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Change in SMEs
Towards a New European Capitalism?

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Why Should the Varieties Literature Grant Smaller Firms More Attention?
An Introduction

Katharina Bluhm and Rudi Schmidt

1.1 Introduction

Small- and medium-sized enterprises (SMEs) are still a disregarded species in social science. This may be explained by the ‘long shadow’ of Fordism, which raised the expectation that large vertically integrated conglomerates would eliminate the SME sector, especially in manufacturing. In contrast to large firms, SMEs have little power to shape the institutional and market environment. The lack of scholarly interest might also be caused by the cultural distance to the patriarchal-authoritarian leadership style that used to be widespread in family firms, as well as by the difficult access for academic researchers to this type of enterprise. The latter has partly to do with the limited available time of small management staffs in SMEs, and partly with owner desires to control the information flow going outside the firm.

The situation has slightly changed with the rediscovery of the concept of entrepreneurship, the disintegration of large firms and the rise of the ‘New Economy’. Still, fairly little attention is given to the distinctiveness of this firm type. This is also true for the Varieties-of-Capitalism approach (VoC) that has triggered a fruitful stream of interdisciplinary research and debate in recent years. One cannot say, though, that the VoC approach completely ignores smaller firms. Many assumptions about the macro-micro-conjunction between institutional frameworks and firm strategies can be applied to firms of different size (cf. Hall and Soskice 2001). Moreover, based on historical institutionalism, the approach focuses rather on collective behaviour and coalitions, which may include smaller firms instead of isolated actors (for a good example see Molina and Rhodes 2007). Yet there has been no systematic treatment of the differences
between large and small- and medium-sized firms with regard to the influence of institutional frameworks on firm strategies and vice versa.

All the more astonishing is that in the thorough critiques of the VoC approach, the issue of firm size is hardly raised anymore, while the limits of the dichotomy between coordinated and liberal market economy, the underestimated role of the state, and the concept of path dependency are intensively disputed (for an overview see Hancké, Rhodes, and Thatcher 2007). Firm size does play a significant role when critics come to the ‘within-system’ diversity that refers to regional variations within countries, making a country-based typology even more difficult (Crouch 2005; cf. Locke 1995; Herrigel 1996; Sorge 2005). The different regional production systems in Italy and, to lesser extent, in Germany are often taken as an argument against the view of Hall and Soskice that the national level is still the most decisive for institution-building and, therefore, also for the constitution of varieties of capitalism and production regimes (cf. Soskice 1999, 2000).

With this book we want to shed light on SMEs in the changing European market economies from different disciplinary angles. We argue that SMEs have empirical and theoretical relevance for a better understanding of this change and its probable direction. Large firms and SMEs are affected differently by institutional and economic change and respond to this change differently. This book goes beyond the regional-cluster approach that contests the national focus of VoC and in which SMEs play a prominent role. The cluster approach not only fails to grasp the decoupling of region and industrial community (cf. Herrigel in this volume) but also has too narrow a focus on SMEs as social actors.

In three ways we see size differences as a crucial factor in further investigations of the linkages between institutional change and firm behaviour:

1. First, size has an impact on how firms are ‘embedded’ in the institutional framework of the political economy. Organizational features like ownership structure, strategic capacities, the degree of formality of their organization, and their resource dependency influence which institutional spheres firms are involved in and to what extent they are shaped by them. Size also correlates quite often with the magnitude of the societal attention a firm’s behaviour is given, which is relevant for rule enforcement by actors who are not part of the relationship (‘third parties’). While owner-led SMEs are traditionally bound to local communities, large firms attract more often attention of unions, NGOs and react sensitively to the media, for example.
Due to the differences in ‘institutional embeddedness’ the impacts and outcomes of institutional change diverge according to size, too.

2. Second, SMEs often rely on relationships to large firms in the value chain and in broader ‘organizational fields’, which influences the strategies and structures of SMEs (cf. DiMaggio and Powell 1991). Large firms contribute to the rules by which SMEs play and are an important vector for the diffusion of new management practices, methods and concepts that often trickle down from large to small. Hence, the relationship between large and smaller firms is not only important for networks but also for institutional analyses that focus on the linkages between framework and strategies and the way institutional change is triggered by changing actors’ behaviour and expectations.

3. Third, the role of owner-managers or -families in their businesses and the traditionally high informality of organization mean similar social features of SMEs across countries and regions. They constitute the special advantages of small-firm size in terms of quick and flexible decision-making. Hence, nation-specific institutional effects might be modified or weakened by social features similar among countries, such as organizational forms and the crucial role of entrepreneur-owners. Moreover, as long as owners are people or a group of people who also run the business, the change in ownership structure and corporate governance cannot be explained only by institutional and economic change. They may also express social change caused by changing relationships within the families, the values and orientations of the owners and the like. Thus for SMEs – in contrast to large firms – succession is one of the most crucial events in their life cycle. Putting SMEs onto the agenda of institutional analysis means to include the social changes that affect SME strategies, governance structures and firm prospects.

1.2 Variations in institutional ‘embeddedness’

Size correlates with the resources, strategic capacities, and societal expectations of ‘stakeholder groups’, which are greater for large firms; size is often linked to different ownership structures and determines the degree of formalization in organizations and employment relationships. This implies that the institutional ‘embeddedness’ of large and smaller firms diverges in most of the spheres of the political economy, especially with regard to the financial system and the system of labour relations.