higher for married women (ABS 2000a). Knowing that more women than men work part time does not distinguish between casual and permanent part-time work, which may be higher for women. Unfortunately we are unable to tell from the results of the Australian survey which percentage of these categories of employment are women.

ABS data further show that overall job creation in Australia during the 1990s has been greatest in non-permanent, less than full-time work; that the use of contracting and outsourcing of work has increased; and that this employment growth has been strongest in small and large organisations. ABS data during the 1990s consistently indicated that most employment growth has been in the casual/part-time category, although the figures varied across regions within Australia. Kramer's (2000) study of organisations employing more than 100 people indicates that about one in three of these organisations employed more than 10 per cent of their workforce on a temporary or casual basis. Between 1993 and 1996 just over half reported increasing their use of contracting and outsourcing and of casual, part-time and fixed-term employees.

Managing a workforce involving these mixed employment relationships provides new challenges for SMEs specifically. For some groups within the labour force these new options have created positive opportunities; for others they have curtailed opportunities for development; but all groups of work providers have been required to think about the careers of individuals within a new framework. The management of a mix of employment relationships can be problematic for SME managers because it is a task for which most managers receive no training. Nisbet and Thomas (2000) express the view that it is essential to understand attitudes and perceptions of different classes of employees and how these may vary with circumstances over time. Other issues concerning the management of contract labour highlighted in this article in *Business Review Weekly* include that managers: use flexible labour to provide a quick fix for problems and to reduce their fixed costs, rather than addressing long-term cost issues; hire contract labour

for core competency tasks (which they have not defined appropriately), and risk losing valuable company knowledge in doing so; need to define their performance requirements clearly and to have a system for introducing and assessing new labour quickly to gain high performance; and need to focus on performance and keep their “soft” skills for their permanent staff. In addition to these points, Hall (2000) stresses that managers need skills in preparing tenders and contractual details and in monitoring and managing these outputs when they may often have little control of inputs. They also need negotiating and people skills in resolving situations of inconsistent and divided supervision and loyalties, role ambiguities and problems when equipment, tools and/or training provided by labour hire firms are inadequate. Among their own continuing staff, they need to deal with concerns about job security and a possible lack of trust between different groups of staff. Mixed employment relationships therefore challenge traditional management styles (Sparrow 2000) by demanding more versatility of managers in dealing with the “hard” and “soft” issues of employee management.

### ***Organisational change practices and strategic changes in SMEs***

The significance of this research question relates to the contribution organisational change practices and strategic changes make to organisational performance. Certain change practices have been shown to have positive effects on organisational performance (Becker & Huselid 1998), profitability, shareholder return and organisational survival (Banker, Field, Schroeder and Sinha 1996; Huselid, 1995). The overall picture in our survey suggests a moderate implementation of change practices in Australian SMEs. Seventeen work change practices were identified and overall, the results show a moderate level of adoption of 14 out of the 17 change practices measured in this survey. Not one practice was shown to have a high adoption rate. According to these results, SMEs have only a moderate affinity for the “transforming” scenario rather than a “stagnating” scenario.

This reflects the findings of Wiesner and McDonald (2002) in their study of HRM practices in Australian SMEs. Overall their results indicate a moderate level of adoption of HRM practices in SMEs with a high level of adoption of 35 out of 71 Human Resources (HR) practices. They found a high level of adoption in 4 out of 13 recruitment practices, 8 out of 12 selection practices, 7 out of 11 training and development

practices, 3 out of 5 performance appraisal practices, 8 out of 12 compensation practices, 1 out of 9 employment relations practices, 3 out of 4 communication practices and 1 out of 5 HR policies.

Our study found a moderate level of adoption of three of the four change practices relating to *numerical flexibility* (including flexible hours of work, contracting out/out sourcing, job sharing and the use of external consultants). Brosnan, Horwitz and Walsh (1997) identified outsourcing and consultant services as the most common form of workplace flexibility practiced in a comparative study of three countries. They argue that both forms of flexibility provide organisations with access to specialized skills, however outsourcing involves both core and non-core organizational functions. The management of outsourcing contractors and consultants presents both a risk and a challenge for most organisations and is particularly so for SMEs especially when strategic processes are involved.

A minority of firms adopted telecommuting. This finding reflects the trend in large organisations. The numbers of people involved in telecommuting in Australia have been difficult to establish but appear to be lower than would be expected even where organisational policies have allowed the practice. Lindorf (2000) points to a lack of research evidence in the human resources literature on the cost/benefit and travel savings associated with telecommuting, which is defined as “undertaking work normally performed in the usual office work site in a home, satellite office, client office, or neighbourhood work centre” (p. 3). Of the “Top 100” companies in Australia, which engage more than 1 million employees, 55 had no home-based employees and the majority of firms who did have home-based employees reported that these were women working in a temporary arrangement, usually following maternity leave. Only 11 organisations reported a formal policy supporting home-based workers. Even in a sample of organisations in which telecommuting would seem a highly reasonable option, approximately half had no employees working from home unless under a short-term, individually negotiated arrangement (Lindorf, 2000).

The results of our survey indicate a moderate adoption of five out of the six change practices relating to *functional flexibility* including quality problem solving teams, job rotation, job enrichment, self-managing teams and joint consultative committees although there was a low adoption of cross functional teams in

responding SMEs. Most employers adopt flexible work practices as a means to achieving greater operational efficiency and others as a means of retaining or motivating their staff, and building a family or team culture (Mfodwa & Horwitz, 2000). This focus on human resource management supports the views of Pfeffer (1998) and Mishra, Ishak, S. & Mishra 1994) who assert that “the only enduring competitive advantage is a high quality well-motivated work force willing to work as a team with a long range objective to increase productivity and regain competitive advantage”. Flexible work practices should therefore be viewed as a source of competitive advantage, and not as a “quick fix” for operational inefficiencies.

It is difficult to establish a clear link between workplace flexibility and performance measurement (Mfodwa & Horwitz, 2000). This lack of performance measures that can be linked to flexible practices could hinder the implementation of some forms of flexibility like job sharing and telecommuting, which rely on an organization’s ability to track the performance of individual employees. Mfodwa and Horwitz (2000) argue that measures other than financial ones need to be developed to facilitate the implementation of all forms of flexibility available. They suggest the balanced score-card measure as one possibility (Kaplan, 1998). However the absence of a HR manager in most SMEs makes this a very difficult goal to achieve.

Quality management issues are important for SMEs for a variety of reasons. Firstly, small firms supply products and services to large organisations and most of these large organisations feel the pressure to increase their level of quality owing to the increase in national and international competition, ever demanding customers, or governmental purchasing rules. Secondly, research has shown that quality contributes to improved performance and results of SMEs (Sturkenboom, van der Wiele & Brown, 2001). The results indicate that SMEs adopted five of the six change practices relating to *quality improvement* to a moderate extent only. These include quality programs (i.e. ISO 9000), productivity improvement schemes, total quality management, best practice (in comparison with other Australian organisations) and benchmarking. Best practice (in comparison with similar organisations overseas) was employed to a minor extent. Our survey only focused on the prevalence of a few quality practices in SMEs and the findings of Brown (1998) and van der Wiele and Brown (1998) are therefore particularly useful to complete the picture regarding quality in SMEs. They found that generally SMEs do not introduce formal quality management

initiatives unless there is strong external pressure. In relation to setting up a quality system according to a quality system such as ISO 9000, SMEs generally do only what is necessary to get the certificate and nothing more and quality principles are generally practiced in an informal manner in smaller organisations.

Twelve of the seventeen work change practices measured in this study was significantly more prevalent in medium-sized enterprises. Six of these work change practices are quality practices. Ghobadian and Gallear, in Sturkenboom, van der Wiele and Brown (2001, p. 86) argue that "there are significant structural differences between SMEs and large organisations" and that "these differences are likely to influence the relevance, planning and implementation of the TQM concept" (p. 86). However, despite these differences, they conclude that "the fieldwork clearly indicated that the TQM concept could be used by SMEs with considerable success" (p. 103).

Our findings suggest that size has a significant impact on the majority of work change practices measured in this study. This supports other studies suggesting that the factors influencing organisational change in SMEs are different from larger firms. Jennings and Beaver (1997) believe that small firm management processes are unique and contemporary management theory principles, no matter how refined, cannot be applied directly to the smaller enterprises. The management process in the small firm may be more influenced by the personal preferences and attitudes of the owner and/or managers than in large firms because of a closer interaction of management with operations and employees. The permeation of a strong culture fostering adaptiveness and flexibility may be thus facilitated which can assist in the implementation of HR and change practices and in overcoming resistance to change. This is in contrast to large firms where communication of new practices can be problematic (Jennings & Beaver, 1997; Johns, Dunlop & Sheehan, 1983). However, the widely held assumption that small businesses are, by definition, flexible should be treated with caution. An SME may lack flexibility where the organisation's culture is dominated by an owner or chief executive who is inflexible and rigid (van der Wiele and Brown, 1998). Furthermore, medium sized businesses may lack not only resources but also the flexibility they may have had as small firms (Welbourne & Cyr, 1999). In view of these characteristics, it is therefore debatable whether the change models as applied in large organisations can also be applied to SMEs. However, Bacon, Ackers, Storey and Coates (1996) suggest that large organisations in the United Kingdom (UK) may have much to

learn from the informal nature of change in small businesses. We suggest that the same applies to the Australian scenario. Where SMEs implement change practices they may have some advantages over large organisations. For example, the informality of organisational structures and relationships may mean that forces that traditionally restrain change or maintain stability have less influence. However, the descriptive data and other studies do not point to any firm conclusion on this basis. If firms do have a high degree of flexibility, their relatively small size means that changes in practices may be adopted more quickly (Marlow & Patton, 1993). This is in contrast to large organisations where mechanistic and bureaucratic structures can impede the implementation of HR processes (Robbins, Waters-Marsh, Cacioppe and Millett 1998).

The results in this study indicate that the presence of a HR manager plays a significant role in the presence of most of the work change practices measured. The significance of this for Australian SMEs lies in the fact that only 31 percent of SMEs in this study employed a dedicated manager responsible for HR. One can argue that those SMEs without HR managers use consultants to advise them on change issues; however the results of this study further indicate that it is mainly medium-sized organisations that take advantage of this option (73% in medium size organisations compared to 58% in small organisations). The question for further research is whether the presence of an HR manager has a significant positive impact on the performance of SMEs. Welbourne and Cyr (1999) found that the presence of a senior HRM executive in “mid-size” firms had a negative effect on the performance of the firm.

What is the impact of the existence of a strategic plan on the prevalence of work change practices? The literature strongly supports the argument that, in small business, planning is a key issue. Planning not only increases the success rate (Jones, 1982), but it also affects the level of performance (Schwenk & Shrader, 1993). This idea was also supported by Bracker and Pearson (1986), who identified different levels of performance associated with different levels of planning. In parallel with those findings, the results of a meta-analysis conducted by Schwenk and Shrader (1993) identified the presence of moderating variables on the effect of strategic planning on performance in small firms (Rue & Nabil, 1998).

A strategic orientation in organisations would require at least the presence of a corporate strategy. McDonald and Wiesner (1999) found in an interview program with 40 SME managers that these managers

had difficulty in distinguishing between a strategic and business plan. Two questions relating the presence or absence of a strategic plan and a business plan were therefore included in the questionnaire used in this study. The results show that the presence of a strategic plan does impact on the adoption of work change practices. All change practices measured were more prevalent in organisations with a strategic plan. The significance of this finding relates to the fact that only 66 percent of SMEs in this study had a strategic plan even though 78 percent had a business plan. This is in contrast with large organisations where 90 percent had strategic plans, written and unwritten mission statements, corporate strategies and human resource strategies (Kramar, 2000). Although 92 percent of SMEs said they had identified specific goals and objectives as part of the strategic/business plan, only 47 percent said they had altered their practices in order to achieve the goals and objectives identified in the strategic/business plan. This may suggest that SME managers do not tend to take a strategic approach to organizational change.

There was a significant positive relationship between union membership and nine practices. This finding suggest that unions play a role in the introduction of work change practices in halve of the SMEs and this is more likely in larger organisations. Two change practices that show a positive relationship with union membership are flexible work practices including outsourcing and job rotation. This is an interesting finding because trade unions have traditionally viewed flexible work practices as a threat to employment security and hence their powerbase. However Grenier, Giles and Belanger (1997) assert that, although unions regard workplace flexibility as one of management's attempts to revise long-standing rules regarding the internal labour market and job demarcations, with workers and their unions facing an increasingly hostile external labour market, there is increasing support for flexibility as a way of preserving employment.

Seven strategic changes were measured in this study. Five of the seven strategic changes were initiated to a moderate extent in Australian SMEs including a change in management personnel, reorganisation of management structure, major new plant, equipment and technology, major restructuring of how work is done and changes to structure of workforce. New ownership and major changes in products or services were initiated in a minority of SMEs. Unlike the findings regarding change practices the demographic characteristics of organisational size, the presence of an HR manager, the existence of a strategic plan and

union membership did not show a significant impact on the introduction of strategic changes in SMEs. One could speculate that this could be partly attributed to the fact that the external environment is the main driver of the introduction of strategic changes in SMEs and therefore internal characteristics are not as relevant as would be anticipated.

### ***Triggers for organisational change in SMEs***

The majority of SMEs pursued all ten objectives in introducing organisational change and these objectives were overwhelmingly through management initiative and not negotiated agreement. Storey (1992) identified enhanced competition as the main cause of the shift towards HRM practices in large UK firms. Together with customer service, this cause is also found to be one of the most important triggers for strategic change in SMEs. It is true that large organisations are more likely to have the resources, technical knowledge and skills to implement large scale organisational change programs and it is also true that the term “stagnant” could be used to label some SMEs, but the results presented here indicate that it would be inaccurate to assume they were the norm in the SME sector.

There are, however, factors that indicate that a “transforming” label assigned to SMEs may be less appropriate than indicated by the relative positive picture regarding organisational change practices and strategic changes. Not one organisational change practice or strategic change measured in this study was adopted at a high level (more than 70%) even though there was a moderate level of adoption in fourteen out of seventeen work change practices and five of the seven strategic changes. However, one very positive trend is the achievement by the majority of SMEs of all change objectives pursued.

The fact that all objectives in introducing strategic change in this study have been pursued principally on management initiative is of more significance for the effectiveness of both the management of employees and the performance of SMEs, given the links between participation and the performance of firms. The claims made for employee participation relate to SME performance: first, that it leads to increased employee satisfaction; second, that improved productivity follows; and, third, that it promotes improved rationality and legitimacy leading to greater effectiveness of management decision-making (Vaughan, 1991). Participation can provide a means for management to improve efficiency within the organisation, create

industrial harmony between management and employees, and provide a forum for grievance resolution as well as constitute a means towards industrial democracy within the organisation (Salamon, 1987). In their study on the prevalence of HRM practices in Australian SMEs, Wiesner and McDonald (2002) found a low level of participative management in SMEs. Our results confirm this finding. The “transforming” label is fogged up by the poor performance with respect to negotiated agreement with employees or unions. One critical factor to the perceived success or failure of company change initiatives is people, but Dawson (2003) argues that what is perhaps more controversial is that it is the narrative or stories of change that count. A mismatch between the rhetoric of participation and empowerment and the lived experience of employees lead to a set of competing narratives that will serve to shape employee attitudes and behaviours. In much of the critical literature on modern change initiatives, it is this mismatch between the casting of a management tale on how to improve competitive advantage while simultaneously improving working conditions (the culture-excellence school) and the lived experience of job intensification, a decline in job security and a labour context of declining trade union membership that raises doubts about the benefits of these changes for employees (Dawson 2003).

## **Conclusion**

The ability to anticipate, respond and adapt to a changing environment (Bonvillian, 1997; Decker & Belohlav 1997; Nadler & Shaw 1995) is crucial to the survival of SMEs. The ability to compete effectively in a constantly changing environment is therefore viewed as the key to survival and growth for SMEs. The challenge for SME managers is to develop organisations which can achieve such an advantage through recognition of the implications of a turbulent environment and creation of organisational systems that facilitate flexibility, innovation and speed (Dunphy & Stace 1992; Limerick 1992; Nadler & Shaw 1995). These pressures, combined with the low inclination of SME managers to pursue organizational change through negotiated agreement, which might improve employees’ contributions to the performance of the firm, may mean that managers in Australian SMEs are ignoring change strategies which have potential to contribute to effective competition in the marketplace.

The unique characteristics that distinguish SMEs from large organisations plus the evidence that SME managers overwhelmingly pursued organizational change through management initiative reiterate the need

for SME managers to pay close attention to the key organizational activities of information gathering, communication, and learning that allow various elements of organizational change to operate successfully (Bamford & Forrester, 2003). If, as suggested by Bamford and Forrester (2003), organizational change is emergent in nature, it would benefit SMEs to take note of what various authors have to say about organizational change (Pettigrew, 1985, 1987b, Pettigrew & Whipp, 1993, Dawson, 1994, Wilson, 1992, Bamford & Forrester, 2003) for example:

Organizational change is a continuous process of experimentation and adaptation aimed at matching the organization's capabilities to the needs of an uncertain environment;

Although change is often achieved through small-scale incremental changes, over time these can lead to a major reconfiguration and transformation of an organization;

The role of managers is not to plan or implement change, but to create an organizational climate that encourages experimentation and risk-taking, and to develop a workforce that will take responsibility for identifying the need for change and implementing it;

Although managers are expected to become facilitators rather than doers, they also have the responsibility for developing the common purpose that gives direction to their organization, and within which the appropriateness of any change could be judged (Bamford & Forrester, 2003).

In this study Australian SME leaders pursued organizational change not only to strengthen services to customers/clients, but to improve competitiveness, labour productivity, internal communication, decision making, employee commitment, and employee consultation and labour flexibility, and also to reduce labour costs and absenteeism rates. Even though SME managers reported the achievement of these objectives to a large extent, the real impact of these benefits at the end of the change process would be affected by the influence strategies used by SME leaders to encourage adoption and implementation of the change. These influence strategies encourage affected employees to adopt the appropriate behaviors that translate into organizational gains. Presumably, if the best influence strategy is identified and used to send the

appropriate messages about the change, the organization should move successfully through the change process and reap the desired benefits (Holt, Self, Tha Jr, & Lo, 2003).

What are the implications for SME managers? In order to overcome resistance to change the SME manager must create the proper attitude and flood the organization with communications about the change. SME managers must also set a good example, solicit opinions from employees and reward acceptance (Caruth & Middlebrook 1995). Henry (1997) suggests 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 formalization 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, generalizable 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.

Change practices are only moderately represented in Australian SMEs. Taken together with low participation of employees in these changes, low levels of union membership, the low presence of specialist HR managers in SMEs and a third of the sample (34 percent) not having a strategic plan, a “transforming” scenario is unlikely. An added understanding of current change practices may also be useful in solving the problem that many small business owners may not even recognise their own failure to deal with organisational change issues.

Do Australian SMEs constitute an industry characterised by stagnant firms or transforming firms? While the SME sector clearly has individual establishments that are examples of both extremes, as a whole it is neither stagnating nor in a transforming mode. Since the adoption by Australian SMEs of organisational change practices may only be described as moderate, and there is a very low application of negotiated agreements compared to management initiative in pursuing strategic organisational change in a context of low unionisation, indications are that many SMEs need a make-over if they are to meet the demands of the market and their economic expectations.

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