A french perspective of research on small business: denaturation and proximity

Olivier TORRES

Associate Professor
University of Montpellier III - FRANCE

Associate researcher
EM Lyon
Chair “Génération Entrepreneur”

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The topic of this paper could include the following issues: The New Challenge for Entrepreneurship Research

Abstract

Many authors have tried to define the SMEs' management specificities. The field of research on SMEs can be basically divided into four consecutive trends.

Originally, the trend of specificity (Gervais, 1978; Dandridge, 1979; Welsh & White, 1981; Hertz, 1982; Marchesnay, 1982), which defines the SME as a singular object of research. The approach is deliberately universal and unitary, its purpose being the specification of the intrinsic characteristics of the SME (its specificities) as opposed to the large firm, and to deduce ad hoc problematics. The titles of some articles of that time clearly reveal the researchers' intention to claim an area of research specific to the management of SMEs: "Pour une théorie de l'organisation-PME" (Gervais, 1978), "Children are not "little grown-ups": small business needs its own organisational theory" (Dandridge, 1979) etc. Differences of degree and not simply of nature distinguish the SME from the large firm.
On the opposite, the trend of diversity defines the SME as a research field in which the SME researcher creates typologies (Churchill & Lewis, 1983). This trend is situated light-years away from the trend of specificity, the approach being more contingent and the theoretical scope more limited. Any form of generalization becomes hard to achieve due to the high diversity of SME configurations.

Every SME researcher has to position himself in keeping with these different trends because the problematics are different. The contingent approach of the trend of diversity is opposed to the universal approach of the trend of specificity. Marchesnay (1988) describes this antagonism as a real "dilemma" facing the SME researcher:

- "To search for ideal types, but to face the risk of empirical non-relevance
- - To study real behaviours more closely and to set up typologies. However, under these conditions, there is a high risk of increasing the number of typologies without benefiting from a general reference framework. What such structures gain in descriptive power is lost in predictive accuracy."

A third trend tries to include the diversity of SMEs in a coherent and uniting framework. This is the trend of synthesis (Julien & Marchesnay, 1987; D'Amboise & Muldowney, 1988; Brooksbank, 1991 ; D'Amboise, 1993). The SME concept takes the appearance of a form, a gestalt, of a configuration with an imprecise shape but flexible enough to include a high diversity of cases. The continuum typology formulated by Julien (1993) perfectly illustrates this trend. The concept of SME becomes flexible.

Finally, a fourth trend, the trend of denaturation (Torrès, 1998, Torrès and Julien, 2002), no longer considers the thesis of specificity as a postulate, but as a simple hence refutable hypothesis of research. Indeed, the typical model of management of SMEs can no longer account for certain practices. Recently, several French authors relativize nevertheless this thesis. Indeed, the model of management of the small company cannot give an account today of some any more practise. The increase in the number of alliances, the generalization of the just-in-time method and of quality certification, the emergence of networks, the development of risk capital etc. all of these are examples showing that the specificities of SME management tend to disappear and to be replaced by management methods much closer to those of large firms. These practices are denaturing because they lead to a reduction of the informal, a strengthening of the explicit, a reduction of centralisation, an increase of
procedures, etc. The key concept of this trend is *denaturation* (or *loss of specificity*), which is defined as a process leading a small firm to lose all the features generally associated with a typical SME.
Introduction

Research into small business management has progressed steadily over the last 20 years in France and French-speaking community, and the number of journals (Revue Internationale PME, Revue de l'Entrepreneuriat), conferences and specialist associations (Association Internationale de Recherche en Entrepreneuriat et PME, Académie de l'Entrepreneuriat) in the field has grown significantly. The small business research community is increasingly structured, organized and hence recognized. The time therefore appears ripe for a review of those 20 years of small business research (Julien et al., 1994). However, such a review must necessarily take a critical stance.

The purpose of this article is to propose a “french approach” to the small business research in the management science field.

First, we will see that much of the work done so far does not really raise critical questions about the theoretical concept dominating small business research. The main reason for this is that the managerial specificity thesis has, over the years, become the dominant and structuring paradigm of “orthodox” thinking by the small business scientific community.

A critical approach of specificity

Current developments (market and industrial globalization, reticularization of firms, transformation of working methods, the new economy, etc.), however, suggest that it may be appropriate to question the relevance of this thesis. At the same time, it is important to regard it as a contestable research hypothesis only, rather than as a paradigm. The question we need to answer is this: To what extent and on what conditions is the theoretical concept of small business used as a basis by researchers still valid? The approach we have called “denaturation” aims more to define the limits of the validity framework and/or field of application of the small business theoretical model than actually to validate it.

The denaturation of SME

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On the opposite, the trend of diversity defines the SME as a research field in which the SME researcher creates typologies (Candau, 1981 ; Churchill & Lewis, 1983). This trend is situated light-years away from the trend of specificity, the approach being more contingent and the theoretical scope more limited. Any form of generalization becomes hard to achieve due to the high diversity of SME configurations.

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As P.A. Julien (1990) showed, the typological approach is used frequently in small business research. When researchers establish a typology, they usually argue that behavioural diversity is inherent to the small business community, even if they have previously used the basic premise of specificity to define the common framework for their typology. In other words, the diversity of the identified types means only changes of degree within the specificity framework.

Recently, several French authors relativize nevertheless this thesis of specificity. It's the trend of denaturation (Torrès, 1997-a, 1997-b, 1998, Messeghem, 1998, Debray et Leyronas, 1998 ; Stephany, 1998, Bousaa, 1998 ; Guieu, 1998, Géniaux et Mira Bornardell, 2001...). This trend no longer considers the thesis of specificity as a postulate, but as a simple hence refutable hypothesis of research. Indeed, the typical model of management of SMEs can no longer account for certain practices. The increase in the number of alliances (Puthod, 1998), the generalization of the just-in-time method and of quality certification (Curvalle et Torrès, 1998), the emergence of networks (Debray et Leyronas, 1998), the development of risk capital (Stephany, 1998) and merger strategy (Guieu, 1998) etc. all of these are examples showing that the specificities of SME management tend to disappear and to be replaced by management methods much closer to those of large firms. These practices are adulterating because they lead to a reduction of the informal, a strengthening of the explicit, a reduction of centralisation, an increase of procedures, etc. (Torrès, 1998, Géniaux et Mira Bornardell, 2001). The key concept of this trend is denaturation (or loss of specificity), which is defined as a process leading a small firm to lose all the features generally associated with a typical SME. We define the “anti-small business” concept as a small-sized firm with all the opposite characteristics of the classical small business conception. The anti-small business can be defined as a small-sized firm that is highly decentralized, with a high level of job specialization and an explicit, long-term strategy, having complex, formal internal and external information systems and working on a world market (Table 1). Although the anti-small business has the attributes of a big business, it is still small in size. In some ways, the anti-small business is a miniature big business.
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<th>The classical Small Business Concept: the specific approach</th>
<th>The critical Anti Small Business Concept: the denaturation approach</th>
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<td>Decentralized management</td>
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<td>Low level of labour specialization</td>
<td>High level of labour specialization</td>
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<tr>
<td>Simple and informal information systems</td>
<td>Complex and formal information systems</td>
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<td>Informal and intuitive strategy</td>
<td>Formal and planified strategy</td>
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<td>Local market</td>
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Table 1: The Small Business Concept and its Antithesis, the Anti-Small Business

A illustration case: the globalization denatures small business

Today, businesses become international at a much earlier stage in their development. Growing numbers of small firms export to a range of countries in the first year of their existence (Oviatt and Mc Dougall, 1997). They are characterized by a scattered operating space coordinated in several different countries (Porter, 1986; Roth, 1992; Julien, 1995). This type of strategy is probably the best response to the constraint of globalization. However, it requires a number of changes, in particular to the firm’s management and control systems. They apply distance management methods and are quick to adopt the sophisticated approaches developed by large corporations. Classical small business management hardly seems compatible with a globalization strategy.

The management centralization found in the classical small business structure quickly becomes a source of dysfunction in a global context. Geographical distance undermines the efficiency of direct supervision. The globalization strategy demands more decentralization within the organization. Although strategic decisions continue to be made by the parent corporation, responsibility for subsidiary operations is usually delegated to a local manager. The globalization strategy thus leads to a better separation of strategic and operational problems, which are generally closely linked in classical small businesses.

The low level of task division also seems to disappear in the wake of a globalization strategy. On the contrary, a global small business is one that takes task breakdown to its maximum, to be able to situate individual tasks in the best possible implementation context. This is the case of all small businesses that locate part of their production operations abroad to take advantage of cheap labour and thus reduce their manufacturing costs.
Similarly, the preference of small business managers for more informal media and oral communication quickly becomes ineffective in an international context. When a market expands geographically, it is more difficult for managers to maintain close, direct contacts with their customers. Obviously, the situation is more complicated when the firm also situates part of its production activity abroad. Information transmission therefore becomes more formal. Geographical distance forces firms to formalize by obliging them to rely more on written communication.

Global management requires a highly developed form of planning and control to ensure that geographically scattered activities fit comfortably into the group’s objective systems. There is a shift from mutual adjustment and direct supervision, which are simple and flexible mechanisms, to a much more standardized system that requires more cumbersome, longer and more costly procedures, which are nevertheless very effective for managing a spatially disperse organization. It is because the group’s various units use the same rules, obey the same principles and apply the same procedures that they can be properly coordinated regardless of their location.

The globalization strategy also has an impact on decision processes as the intuitive, reactive decisions of classical small business managers give way to a much more structured, longer-term approach.

Lastly, with regard to the market, it is clear that the global small business is defined by a global market. In marketing terms, global small businesses are often e-commerce enthusiasts, using the most advanced forms of information and communication technologies. The Internet has also simplified market surveillance and techno-watch activities. Remote sales become commonplace for global small businesses, and their competitive capacities depend on their remote communication capabilities.

The organization and strategy of global small businesses are totally opposite to those of classical small businesses. The only common element is their small workforce; their management model is radically different. This is because globalization requires a distance management method that is contrary to classical small business. A distance management replaces a management of proximity. The logical explanation is that the globalization denatures the small company because it calls into question the management of proximity which constitutes the base of the specificity of management of SME.
Toward a new approach of specificity: Small Business as a proximity mix

The aim of the trend of denaturation is to define the limits in the validity of the specificity of the SMEs, in order to identify the hard core of SME management theory. The object of this second part is to show to what extent proximity can be considered as the federative element that substantially explains the specificity of the management of SMEs. To highlight the central role of proximity in managing SMEs, we will use the concept of SME formulated by Julien (1998). This concept is based on a synthesis of the literature devoted to SME management. Centralised management, weak labour specialisation, flexible and implicit strategy, simple and informal internal and external information systems and a geographically or psychologically close market, define the SME. We are going to show that each of these specificities of SME management can be analysed as a particular form of proximity.

The role of proximity in the centralisation of SME management

The management style of a SME is highly centralised, sometimes exclusively concentrated in the person of the company owner-director. If it is generally admitted that the level of centralisation depends on the size of the company, on the character of the director and on the value of its subordinates, it also depends on the conditions of the company. The considerable centralisation of the owner-director’s power can be effective only under conditions of great proximity and within the framework of a compact structure. It is because he is present near his employees that the owner-director increases his hierarchical domination. The influence of the owner-director on his company depends on his omnipresence. “Because it is not very frequent that a small company has several geographically dispersed establishments, the manager has the possibility to know individually almost each employee and to assess his qualities. Moreover, he is personally known to all” (Barreyre, 1967). The small dimension of the SME thus facilitates the multiplication of direct and personal contacts and a management style often directed towards tasks and people. “This better integration leads to a personal valorisation for individuals. To the extent that the manager seems to be the mainspring of this valorisation, centralisation will be more than accepted: it will be wished for.” (Gervais, 1978).
Ultimately, the high centralisation of SMEs' management styles as well as the weakness of their hierarchical line are features which can only be enhanced in a context of proximity. Proximity increases centralisation and attenuates the interest to create intermediaries. This intensification phenomenon of the centralisation of SMEs can be interpreted as a form of *hierarchical proximity*.

**The role of the proximity in the low specialisation of SMEs**

An organisation is defined, in first analysis, by its level of work specialisation and coordination modes.

In small companies, the division of work is not very intensive. Only few services or functions are concerned. A great number of tasks are done by the director-owner who not only manages, but also plays the role of a service manager, and even carries out tasks himself. SMEs can be considered as “a whole, where all the functions are integrated or at least very highly connected, and where the owner-director controls all the aspects, managing several functions and taking part personally in some of them” (Julien, 1992). Generally, a small company appears to have a low level of specialisation. At the decisional level, an important interweaving between the decisions of finalisation (strategic), animation (administrative) and exploitation (operational) can be observed. Here again, we can speak of a weak specialisation, the entrepreneur being at the same time composer, orchestra conductor and sometimes performer” (Marchesnay, 1991). SME management is based above all on the multi-skilled qualities of its employees.

But this multi-skilled quality can be practised only if the manager and the members of the company are permanently in touch with the various problems occurring in their organisation. Here also, proximity between the players enables multi-skilled functioning, turning all concerned into permanent observers of the various problems faced by other members of the company. Sales and marketing people are closer to manual workers and operatives. These numerous and repeated contacts induce a better awareness and understanding of the various problems of the company. Proximity stimulates multi-skilled functioning and consequently discourages task separation within the company.

Finally, if the SME is but a slightly structured management model, it is because it corresponds to a compact spatial configuration. Low task specialisation is highly conditioned
by a context of proximity. Proximity amplifies low specialisation and reduces the advantage of increased task division. To summarise our argument, we will retain the notion of *intrafunctional proximity* to describe the reinforcement of the SME’s low specialisation.

The role of proximity within SMEs’ simple and informal systems of internal and external information

The main specific feature of SMEs’ internal information system is simplicity and low structuring. The relevant literature has often highlighted the SME managers’ preference for the most informal media, i.e. verbal information. According to P.A. Julien (1998), “small companies work through dialogue or direct contact. Conversely, large-scale organisations have to set up a complete formal (and written) mechanism to ensure transfer of information while minimising rumours and encouraging control. Very large-scale organisations even publish an “in-house newspaper” to broadcast general information and prevent rumours from interfering with the company’s efficiency.” This preference for direct contacts and verbal communication characterises the traditional operation of SMEs.

SMEs’ external information systems are also usually very simple because of a “relatively close market, either geographically or psychologically (…). This is how managers who carefully pay attention to the slightest market signals can rapidly become aware of local or regional traditional market changes; this may offset to a certain extent the limits of expertise or the time available for thinking” (Julien and Marchesnay, 1987). In small companies, the manager works through dialogue and direct contact with members of the staff as well as with his clients and suppliers gaining direct knowledge of their needs and tastes, or explaining the various features of his products (Julien, 1998). Information systems are simple because they are based on close physical proximity between the SME’s company manager and the main leading players of the SME environment. Thus, through the study of the operation of a very small innovative business in the process of being set up, Planque (1987) points out that “the means of obtaining information are a cluster of interpersonal and informal relationships which are un-institutionalised and unstructured. Given the communication type used, the localisation of network “junctions” is mainly restricted to the area in which the prospective innovator might easily move around”. This type of behaviour is directly linked to small organisation characteristics: the relational aspect is more important than the
organisational one. Generally speaking, the direct link between space configurations and the firm’s information capability is clearly highlighted here.

All in all, information systems in a SME context seem undersized. This characteristic is often interpreted as the consequence of the little interest some company executives usually show for the strategic value of information (Chapellier, 1995). However, this under sizing may also be considered as the result of a concentrated space configuration favouring the setting up of direct flexible and informal information systems. The proximity of players facilitates direct and verbal communication; formalisation and writing are not essential. The often-observed link between proximity and minimalist information management policy is thus understandable. We will adopt here the idea of proximity information systems.

The role of proximity in SMEs’ intuitive or informal strategy

“The cycle of strategic decision, in which SMEs’ time scheme is often short-term, is based on reaction rather than anticipation. Moreover, these companies use few management methods and techniques such as forecasting, financial analysis and plan management. The decision-making process of SME managers is considered more intuitive, “informed guesswork”, and less dependent on information and formal models of decision making” (Blili and Raymond, 1998). Generally in SMEs: “the decision making process usually works according to the intuition-decision-action pattern. The strategy is mainly implicit and very flexible” (Julien, in Julien and Marchesnay, 1987). Considering P.A. Julien’s comments, informal and intuitive characteristics – the specificity of SME’s strategy - are explicitly founded on proximity: “Whereas large-scale companies have to draw up relatively precise “plans” for forthcoming actions company executives can refer to, the owner-manager of small companies is close enough to his key persons to explain when necessary every change of direction”.

Similarly, the notions of reactivity, flexibility, interactivity and adaptability – qualities generally associated with the SME - can be interpreted as deriving from a strong time-factor proximity as well. These characteristics specific to small companies constitute “advantages of their own, such as rapidity for decision implementation, markets proximity as well as a larger potential for adaptation and change of orientation in the short term” (Blili and Raymond, 1998). The efficiency of SMEs is based upon knowing how to benefit from all local opportunities and resources in order to exploit market changes. For that very reason,
production flexibility is inherently a matter of local flexibility (Piore and Sabel, 1984). Organisational flexibility is “fundamentally local” since different forms of flexibility are rather based upon tinkering than on standard acknowledged know-how.

Consequently, the preference of the short term, the intuitive aspect of strategic formulation, qualities of flexibility and reactivity displayed by SMEs are just so many features based on proximity effects. To qualify this phenomenon, we will use the notion of time-factor proximity.

**Conclusion and implications**

Each of the SMEs’ management specificities mentioned above can be considered as a particular form of proximity. The smallness of enterprise should be understood as a *proximity mix* (Table 2).

Space, time, intrafunctional, hierarchical proximity constitute a coherent framework providing the required conditions for action and reflection within a centralised and non-specialised organisation, which consists of simple internal and external information systems and which favours informal and intuitive strategies. Therefore, proximity management, as we see it, is not confined to simple metric measurement. It represents the choice-ranking principle for the owner-manager. All other things being equal, the SME manager will opt for what is both geographically and temporally closer to him. This preference for proximity and the ensuing management is a strategic and organisational construction enabling the SME manager to keep control on the firm and its development.

This reformulation enables us to move from a descriptive approach (a mere listing of characteristics) to an explanatory approach (foregrounding a superior principle). The latter combines all the features of the SME around a federative mechanism (proximity) and transforms this mechanism into the essential requirement for the normal operation of the SME. In other words, our perspective is that of a specific management of SMEs obeying a proximity principle.
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<td>Spatial proximity</td>
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Table 2: Small Business Concept as proximity mix

Emphasising the proximity principle as an operative and explanatory approach to SME management is the foundation of a real research programme in all management sectors: what is the role of proximity in marketing, in finance, in HRM, in SME strategic management? It is important to ask how proximity can be integrated into management science's debates on the subject of SMEs. What are the influence, the role, the significance and the limits of proximity effects in high-tech SMEs, start-up companies\(^1\), local produce SMEs, family-run businesses, craftsmanship firms)? Depending on the industry, is the influence of proximity the same? Is it of equal intensity? What is the role of proximity in innovative circles, in industrial districts, in clusters, in localized productive system? Is there a proximity influence in SME hiring decisions, in the choice of countries for exports, financing methods, strategic orientations? More radically speaking, what happens to proximity management in the case of a globalizing SME? It is so easy to imagine the new light such a research programme could cast on SME management practices that it is pointless to add to the list of questions. It could strengthen the argument for SME management specificity. If SME management specificity does exist, it must have a name. For our part, we call it “proximity”.

References


\(^1\) It is often wrongly believed that start-up companies escape proximity constraints, mainly in the Internet industry. However, the proximity constraint is far from disappearing in this type of business. On the contrary, start-up companies are privileged locations where the players have to permanently communicate together because of the necessary and so frequent interactions in the case of starting companies or companies in the making. Moreover, the start-up company is characterised by different crises occurring at the same time (speeding-up and complexification of the Greiner process), which reinforces the need for proximity to provide for contingency purposes, and increases the feeling of solidarity within the entrepreneurial team.


