

Organizing In The Small Growing Firm



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ORGANIZING IN THE SMALL GROWING FIRM

A Grounded Theory Approach

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Preface

Most research and writings in management concern - explicitly or implicitly - large companies in spite of the fact that most enterprises are quite small. At present there are many reasons for management researchers to pay attention to the small firm as a phenomenon. Problems of productivity of large bureaucracies have led to an interest in finding out if some small-scale advantages can be recreated in the large firm, e.g. by decentralization and by outsourcing certain services. Problems of innovativeness have led to a renewed interest in the small firm or entrepreneur as a dynamic force in the economy. Research like Per Davidsson's recent thesis indicates that small firms have some characteristics that keep them from growing even if they are successful.

If there are some special advantages from organizing certain activities on a small rather than large scale it is essential to know more about the character of these advantages and how they can be preserved. Tomas Brytting is seeking answers to these questions from an organizational perspective. His results indicate that there are indeed organizational processes that strengthen small scale advantages while there are others that tend to weaken them. The in depth analysis of two small firms carried out by Brytting provides insights into how such efficiency dilemmas can be handled. The results are of interest for both organizing in practice and for further development of theories of small-firm management.

The project has been carried out at the Economic Research Institute at the Stockholm School of Economics. The institute is very grateful for the financial support which has made it possible to fulfil the project.

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The Author's Preface

Some years ago I became interested in a phenomenon called Decision Support Systems (DSS). These systems are based on the idea that the vast amount of data collected in modern corporations could be used to facilitate decision-making at the top level. To achieve this, a system is needed that allows decision-makers to build instant computerized models of their problems, and "run" these models using data taken from their own companies. I felt skeptical and saw a contradiction between programmed decision-making and the exceptional character of managerial work tasks. I thought managers dealt with what is unique, exceptional, new, that which is not programmed, and if some of these work tasks become programmable, through technological innovations for example, they will probably be delegated to other staff members. If successful DSSs appeared they would not be used by managers I argued. So I designed a research project aimed at identifying criteria for relevant managerial DSSs. How should a DSS be designed to help frustrated managers and yet allow them to be managers - to deal with what is unique? I never managed to raise funds for that project. In retrospect, I understand the heroic and maybe naive nature of it. What an idea, to identify criteria for successful transition between unique events and generalized problem-solving!

Still, the problem was there and called for my attention. I think it was uniqueness especially that brought small firms to my attention. These firms have limited possibilities to turn unique events into standardized management information because standardization presupposes repetition - large scale - and unique events never come twice. After an MBA at The Stockholm School of Economics - I assume students in business administration at any university or business school have the same experience - I thought I knew a lot about how to use generalized information and models. "Just break the problem into pieces, solve each piece at a time and put it together again. The problem might look unfamiliar at first, but the number of pieces is limited." Small firms seemed to reject this reductionism. What if "the problem" is not general management but a person who protest and refuses to be cut up in pieces. What if he or she even refuses to understand "management" as a piece of patchwork - and prosper still!

Why are small firms so common? Why do they survive - without MBAs? Why do they die - with or without MBAs? Why don't profitable

small firms grow? Why do large firms introduce small "firms" in their structures? Do we need small firms - Why? Are small firms only "firms"?

In these post-modernistic times, it is with some caution that I suggest a discussion of these questions should be based on empirical descriptions. However, many of the descriptive tools available are very biased. Most of our concepts have been delivered by students of large corporations. Small business might need its own vocabulary and grammar. Without conceptual inventions we might miss out on important aspects of small firms and their management. I call for new conceptual categories.

This study of small firms as organizational processes, has given me the opportunity to search for new conceptual categories in an intensive, deep longitudinal study of organizational processes in a few small firms, in close contact with owner/managers. Did I think this study would bring me to the bottom of these matters? - yes! Did I reach it? - no. Do I now have the final theory of organizational processes in small firms? - no, but I certainly do have a more elaborate understanding of the pros and cons of small firms, and I see more interesting things now from my tower.

Boda By, January, 1991

Tomas Brytting

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Chapter One

Organizational Processes And Their Outcomes

Summary

This first chapter contains a presentation of the phenomenon in focus for this study: small firms; and a presentation of the research problem. Is it necessary to treat small firms as a special form of organization, fundamentally different from large companies, or can we understand them simply as "firms" among other firms? If they are special, in what way do they differ from larger companies? Three research questions are being asked:

(1) From industry statistics we learn that small firms have become increasingly important suppliers of jobs. Does this imply that small firms have special small scale advantages? (2) From previous research we know that small firms do not grow. Does that mean that increased size threatens any small scale advantages present in the small firm? (3) There is a growing interest in smallness in large organizations. Is it possible to reproduce small scale advantages in large companies?

Small firms have not until recently attracted any substantial interest from organization theorists. Instead, models and concepts from studies of large organizations are transferred to the small firm context. These theories often rests on assumptions which have a rationalistic and structuralistic bias. Previous research suggests, instead, that a small firm organization theory might have to be based on less rationalistic and structuralistic assumptions.

The ambition of this explorative study is to start from the practical experiences of the small firm manager, and from these experiences investigate the personal, and process character of small firms. It is argued that an empirically based description of small firms as organizational processes is missing, and that the research questions formulated for this study should be approached with concepts and models taken from such an empirical description.

Chapter One Organizational Processes And Their Outcomes

Small firm characteristics will be discussed thoroughly in this study. Before entering into the abstract, however, it might be interesting to consider a vignette of a small firm taken from the empirical part of this research project.

A process view of organizations

A cultural rendez-vous

A meeting took place between the owner/manager of a small firm - he had 10 employees - and two representatives from a financing agency. The owner/manager dealing with the coloring, decorating and furnishing of private homes, offices and public rooms, was colorfully dressed; lilac tie, glaring green sweater, striped trousers. Those he met wore strict business suits. The owner/manager started by presenting his company with great enthusiasm and charisma. He showed them pictures from his store and magazines where his projects were presented. He told them about his reputation among customers and colleagues in the industry, but most of all, he explained his business concept;

I sell happiness to people. Don't talk with me about buckets of paint, pieces of cloth, rolls of wall paper or other 'products'. I don't sell that kind of stuff, I give my customers the final result of a combination of all this! I work with feelings and emotions. I sell happiness to people, not paint !

So he went on. Finally the president of the financing agency stopped him and asked;

What's your turn over? What's your margin? Profits? What do you want from us?

Luckily, the owner/manager had been very successful, so he showed them some figures; a growth rate reaching 100 % per year with a profit-margin about twice as high as the industry level at large. But he was still

very reluctant to talk about his plans and of his company in terms of figures.

I know, and have proved, that I have something...a concept, that can be really big. All my competitors are having trouble. I have started with empty hands and have built a great success! My staff, my clients and customers love me. But I don't know what to do next. I don't know how to go on, that's why I come to you? You have contacts. You have the money. Give some of it to me and I'll do something great.

The reply was not in the same spirit;

OK. It's all very impressive but now you go back home. Talk first of all to your accountant, and make a detailed plan specifying where you want to locate your next business, what you want to do in the future, what the estimated costs and revenues are etc., and then we will help you make the final counting.

After a brief discussion, they agreed that the best thing to do was to set up a larger shop. The owner/manager was sent home to draw up a future oriented plan. He later described the situation in these words:

My shop was too small, my employees complained. A lot of things were wrong. I had had some ideas and thought that if I should do something it should be prepared in some way. So I called them (the financing agency) up and asked for their opinion. I mean, I have borrowed money from them before. So we went there, and suddenly we discussed something as if it was for real!

About a month later I asked the owner/manager why he had problems getting a loan from this financing agency. Were they not satisfied with the security he offered?

No, that wasn't the problem. They wanted analysis which I didn't have. You see, I did not even know what colour to paint the walls. I couldn't possibly know how much I would sell in January and in February, and how much then and then and...I mean, we'll have to see. Do you get this? They wanted all kinds of prognosis. In a way they may be right, but I mean, it must be possible to do a more crude forecast, to start with.

We had a long fight about this, Tom (the representative from the

financing agency) and I. He wanted to take it step by step: 'Who will deliver the carpets? How much will that cost? How many liters of paint will you need for the walls? How much will that cost?...'

Take it easy, I said. Let's do it this way: To move will cost me 100,000:- Carpentry 100,000:- Additional decorating 100,000:-, and something else 100,000:-. So I need to borrow 400,000:- That's roughly what it will cost, and since I'm in this business myself, I'll surely buy this much cheaper anyway. We'll never spend it, and we'll never do the things we talk about here anyway.

Then Tom says: 'But I gotta have... You know, when I present this in our committee, I must have nice-looking papers. Never mind if it's true, but it has got to look good, to the bank, to the lenders. It must look professional. The paint costs 21.994:- not 22.000:-, as if you have an offer.'

Allright then, I said, you write that! Help me to make up that budget into a nice lie, with a nice look.

'Sure I will', he answered. It's a pity I don't have the papers here, because they look so goddamn professional. Page after page with writings; analysis, year 1, year 2, year 3 etc...and solidity...and what would happen if I go bankrupt...and substance and..... formalities, that is.

After that it was easy to get all necessary 'go-aheads' on different levels. But I kept asking myself: when does this 'Year 1' start...

About three months after this meeting, a brand new home-decorating center opened in Stockholm. One and a half years later, the retail side closed and the firm concentrated on other aspects of its business operations.

This little vignette exemplifies several things: organizational processes can be surprising, even for the actors involved; small firms can change organizational form quickly; organizational processes in small firms can sometimes be a trial-and-error process; systematic planning is sometimes a superficial activity with very little effect on actual behavior.

The received view

Organizations are typically discussed from an information processing perspective. From this perspective, the organization, when it carries out its operations, is engaged in a problem solving process. The production of a car or the transportation of passengers in an airplane, or running a decorating business, are examples of complex problems. These

problems will be solved through a process in which the operations of the car manufacturer, the aviation company, or the decorating firm, is divided up into parts or sub-problems, i.e. into tasks and task-clusters. This task structure will mirror the underlying problem structure. Depending on the nature of these tasks and the way they are interdependent in the work process, different coordinating mechanisms will then have to be utilized. Since these coordinating mechanisms demand a certain amount of information processing, the design of an organization must also include information systems and communication channels.¹

The organization is usually seen as an open system which encounters changes in its environment. These changes may demand that the problem/task-structure of the organization must adapt. In that sense the organization is dynamic - it changes from time to time. Small firm growth, for example, is typically seen as a series of stages separated by organizational re-structuring or managerial crisis.²

This perspective assumes complexity to be the main explanatory variable - and as such the theory is quite powerful. For instance, if we take this perspective and use it in the small firm context, we will experience small firms as - uncomplex. To run a small firm is assumed to be a less complex problem compared with running a large corporation. Since the operations of a small firm are relatively uncomplex, we can predict that division of labor is low, and that coordinating mechanisms and communication channels are absent or have an *ad hoc* character. Of course, these are fairly well established empirical findings.

However, the information processing perspective has three major weaknesses which form arguments for carrying out explorative research in this field. First, it is based on a decision-making model with a fairly rational character. Second, it is limited by its structural perspective, and third, it tends to underestimate the importance of subjective perception, e.g. it assumes a positive correlation between complexity and size.

¹This brief description reflects the writings of Galbraith (1973), Thompson (1967), Mintzberg (1979a) and others.

²d'Amboise & Muldowney found 11 "Growth Models for the Understanding of Small Business" (1988:232-233). Nine of these were of a "metamorphosis" type indicating fairly radical changes in kind when the firm moved from one stage to another. The other two focused on changes in degree. See also Steiner (1990a:270).

Small scale complexity

The logic behind the information processing perspective is highly dependent on the assumption that complexity is positively related to firm size, and the argument runs the risk of being circular. Mintzberg, for instance, clearly makes the mistake of mixing increased complexity with increased organizational size.³ Because the growing organization is supposed to be engaged in solving increasingly complex problems, its structure will be more and more complex and in need of coordinating mechanisms. In other words: growing organizations are increasingly complex because they are growing (facing increasingly complex problems). We can also express the confusion the other way round: the small firm is simple because it is small and solves simple problems.

What if the correlation between complexity and size is more complicated? The case presented above, for example, could hardly be described as a simple process or situation. We can think of two instances where small scale complexity is present. Consider first the small, newly established innovative firm - like the decorating firm. The high level of complexity it will encounter might be explained by its lack of age and experience rather than by its size. The new firm has probably not had the time to divide its operations into adequate sub-problems, coordinating mechanisms, etc. Because the firm is new, it has to learn its own operations, its own generic organizational problem and elaborate that into a problem/task-structure. In other words, it might be relevant to distinguish between "liability of smallness" and "liability of newness"⁴ and recognize that the operations of a small firm can be a highly complex problem demanding organizational solutions similar to large *and* complex organizations.

Second, because the small firm does not have an elaborate structure that might simplify its problem solving processes, it must confront the full complexity of its operations. Even though the firm may be experienced, its small size puts a limit on the extent to which its operations can be divided into - relatively simple - sub-problems. The firm's operations has to be managed within a less elaborated problem/task-structure. In this way, the small size of the organization will *produce* complexity rather than anticipate simplicity in the organization. In other words, the only complexity of interest for the analysis here, is perceived complexity.⁵

³Mintzberg, 1979a:7-9.

⁴Stinchcombe, 1965:148-150.

The structural versus process view of organizations

The use of the word "organizing" in the title of this book is an attempt to underline the process character of organizations. The firm is a process in the sense that it is in a state of flux. The introductory case describes the firm's organization as being continuously implemented, reproduced and modified; incrementally or radically. Accordingly, the "decorating center" should not be perceived as a completely new organizational problem. Rather, for the owner/manager and his employees, it was the old problem but with additional characteristics. Activities in a firm, described at a special moment, as in a snap-shot, are guided by the present structure, but might have been conceived and planned earlier when a different structure was present. Activities might even anticipate future oriented conceptions of the firm's structure. In that sense behavior is guided both by past, present and future structures. Change is not an exceptional but a normal state of the organization. The organization is, therefore, a process and the properties of that process, its character and elements should be studied. Organization theory should therefore be a theory of "organizing." On this point, I follow Weick's advice to think "ing" when thinking about organizations.⁶

However, the verb organizing should also be associated with the presence of intentions. It is human beings who are organizing. The organizational process is therefore influenced by the intentions, or whims, of individuals. This places this study in the group of studies using assumptions of voluntarism. Under such assumptions, organizational phenomena are explained by the values, cognitions, feelings and intentions of individuals. We might talk of a cognitive rationality working from "within"; from individual cognitions and stretching outwards, forming the firm's conduct. Under deterministic assumptions, organizational phenomena are explained as products of external forces; an ecological rationality is present, working from without, going inwards, forming the internal structure of the firm. As we saw in the introductory vignette, both an ecological rationality (the financing agency's demands) and a cognitive rationality (the owner/managers self perception) might be present at the same time.

⁵Brytting, in a study of laboratory organization in Europe, suggests that a certain level of uncertainty will be perceived differently in different cultures and thus give rise to different levels of specialization (1989b:106-109.)

⁶Weick, 1979:42-47. See also Morgan, 1986:233-255.

Up to a certain point, empirical research can uncover the amount of organizational choice opportunities, thereby informing the choice between voluntaristic and deterministic explanations. For instance, the fact that small firms, as a rule, have less developed division of labour, less formal information systems etc. suggests that situational factors - like size - have a decisive influence on organizational structure.

Undoubtedly, however, it is also a matter of choosing perspective. Are we seeking phenomenological knowledge (to understand the small firm as an individual subjective phenomenon) or contextual knowledge (to explain the small firm as a product of generalized laws)? This study will employ a management perspective, seeking to understand organizational processes as individual phenomena. It will describe and discuss organizational processes in individual small firms and will not seek to explain organizational patterns in large populations of small firms.

The management perspective includes the assumption that organizations are designed, that the organizational process is influenced by deliberate actions by managers and others. At the same time, the small firm will be treated as an open process, i.e. as inter-dependent on an external environment. This environment may contain constraints for the firm - for instance by limiting the size of the firm's market, or, as in the introductory case, by insisting on detailed strategies. It may also produce highly decisive events like new competitors, new technologies, etc. The basic perspective employed in the study is, however, the one of managerial choice.⁷ A consequence of this is that managerial thoughts and cognitions become highly relevant data when trying to describe and explain the organizational process. In fact, I have treated almost all reflections from my interviewees as relevant necessary data in order to capture the organizational process.⁸

To describe organizational processes - the principal research objective

This discussion suggests that the traditional model of organizational processes in growing firms, as a series of stages marked by increasing

⁷Child, 1972.

⁸The positions taken resemble the perspective of what has been called the cognitive school of organization theory. Even though this label covers a heterogenous sample of ideas, one might construct some kind of common theoretical foundation. This will be further developed in Chapter Two.

levels of complexity, may not give adequate explanations in the individual small firm case. Dandridge has described the problem in this catching title: *Children Are Not "Little Grown-Ups": Small Business Needs Its Own Organizational Theory*.⁹ Lack of experience in operations, coarsely elaborated problem/task-structures, and individual managerial characteristics are three additional factors - apart from increasing size - that can produce complexity, which in turn affects the organizational processes. Since these three factors clearly assume that complexity is something relative, something subjectively perceived, they make it necessary to supplement the information processing perspective and the stage-models, with theories about individual and social cognitions in small firms.¹⁰ This study can hopefully contribute to this theoretical endeavor. Before entering into that endeavor, a more basic task must be undertaken; i.e. (a) to develop a method with which we can capture organizational processes as open design processes influenced by individual and social cognitions and (b) to use this method and describe organizational processes in small firms. After that we can address the three problem areas which will be presented below.

The importance of small firms

There are 481,300 small and medium-sized firms in Sweden (1988). Counted in numbers of commercial firms (incl. agriculture and 1740 publicly owned) the small and medium-sized firms dominate completely (99.7 %). Only 1076 private companies have more than 200 employees.

The small and medium-sized firms' contribution to total employment has changed slightly during the last 15 years. In 1973, small and medium sized firms employed half of the privately employed workforce. Between 1973 and 1981, total private employment fell by 2.7 %. However, firms with less than 50 employees succeeded in increasing their labor force by 1.8 % during the same period. The largest companies, with more than 200 employees, reduced their labor force with 6.4 % during the same years. In 1981, the small and medium

⁹Dandridge, 1979.

¹⁰ Steiner develops these stage-models by introducing the manager's conceptions and interpretations at different stages, as crucial explanatory factors. He suggests that small firms will pass from an "Entrepreneurial" to a Turbulent" to an "Institutional Management" phase, as they grow. It is also clear from his empirical data, that firm size (measured as total turn over), and firm age could not explain why a specific firm was in a specific phase (Steiner, 1990a:162,171,184). He does not elaborate on this finding though. It could be suggested that differences in individual conceptions and interpretations, can explain why firms of different size and age enter into, for example, the "turbulent" stage.

sized firms employed slightly more than half (54%) of the privately employed work force.

Between 1981 and 1987, this trend was even more pronounced. The small firms - with less than 50 employees - continued to increase their share of the employment by 10.2 % between 1981 and 1987. The firms in the middle range (50-199 empl.) reduced their share by 1.8 % during the same period.¹¹

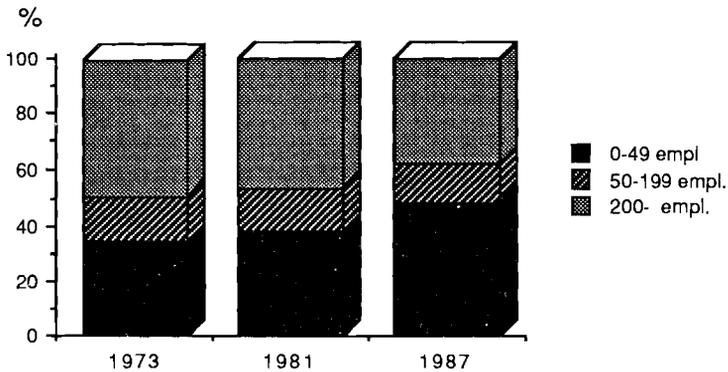


Figure 1.1 Private employment in Sweden 1973, 1981 and 1987 (%).

Private employment in Sweden 1973, 1981 and 1987 (%):¹²

<u>Firm size</u>	<u>1973</u>	<u>1981</u>	<u>1987</u>
0 - 49 empl.	34,22	38,14	48,29
50 - 199 empl.	16,25	15,66	13,88
200 - empl.	49,53	46,20	37,83

The smallest firms are those that create new employment, and the "losers" are firms in the middle range (50-199 employees) and large firms (>200 employees).

An often quoted figure from the American economy is reported by David Birch. He found that about 88% of all net new jobs in the 1980's

¹¹Figures from SCB, presented in SHIO, 1982, 1984, 1988.

¹²Figures from SCB, presented in SHIO, 1982, 1984, 1988.

were created in firms with less than 20 employees.¹³ This development is not unique for Sweden or for the USA.

After a period of concentration and enlargement of scale in which large enterprises obtained an increased share of output and employment, every major OECD country for which data is available generally experienced a lower proportion of employment in large enterprises in the 1980s than at the beginning of the 1970s. For small enterprises matters are reversed, generally having a higher proportion of employment at the end of the period.¹⁴

Industry statistics usually do not differentiate between small independent firms and "establishments," whether a factory, or a subsidiary within a larger company. Many large companies have decentralized their structures, a trend that may have affected the statistics. Attempts have been made to adjust the figures presented above so that they reflect business ownership rather than just establishments. When firms with the same (dominant) owner are put together and treated as one firm, the figures change. When ownership is considered, the smallest firms, with less than 50 employees (+ agriculture), still stand at 44.41 % of the private employment in Sweden (1987). Medium-sized firms (50-199 empl.) employed 9.75%, and large companies with more than 200 employees employed 45.84% of the privately employed.¹⁵

Sectors of the economy differ regarding small firm employment. Small firms have an even more dominant position in service sectors than in industry as a whole. Firms with less than 200 employees stand for 75.7 % of the employment in the private service sector. The same figure for firms with less than 50 employees is 62 %.

Are small firms efficient?

The statistics presented above suggest that small firms, or small establishments have a large and growing proportion of the total private employment in Sweden and in other countries. It is tempting, therefore, to draw the conclusion that production of goods and services on a small

¹³Birch, 1987:16.

¹⁴Poutsma & Walravens, 1989:10, referring to a report from the Commission of the European Communities from 1987. Similar conclusions are also reached by the ILO (Sengenberger & Loveman, 1988:29). See also Kirby & Mullen, 1989:2.

¹⁵Figures from SCB, presented in SHIO, 1988.

scale have competitive advantages. Since the importance of small firms and establishments is growing, one might even suggest increasing dis-economies of scale. These are, however, rash conclusions.

Engwall tests several models of industry structure and argues that the size-distribution of large companies in an industry can be explained as the outcome of a random process.¹⁶ By assuming a constant probability of new start-ups and under an assumption of continuous economies of scale, he tests a stochastic model which makes correct predictions of the size-distribution in an industry. We might say that this type of model assumes that the body of firms composes a pool of growth-candidates. From this pool, some firms will be absorbed by large corporations or be turned into growth companies by market forces. The efficiency of smallness can therefore not be determined from this type of industry statistic. One interpretation of Engwall's studies is that the presence of a large number of smaller firms in an industry is not enough to conclude that there exists dis-economies of scale in that industry. Instead, another explanation might be that this industry has low barriers of entry, and that many new and small firms are established for that reason. The presence of economies of scale will, however, drive some of these small firms out of business, and the remaining small firms will grow, be bought, or merge into large, expansive corporations.

This type of stochastic model did not function equally well in predicting size-distribution in data-bases also including small firms (with a turn over of more than SEK 100 million).¹⁷ One of the assumptions that had to be changed was related to continuous economies of scale. If the cost curve was assumed to be U-shaped instead of L-shaped, the model made better predictions, thus indicating that smaller firms do not face continuous economies of scale.

However, these models, directed as they are towards large populations of firms, do not necessarily look upon small firms as efficient or inefficient ways of organizing the production of goods and services. Of course these models do not say anything about the mechanisms at work in the individual firm, give no hint of how "organizing" takes place in small firms, and they cannot be used to give action oriented advice to

¹⁶Engwall, 1973:32-33,45.

¹⁷Engwall, 1973:139.

small firm managers.¹⁸ In other words, these types of descriptions do not answer the questions placed in this study. The perspective adopted here; that organizing the small firm is a process influenced by individual actors - demands that we treat the individual firm as our research object, and that we employ a more elaborate definition of organizational efficiency.

The long-term survival of the firm demands that a number of goals, not only profitability, are met. In order to reach sustainability, it is also necessary that those involved in the firm think of their contributions as worthwhile. Philips and Stjernberg argue that the efficiency of an organization should be described as its ability to meet the different demands placed on it.¹⁹ They mention three demands: Stakeholder demands, Technological demands and Human demands. This includes good working conditions, dignity, personal development, etc. The organization must be able to meet these demands, not only at present, but also be able to adapt to changes in these demands.

I will use Philips and Stjernberg's general arguments, but make a slightly different grouping of demands. Instead of putting all the firm's stakeholders in one group I will treat "Individual satisfaction" as one important outcome of the organizational process. In this type of outcome, I include the organization's ability to meet both the managers' and the employees' claims for rewards from participating in the firm. Individual rewards must, for instance, satisfy "Human demands." As a second organizational outcome, I will use Operational performance which is the counterpart of Philips and Stjernberg's "Technological demands." Operational performance is an equivalent to traditional performance measures, such as productivity and profitability, and as such, it includes some of the demands of the firm's stakeholders', like customers' banks', minority owners' etc. I will also include a third organizational outcome which I call "Organizational potentiality." By doing this, I treat the ability to change and to maintain an ability to solve new problems as one special outcome of a successful organizational process.

¹⁸Ramström discussed the small firm research in Sweden in 1975 (Ramström, 1975:11-12) and concluded that the "laws" discovered, mainly through extensive statistically based research, had limited relevance for any specific firm. He suggested intensive case-studies, aiming at deepening understanding of small firms. After conducting a similar discussion of national and international small firm research in 1986, he reached the same conclusions (Ramström, 1986).

¹⁹Philips & Stjernberg, 1983:5. Their model was further developed in Kolodny & Stjernberg, 1986.

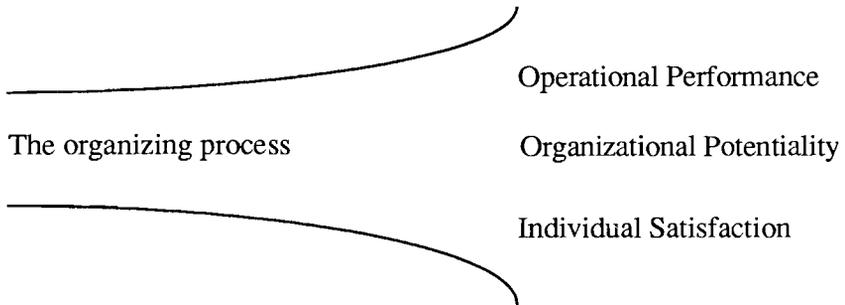


Figure.1.2 The outcomes of the organizational process.

Operational Performance

From the perspective of the neo-classical economists, existing (surviving) organizational forms are always the most cost-effective. This would suggest that the internal information and coordination costs raised by the introduction of functional roles in growing small firms, may be less significant than the gains from this functional specialization. The small firm then grows until economies-of-scale in production, finance and marketing more than compensate for diseconomies-of-scale in management. In other words, the large size of the small firm sector implies that they are cost-effective ways of organizing. Are small firms cost-effective? Even though studies of small firms' financial performance are filled with qualifications, doubts or warnings concerning the accuracy of the statistical base²⁰, it might be of interest to look at some figures.

As we have seen, small firms have been successful in creating employment during the 1980's. This is not matched by any exceptional profitability figures. On the contrary, small so called "family firms"²¹ in the Swedish industry sector, for instance, used to have relatively high returns on shareholders' equity after tax. These returns decreased however from 22 % in 1984 - when the industry mean was 16 % -

²⁰...reported profits will vary substantially dependant upon a wide variety of factors to do with the owners tax liability, willingness to switch funds between organizations and companies, inclination to hide profits from the family shareholders or show substantial profits to companies that may be interested in trading with the business or acquiring it. (Gibb, 1989:18).

²¹A "small family firm" is defined as a joint-stock company with less than 50 employees, where more than 75% of the stocks are owned by less than 10 people.

down to the industry mean of 12 % in 1987.²² This might be explained by rising tax payments during this period. Small and medium-sized family firms (0-199 empl.) paid 29% of their profits in taxes in 1987, an increase of more than 100% since 1984. Public companies during the same period paid about 15% tax. An explanation of these large differences is that small firms cannot, or do not use appropriations to the same extent as larger companies.²³

In general, the net margin in Swedish family firms was 2.4% in 1984, compared with 6% in other companies.²⁴ These family firms also have a lower solvency rate - 19.820% - than the non-family companies' 28.6%.

An international study reports that labor productivity is positively correlated with firm size.²⁵ The authors suggest that this can be explained by the much lower capital - labor ratio in small firms. The productivity of labor, calculated as percentage of labor costs of value added differs, of course, between different industry sectors. In Sweden, we find that the smallest firms show more or less the same labor productivity as the larger ones (fig. 1.3).²⁶

Even though small firms stand out as comparatively unprofitable, it is interesting to note that small firm managers seem to have very little problem attracting external financing. In Davidsson's investigation of small firm managers, 85% of the high-tech managers and 87% of the other managers claim that it would be fairly easy or even very easy to get loans for an important investment.²⁷

Aggregated means of this type have several weaknesses. First, they tend to hide the fact that small firms form an extremely heterogenous group, and second, that small firms do not have the same incentive as large firms to show a profit on their balance sheets. For instance, due to tax regulations in Sweden, it is more profitable to take out any profits from the firm in the form of salary, than as dividends, thereby reducing reported profits. The close connection between the firm and its

²²Industridepartementet, 1989:32-36.

²³Industridepartementet, 1989:37.

²⁴Alderin, 1986:11. Nettomarginal = resultat efter finansnetto i procent av omsättningen. ("Net margin" is defined as: income after financial transactions as a percentage of total turn-over.)

²⁵Sengenberger & Loveman, 1988:24.

²⁶Statistiska Central Byrån, 1986.

²⁷Davidsson, 1989:189.

owner(s) must therefore be taken into account when interpreting these figures as measurements of performance.

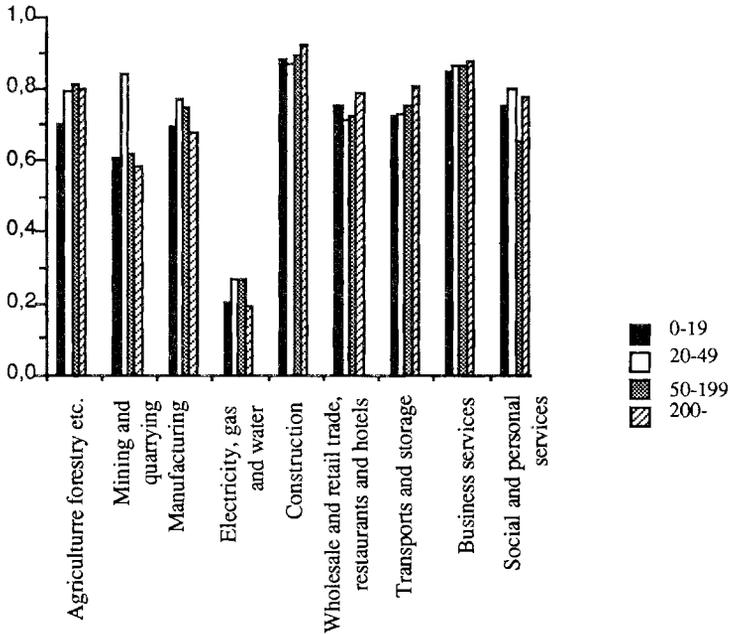


Figure 1.3 Labour productivity in Sweden 1984, different sectors and different firm sizes

An analysis of business owners' private economy throws some further light on this issue. In a study of 228 randomly selected small firm owners in Sweden, one of the research questions was whether these business owners were financially better off than the rest of the population.²⁸ The study offers meager support for this suggestion.

The income of these business owners is lower than that of the regularly employed population. The owners do not deviate from the regularly employed in terms of property: real estate, villas, country-houses, boats etc, and are just as satisfied as the rest of the population with their

²⁸Wämeryd, Davidsson & Wahlund, 1987.

financial situation. The only difference found is that small business owners tend to have more cars, larger bank deposits and larger debts. An explanation might be that these possessions and debts actually belong to their firms. "Private" bank deposits, for instance, might in fact be the liquid asset of the small firms.

In summary, small firms seem to be less profitable than larger companies. They are less solid and their owners are not any better off than the regularly employed - in fact they seem to earn less. Therefore, a neo-classical explanation based on the idea that small firms are frequent because their operational performance is efficient, could be questioned.

Another weakness with neo-classical explanations is that they often assume states of equilibrium and neglect dynamic environments, internal change processes, and the existence of time. This is a major shortcoming since most management practices and empirical studies of managerial work, deal with organizations in motion. For the manager, especially in small firms, most things are short term, and in the long run, crucial situational factors will be different - again. Since many small firms are active in non-competitive (sometimes temporary) market-niches, e.g. functioning in close relationships with larger firms as subcontractors, in geographical niches, or protected by patents - models based on competitive equilibrium loses much of their explanatory value.

From these findings, we can conclude that not all small firms are efficient organizations in terms of earning capacity, labor productivity or owner/managers' wealth production. These owner/managers' subjective experience of satisfaction, however, is not different from that of others working in the general population. In fact we might find that small firms are efficient means to reach other goals than the purely economic.

Organizational potentiality

Organizational potentiality describes to what extent the firm can solve new problems caused by its environment. Potentiality includes not only the present competence in the firm, but also its ability to change, e.g. to see new combinations of competence as solutions to new problems.

One measure of organizational potentiality is failure rates among small firms. A high failure rate in an otherwise large and growing small firm

sector, implies a low degree of flexibility - in general - in individual small firms, but a high degree of flexibility in the population of small firms. Studies of failure rates suggests that new establishments are highly vulnerable.

An investigation of all new establishments in the industry and consultant business in Sweden 1984 and 1985, measured failure rates. In 1988, 40% of firms established in 1984, and 20% of the firms established in 1985 had gone out of business.²⁹ Another Swedish study reports that 50% survive after 5 years. Of the smallest new establishments (0-5 empl.) 50% fail during the first 4 years, implying a higher failure rate.³⁰ Some authors estimate that only 20% of the new firms in Sweden will ever reach "sufficient" profitability.³¹

Different studies have yielded different results, mainly due to differences in definitions of "failure." In a review of past studies Shapero and Giglierano found failure rates within the first five years to vary from 35% to 70%.³² British studies have found that roughly 30% of newly established firms do not survive as "independent ventures" after three years.³³

An important requisite for organizational potentiality is that the firm engage in skill development of some sort. New problems, and changes in external demands, makes it necessary for the firm to develop new competencies. There have been some studies of small firms and their needs for, and attitude towards education and training. A survey of these studies, conducted by the National Industrial Board, expressed the following general conclusions:³⁴

The smaller the firm, the less interest in training and education. Small firms seldom have plans for training. Development of skills and competence is not seen as a strategic factor.

The small firm managers themselves seldom have higher education than secondary school, or any further training. (13% of white-collar workers in firms with over 500 employees have more than secondary school, a percentage twice as high as in smaller firms, (SIND 1987).

²⁹Industridepartementet, 1990:97.

³⁰Olofsson *et al*, 1985:25.

³¹SIND, 1990:63-64.

³²Shapero & Giglierano, 1982:113-141.

³³Cromie, 1989:2.

³⁴ SIND, 1986.

There is a tendency, though, for this educational background to increase with firm size and over time. New entrepreneurs have higher education.

Training activities that small firms engage in very often fail to meet actual needs in the company.

The small firm managers have difficulties scanning and collecting information about the supply of training courses. They often ask for an intermediary to sort and choose from the supply on the market.

Small firm managers prefer short and applied courses, preferably at the firm site.

The social contacts with business colleagues are seen as a very important outcome of the courses.

The cost of the training is less important than the cost of being away from the firm. This is valid both for the small firm manager and his or her employees.

There is a difference in demand between the manager and his or her employees. The employees ask for technical courses like CAD/CAM, Calculation, Quality control and Language (technical terms). The managers ask for courses like; Marketing, Product development, Leadership and The Economy of the Firm. Most demand is highly firm-specific: the goal is to improve and solve ongoing operations.

Knowledge has no value of its own. Small firm managers have a very pragmatic view of training; it should help them to make the "right" decisions.

The same study concluded that on-the-job training dominates competence formation in small firms. Skills are learned while working. If problems arise because of lack of skills or knowledge, it is often necessary to fill these needs immediately. Business colleagues, accountants, or representatives from machine suppliers etc. are important sources with quick access to needed competence.

A study of 255 small firms found that only 125 (49%) have expenses for education or training. 80% of the larger companies in the sample (100-199 employees) engage in this type of education but only 40% of those firms with 10-19 employees. Most of the education is provided for managers.³⁵

Small firms are flexible as a group, and individually when they are started. Sustained adaptability, however, seems to be lacking.³⁶ Failure rates are very high, indicating a relatively low level of organizational potentiality. Another indicator is the lack of interest in training, and the

³⁵Bohman & Boter, 1979.

³⁶ for a psychoanalytical explanation, see Kets De Vries, 1977:54-55.

focus on ongoing operational problems instead of future oriented training.

Individual satisfaction

Other criteria - apart from low costs and profits - may legitimize the existence of an organization. Some organization theorists employ a power frame-of-reference to explain this. The point is that economic efficiency might be only one of several ways for the firm to survive. The firm is described as an actor in a process, which fundamentally is a struggle for limited resources. The organization survives if it manages, no matter how, to attract necessary resources from its environment.³⁷ One way to sustain legitimacy in the eyes of the shareholders, is to show profits - or to promise profits in the future. The offer of interesting jobs, good working conditions, and high salaries, ensures the supply of labor and - maybe more importantly - mobilizes skill and effort.³⁸ The small firm managers may receive other forms of compensation for their engagement in the firm.

Autonomy to the owner/manager

Using this perspective, we can propose that the small firm, by offering a personal platform on which the small firm owner/manager can create something of his or her own, may attract necessary managerial and entrepreneurial competence, even though this organizational form may not be able to compensate these owner/managers with monetary rewards.³⁹

It has been suggested that organizations grow larger than what is economically justified, because of the struggle for control over resources.⁴⁰ On the other hand, a power-seeking entrepreneur could

³⁷Normann, 1975: 71-74; Hirsch, 1975.

³⁸This has been one of the arguments behind the present interest in "alternative work organizations" in Sweden. Oscarsson, *et al* 1989:38-40.

³⁹Davidsson reports that money is a motivator among others. 40% of his sample do not believe that their private finances would improve if their firms were twice as large (1989:113); Beckérus & Roos, 1985:148; Wärneryd, Davidsson & Wahlund, 1987.

⁴⁰Pfeffer & Salancik, 1978:137-139.

impose size-limits on his or her firm. The reluctance, among small business managers to grow, has been explained by the fear of losing control over their companies.⁴¹ Any eventual gains from growth - and supposed accompanying functional specialization; i.e. dependence on "outsiders" - are offset by the experienced "cost" of losing control. Lemar, for instance, identifies "growth-thresholds" as points during a growth process, when different functional roles become visible in the small firm and have to be formalized.⁴² These thresholds have both a material and an immaterial component: one immaterial component being the fear of losing control of ones own "private business."

Colby and John made a similar observation:

Many of these owners of small businesses appeared to be torn on the one hand by the desire to remain small and so retain their independence, and its concomitant personal satisfactions and, on the other hand, by the need, as businessmen, to conform to the idea of growth - almost as a moral imperative. In the majority of cases, the need for preserving the more personal satisfaction of independence won out and there was a clear preference to maintain the business at its existing level of activity - and to pay only lip-service to growth and expansion.⁴³

Supposedly, control can be maintained longer through functional delegation than through "splits" e.g. the creation of self-contained units; as Robbins puts it:

The myopia created by having separate and autonomous functions ensures that only those at the very top have access to all key information. We propose that, if the senior management of an organization wants to fortify its power, the "divide and conquer" aspects of the functional structure make it an excellent control device.⁴⁴

A difficulty with the power frame-of-reference is the elusive conception of power. Power refer to the drive that possesses some companies and individuals, and makes them eager to grow. On the other hand, as we

⁴¹Davidsson, 1989.

⁴²Lemar, 1982.

⁴³Cited in Deeks, 1976:192.

⁴⁴Robbins, 1983:231.

have seen, power can also mean the search for individual security or elimination of uncertainty i.e. the maintenance of status quo.

Sometimes power refers to a zero-sum game - which limits the applicability of the concept, because many real-life situations are not zero-sum.⁴⁵ Sometimes, plus-sum situations are allowed in the discussion of power.⁴⁶ In the latter case, power is enlarged to cover all forms of communication - and accordingly, is weakened as a usable concept.

Bierstedt argues that power - in reality - is seldom exercised. Instead, power is conceived as *potential*⁴⁷; sanctions are seldom enforced. I act - against my will - because I *might* be punished if I didn't. But is it really possible to act against my own will? And what is power, if not my highly subjective calculus of the powerful's resources and the probability of his to activate these resources - to grant or deny?

The claim, that the power frame-of-reference highlights the "external control of organizations,"⁴⁸ should be qualified by the notion that external influences only work indirectly. Power, then, becomes part of a cognitive process; the other's power is in my head.

However, this lack of conceptual clarity should not stop us from suggesting that issues concerning autonomy, self-reliance and direct control over resources, are important in order to understand organizational processes in small growing firms. This form of power and control could be hypothesized to be an important reward available to the small firm's owner/manager. The mechanism through which power considerations affect the organizational process remains however something to be studied.

Job-satisfaction among employees

It is not that obvious that control over resources is considered as a reward by employees in small firms, or that such control is accessible. Instead, we should probably have to look for other forms of compensation.

⁴⁵for instance in Pfeffer & Salancik, 1978.

⁴⁶Bacharach & Lawler, 1980:28-29.

⁴⁷Bierstedt, 1950.

⁴⁸Pfeffer & Salancik, 1978.

Just as in the owner/manager case, the amount of monetary rewards to employees in small firms are not exceptionally high. On the contrary, there seems to be a systematic negative relationship between firm size and salaries. Salaries are generally higher in large firms. One study of the manufacturing industry in Sweden reports a 23% difference for blue-collar workers and 40% for white-collar workers between small firms (5-10 employees) and large firms (>1000 employees).⁴⁹ Similar results are reported also from other OECD countries. Sengenberger and Loveman find that wages are, in general, positively related to enterprise/establishment size,⁵⁰ reflecting the above mentioned higher labor productivity in large establishments.⁵¹ They also note that these differences in wage levels differs substantially between countries. The coefficient of variance range from 2.5 in West Germany, to 7.5 in Japan.

These differences in pay between small and large firms is not explained by difference in skill level. In general, small firms in the Sengenberger/Loveman data, employ roughly the same (France, Switzerland), or even higher share of skilled workers (British and German engineering firms).

The observation that wages are comparatively low in small firms, does not imply that employee satisfaction is low. Granqvist & Sjögren⁵² report that with decreasing firm size, workers:

- have more control over their work tasks, work pace and working hours⁵³,
- are more satisfied with their working conditions,
- tend to share the same values as the employer, and
- are less unionized.

Gustavsson & Hellgren compares feelings of work satisfaction in a large department store with nearby, comparable, small independent stores.⁵⁴

⁴⁹Persson, 1979:34.

⁵⁰Sengenberger & Loveman, 1988:22.

⁵¹Sengenberger & Loveman, 1988:24.

⁵²Granqvist & Sjögren, 1979.

⁵³Data from a larger study by the Central Bureau of Statistics; *ULF 1975*.

⁵⁴Gustavsson & Hellgren, 1983.

		Large department store	Small independent stores
Possibility to use skills and competence:	very small or small	46	30
	some	44	44
	large or very large	10	26
Degree of restrictions and lack of freedom in work	very small or small	33	56
	some	37	32
	large or very large	30	12
"How often are you really satisfied with the work you have done?"	very seldom or seldom	11	0
	neither seldom or often	45	38
	often or very often	44	62

Employees in the small independent stores tend to be more satisfied than employees in the large department store with how their skills and competence are used in their work. This agrees with the more general results suggested above.⁵⁵

A high level of work satisfaction is also congruent with the statistics on sick-leave:⁵⁶

<u>Firm size</u>	<u>Average number of days on sick-leave/emp.</u>	<u>% of employees never on sick-leave</u>
1 - 24	9.5	46.5
25 - 199	10.1	43.1
1000 -	15.2	34.9

⁵⁵Schou's study (forthcoming) of motivation among Swedish engineers also reports higher levels of work-satisfaction in small firms (<50 empl.) than in large (>1000 empl.).

⁵⁶The Central Bureau of Statistics (SCB), 1979 ref. in SHIO, 1982.

Small firms seem to lack some features which make them more vulnerable places of work from the perspective of job security. Nilsson & Carlsson studied 767 small Swedish firms and found a systematic relationship between labor turn-over and firm size, independent of both industry and region.⁵⁷

<u>Firm size</u>	<u>Turn-over in %</u>
1 - 9	24
10 - 24	21
25 - 49	17
50 - 99	20
100 - 199	16
200 -	14
Total	17

The smallest firms have not succeeded in keeping their employees to the same degree as firms with more than 200 employees. These larger firms have a total labor turn over which is 3 % less than the average. It is often supposed that young people stay for shorter periods, explaining the high turn over figures in some firms. The Nilsson & Carlsson study gives no support for this conclusion. The smallest firms tend to employ a relatively older labor force than the larger ones. This means, also, that in the small firms, older employees have a greater share of the turn-over than in those larger firms. Duration of employment did not explain these results either.

Similar results are also found in a larger national investigation covering approximately 80% of the industry workers in Sweden.⁵⁸ Between 1969 and 1973, the total labor turn over decreased according to a similar pattern in both small and large companies. However, the differences between small and large companies remained. Since these differences could not be explained by region, industry, age or employment duration, size related factors must be introduced. One apparent explanation might be differences in pay, and that small firms cannot offer the type of internal labor market that exists in larger corporations, thus forcing some of their employees to find their careers outside the small firm.

⁵⁷Nilsson & Carlsson, 1979.

⁵⁸SOU, 1976:29.

The impression is that small firms are vulnerable and less well paid places of work. Nevertheless, employees tends to be more satisfied with how their competencies are being utilized. A topic for further research is to determine why, and in what way the organizational processes in small firms supports job satisfaction.

Small firms don't grow

The textbook knowledge on organizing the growing firm tells us that firms pass from combined and integrated leadership, through multi-functional, to multi-divisional form; the divisional form saved for very large corporations. Functional specialization is substituted for combined and integrated management. This implies the existence of substantial advantages-of-scale in organizational sub-functions. To grow, therefore, is to engage in functional specialization.⁵⁹

Many students in this field have treated growth as if it were a self-evident feature of a firm's development. Mintzberg, for instance, says straight out that "growth is the dominant goal of the entrepreneurial organization."⁶⁰ In his stage-model, Greiner suggested that firms that did not reach the "maturity phase" should be called "premature."⁶¹ Churchill and Lewis had to reject their hypothesis that firms can either grow or fail.⁶² Boswell is critical towards small stagnating family firms, binding up resources that could be put into more productive use elsewhere.⁶³ He even argues in favor of some kind of euthanasia for these firms.

However, many small firms do not grow, do not want to grow, and yet survive. A Swedish investigation found that almost 40% of the small firm owner/managers say no to growth, even though they perceive necessary market opportunities.⁶⁴ We also know that many small firms actually do not grow, and those that do expand face problems of

⁵⁹Penrose, 1959; Churchill & Lewis, 1983:34-40.

⁶⁰Mintzberg, 1973:46.

⁶¹Greiner, 1972.

⁶²Churchill & Lewis, 1983:44. Their hypothesis was built on Steinmetz, 1969.

⁶³Boswell, 1972.

⁶⁴SHIO, 1986; see also Davidsson, 1989:192-193; Beckérus & Roos, 1985:122-124 and Bamberger, 1982:52-53.

various kinds.⁶⁵ One can infer that growth is not the most natural course for the small firm owner/manager. Another line of thought is possible.

The small firm with its concentrated leadership and control, is sometimes said to be very market sensitive and flexible: in carrying low administrative costs and stimulating entrepreneurial behavior. In other words, there may exist disadvantages-of-scale in management. Small firms may exist because they have certain comparative advantages. If these advantages are connected to the firm's size, growth will eventually break them down. In order to exist - despite growth - the firm's small scale advantages must be replaced by sub-functional advantages-of-scale. Growth then, is not the same as more-of-the-same. Instead, growth is more likely to be connected with painful and fundamental changes - sometimes with such uncertain consequences, that many refrain from trying to expand.

The large, and growing, size and importance of the small firm sector of the economy may provide empirical evidence of small scale advantages.⁶⁶ Suppose these advantages exist, and lie in the direct and integrated management of the firm. Why then abolish this organizational form by growing, and introduce costly communication links between functional experts? Why not instead expand through a process of "splits," either into a network of small "self-contained units,"⁶⁷ or a mini divisional form - an evolution that would seem much more natural? Why grow at all?

The reluctance to grow may be an empirical evidence that small scale advantages are substantial. And *vice versa*: those small firms that do grow (the minority), might have found a way to replace small scale advantages with advantages-of-scale, alternatively reproducing advantages of the small scale within the new, and larger setting. These issues will be the second point of further discussion in this study.

⁶⁵Davidsson, 1989:192; SIND, 1985b.

⁶⁶Brytting, 1988.

⁶⁷Galbraith, 1973:26-28.

A public interest in smallness

Apart from describing organizational processes in small firms, their efficiency and growth dependence, I will also discuss to what extent any small scale advantages can be reproduced in larger organizations. This question is raised because of the general interest in smallness, and an interest from large organizations to decentralize their structures.

Today we see a widespread critique against centralism which is articulated in many different ways. This critique could be regarded as an affective reaction against the (exaggerated?) planning and control optimism prevalent in the fifties and sixties. Some might say that both people, technology and industry have changed in a way that makes centralized management obsolete today. Others would hold up the "Small Is Beautiful"-slogan as the only possible way out of the "crisis" they see in the modern society.⁶⁸

In Sweden, several large industrial companies have been experimenting with new forms of work-organization, based on the socio-technical and human-relations schools of management. Many projects have started at the shop-floor level, as attempts to delegate authority and responsibilities to individual workers and to small work-groups. Departments have been re-organized as profit-centers and as autonomous subsidiaries.

The Swedish Employers Federation, together with a number of researchers, followed and documented some of these experiments. A summary report described certain "new criteria for good production systems." One of these criterias was smallness:

...smaller units, which make finished products of finished components, and which have their own resources for service and administration, also makes it possible to delegate many decisions. Such production units can function as small companies within companies. Administration is simplified, the need for coordination is reduced, and employees are given the opportunity to understand the total context and to become more involved in production planning. Decentralization of this type is a means of combining efficiency with worker participation and codetermination.⁶⁹

⁶⁸Schumacher, 1973.

⁶⁹Agurén & Edgren, 1980:105.

Building on these encouraging experiences, "The Development Program" was launched as a collaboration between the unions and the Employers Federation, and funded by the Swedish Government. The aim was to initiate, support and document introductions of new "front-technologies." Roughly 60 million SEK were spent during five years of activities. The report made the following conclusion:

Finally, another requirement which seems invariably to accompany the design of technical systems and production systems is the creation of resilient independent system solutions based on the local unit as creator and user of information. Close and rapid systems of information transmission enhance the possibilities of experimentation and continuous renewal. In other words, small is beautiful. The rationality of the large-scale systems often proves to be a superficial asset.⁷⁰

Of special interest in the context of this study, is the notion that smallness supports "experimentation and continuous renewal." The Development Program clearly recognized the process character of work organizations, and stressed the importance of continuous organizational processes as the main producer of organizational efficiency. We will return to this observation later.

The introduction of "small companies within companies" is one example of a widespread notion of small scale advantages. Several attempts to decentralize local municipalities and government authorities can also be used to illustrate the trend. Brytting and Ekman, found in a longitudinal study of the introduction of local governments in Sweden, that in the 60's; increased scale of operations; formalization of decision making processes; and centralization of the political system, were put forward as necessary organizational changes. The aim was to improve local government organization in order to reach acceptable levels of: efficiency; integration of municipal services; political control; citizens' participation etc. These very same objectives (improved efficiency, integration etc.) were also the goals of the frequent decentralization projects in the 80's.⁷¹ However, the rhetoric had changed from the arguments of centralized, large scale solutions, to arguments of decentralization and organizational smallness - in less than 20 years.

A question that might be put, is whether these expected positive effects

⁷⁰Oscarsson et al, 1989:33.

⁷¹Brytting & Ekman, 1985:154-155.

of decreased organizational size demand genuine independence, or if they can be realized in smaller units within larger structures? This will be the third point of discussion.

Smallness, independence and small firms - a definition proposal

Large public and private organizations have shown interest in smallness. In this interest lies a belief that smallness - because it implies that organizational processes are semi-autonomous - will simplify administration, have lower coordination costs, increase worker and citizen participation etc. Obviously, it is not size *per se*, but autonomous actions, possibly in combination with small size, that is effective. It is delegation of freedom to design and change ways of work to small units, and delegation of work to these units, that is assumed to have positive effects.

Small firms may, in the formal sense, be independent, but it is not clear that they actually have the possibilities to make use of this independence - to design and change their own operations. Can we presume that the described public interest in smallness, and the growing importance of small firms, really correspond to a true preference and increase in local organizational autonomy, or are we just deceived by propaganda and statistical redefinitions? Is not decentralization generally a way to strengthen the control from the top? Many so called "small firms" may be nothing but strictly controlled subdivisions or geographically separated stations in an integrated "Just-In-Time system." Can we really assume that "small firms" still represent "free enterprise," with all their supposed qualities?

The National Industrial Board in Sweden studied small subcontractors within the manufacturing industry.⁷² The Board defined a high degree of "customer concentration" as more than 40% of the turn over sold to one single customer, or more than 75% sold to four customers. One of their findings was that 68.7% of the firms and 68.4% of the employees were in this category, indicating a high dependence on one or a few customers. More importantly however, was that profits were systematically lower in these firms. The explanation proposed was that

⁷²SIND, 1985a:5.

the bargaining position of these firms made it very difficult for them to raise prices.

Studies of autonomy in small Finnish firms showed that subcontracting correlates negatively with individual work autonomy.⁷³ Subcontracting had a larger effect on work autonomy than both gender, skill and technology.

The autonomy of small "autonomous" farm firms has been severely questioned in a series of studies by Benvenuti.⁷⁴ Many of the functions formally performed within the farm firm are being externalized. A "quasi-organizational" network of institutions is formed around these firms; a network which has a decisive influence on most of the farm firms operations. This critique has also touched the small firm sector generally.⁷⁵

It is hard to determine if the frequency and importance of small firms and establishments implies that small autonomous organizations flourish. However important that question may be, it will not be treated as an empirical issue in this study. Instead, I will treat this problem as a conceptual problem, and solve it by employing a definition of smallness that includes autonomy. Accordingly, this study will analyze smallness including its connotation of autonomy. To investigate organizational processes in small owner/managed firms, will therefore be considered as an appropriate way to analyze smallness.

Small firms - a definition proposal

As was pointed out above, the qualifications suggested here, in this definition of small firms, do not try to establish characteristics - qualitative or quantitative - which might produce small scale advantages. Rather, the ambition is to clarify what is meant by "small firms" and "smallness," and what distinctive features small organizations are believed to have in the debate mentioned. In other words, the definition of small firms is a clarification of the research problem.

The following definition of smallness and small firms will be put forward in this study:

⁷³Kankaanpää, Leimu & Puottula, 1989:144-145.

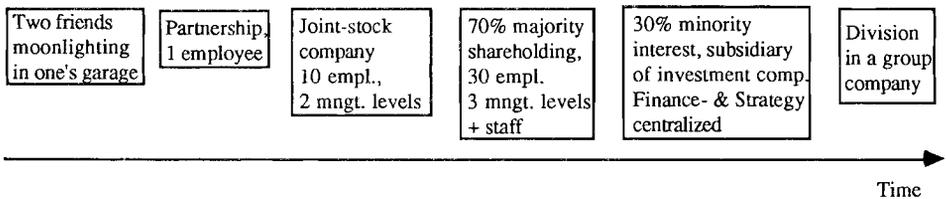
⁷⁴Benvenuti, 1989.

⁷⁵Benvenuti, 1989:94-96.

A small firm is an organizational unit with less than 50 employees that has the right to define its own business concept. Smallness is, accordingly, the presence of small firms in industry.

First, I limit the discussion to commercial firms. Of course, smallness and small scale characteristics are concepts that can be applied, appropriately, in many more settings. Some of the ideas presented in this report may even be useful in non-commercial areas. However, this will not be the direct aim.

Secondly, the terms "firm" or "company," are problematic to use when we discuss dynamic processes. Consider the following hypothetical life-story of a "firm":



When was this firm "born"?

When does it "die"?

Is this firm successful - or has it failed?

The point is that:

1. Even if some firms grow, they seldom grow independently. They buy other firms, are bought, merged or cooperate in networks of various forms;
2. A firm can die, change formal form, or even be dissolved as a legal entity, but still remain as an idea - or better - as a business concept.⁷⁶ For this reason, a discussion of small growing firms cannot be limited to the firm as a legal entity, but must define small firms from other aspects;

⁷⁶The term "business concept" will be further elaborated in Chapter Five. Until then, it will suffice to explain the term as an idea of a product-market opportunity and an idea of how to exploit it. See Brytting 1989c:53-56.

3. What we normally mean by "firm" - the object that eventually carry small scale advantages - is a (temporary) manifestation of a business concept. "Smallness," accordingly is contained in the business concept.⁷⁷

Third, the usual way to define small firms and smallness is through quantitative measures, like number of employees, turn over, assets etc. However, it must be questioned whether these quantitative definitions capture the essential features of "smallness." The increased interest in small scale advantages - flexibility, innovativeness etc - can hardly be traced back to size alone, as was pointed out above. Instead, size combines with autonomy to give rise to these expectations. The quantitative definition should therefore be combined with a qualitative definition which includes some measures of autonomy.

Based on these thoughts, I propose that the small firm should be interpreted as a manifestation of a certain business concept. The right to define this business concept is an exclusive characteristic of the autonomous firm because it then has the right to define itself. When design of the business concept is centralized to a level above or outside the firm, the firm is no longer regarded as independent - smallness is abandoned.

Having "the right to define its own business concept," should not be understood only as a legal or formal "right." What constitutes autonomy in small firms is a freedom from outside pressures, or instructions, on these matters. It could be argued that full ownership is the only way to secure this "right" and, thus, that my definition includes only owner/managed firms. Ownership is a crucial small firm issue - highly debated. However, I will not enter into that debate here. The definition I have chosen may exclude most of the non-owner/managed firms, but is open for the possibility that some small organizational units or subsidiaries within larger formal structures might be considered as small autonomous firms. The definition also enables me to exclude from the analysis some forms of business, e.g. franchising, that may allow for "local" ownership but retain strategic decisions, like the business concept, at the "center."

How large are the organizations which usually are expected to contain

⁷⁷See page 200.

small scale advantages? I will just mention three examples which I find typical. In reports from the experiments with "small companies within companies" mentioned above, we can see that units with about 50 employees are considered to have potentials of small scale advantages. VOLVO designed its famous Kalmar factory around *results groups* led by relatively autonomous first line managers. Each results group consisted of 2-3 teams with about 15-20 employees each:

The results group is the subdivision of the plant that best corresponds to the "little factory in the large factory" - with its own precisely limited production tasks, its own personnel, including specialists and union representatives, its own leisure areas and its own financial framework.⁷⁸

A well known Swedish consulting firm which has smallness as part of its business philosophy and claims to deliberately try to exploit small scale advantages, has also set 50 employees as an upper limit:

A key feature of the management principles behind the organizational structure is to emphasize small scale, decentralization and a flat hierarchy. No subsidiary should employ more than fifty people in order to maintain a sense of belonging among the personnel and to make it possible for the managing director of each subsidiary to personally know and have contact with all his subordinates. When a subsidiary grows so that more than fifty are employed, the firm becomes divided into two.⁷⁹

The quantitative limit of 50 employees, seems also close to an "official" definition of small firms in Sweden.

...SMEs are firms with less than 200 employees. This group is divided into small firms (less than 50 employees) and middle-sized firms (50-200 employees.)⁸⁰

The definition of smallness above - "the right to define the business concept" - was therefore combined with "less than 50 employees." It should be noted though, that this limit does not have to be strictly

⁷⁸Agurén *et al*, 1984:47.

⁷⁹Alvesson, 1988:5.

⁸⁰...*med småföretag avses företag med färre än 200 anställda. Inom denna grupp finns mindre företag (färre än 50 anställda) och medelstora företag (50-200 anställda)* (Prop. 1977/78:40).

followed for my purposes. The main function is to clarify what type of organizational phenomena will be focused on in this study. The phenomenon - smallness - is beginning to receive meaning through definitions like the one above, but this work of giving meaning to smallness will be continued throughout the book.

Finally, it might appear a bit over-simplistic to make a single definition of small firms - to treat small firms as a homogenous phenomenon. Small firms are of course heterogenous phenomena in many ways. They function in different industries; use different technologies; are run by different personalities with different interests, levels of ambition, and so on. One could argue that the validity of any discussion about small firms, would therefore improve if small firms were categorized one way or the other. Nevertheless, this study set out to explore small firms as a general phenomenon. This abstract understanding of small firms will be preserved.

Without going into a lengthy discussion about this, arguments can be found in favor of treating small firms as a specific form of organization. The experiences gathered in the interviews with both managers and staff in Case One, Case Two and in other small firms, support the idea of a common small firm community. Small firm managers seem to regard other small firm managers as colleagues, whether in the same industry or not, whether in one-person firms or in larger small firms. Certain characteristics are common among these firms and can be directly referred to the small number of employees, or to the relatively small amount of money involved. Employees with experience from several small firms perceive similarities, especially connected to the special importance of the owner being manager.

It could also be argued that at an explorative stage of theoretical development, it might be beneficial to remain on this abstract level. It might "support the interplay of ideas" which is an important criterion when evaluating explorative research. Accordingly, small firms will be treated as a specific form of organization in this discussion.

Outline of the book

This first chapter argues that small firms need their own theory of how "organizing" takes place, not liable to the rationalistic and structuralistic bias present in "the received view of organizing." This question is best

studied in small growing firms. Since present concepts and theories are considered inadequate, this study is designed as an explorative one. The research objectives are stated: to describe organizational processes in small growing firms; to investigate their efficiency; and whether the efficiency of these organizational processes are dependent on small size; to discuss the possibility of reproducing smallness in large companies. The chapter also contains an attempt to define smallness in a way that reflects both autonomy and size.

In Chapter Two I present two theoretical frameworks. The "received view of organizing" is described using four central concepts: division-of-labor; coordination; motivation, and institutionalization. I also present some hypothesis raised by the received view regarding small scale advantages and effects of growth. The "alternative view of organizing" is a social-psychological perspective which is less rationalistic, objectivistic and structurally biased than the received view. "Organizing" is described as a cognitive activity. Organizations are described as relatively static interpretive schemata. Management is understood as management of meaning, or sensemaking.

Chapter Three contains a description of the method of collecting, coding and analyzing empirical data. The generation of conceptual categories is made through a successive coding of interview data, from two case studies, into first "A-level," then "B-level" and finally "C-level categories," reflecting increasing levels of abstraction. The method of analysis has some similarities with content analysis, but with a stress on active sensemaking and theoretical exploration from the analyst. The presentation is illustrated with examples and commented from epistemological viewpoints.

Chapter Six presents the two case studies and the A, B and C-level categories constructed through the use of the grounded theory method. The conceptual categories emanating from Case One are related to the "received view of organizing," presented in Chapter Two. It proves to be a difficult task. Some of the "central concepts" identified in this framework are not that relevant in interpreting the cases. Instead, a revised framework is put forward based on the grounded C-level categories from Case One. Organizing is interpreted as a kind of sensemaking. The firm reaches a clear understanding of its situation through two different types of organizational sub-processes, one spontaneous, the other systematic. Case Two is analyzed using this

revised framework. A total of 16 organizational sub-processes are identified using data from these two cases.

Chapter Five is an attempt to present an integrated interpretation and discussion of the results. It is argued that the small firm, because it is too prone to accommodation, might make economically efficient operations difficult. Instead, its main advantage is its flexibility. The confusion between person and firm that was noticed in both cases, suggests that "organizing" in small firms should not only be understood in economic or organizational terms. The personal aspects of the small firm, asks for humanistic approaches including studies of creativity and spontaneity. Here we might find important small firm advantages of a non-economical nature.

The experiences gained from using this rigorous version of the grounded theory approach is discussed in Chapter Six. It is argued that it represents a "golden mean" between radical empiricism and armchair reasoning - two positions to be avoided. This chapter also contains a plea for more longitudinal direct observations in organizational research.

Chapter Two

Theories About Organizations

Summary

Two different theoretical frameworks will be presented here, the "received view" and the "alternative view." The received view is mainly an information processing perspective on organizations. The organization is involved in a problem solving process, dividing its operations into sub-problems, introducing formal communication to solve coordination requirements. Motivation systems are needed to raise effort-levels in the organization. Finally, the organization must adapt to, and be integrated into its environment through institutionalization. Empirical research shows that the concepts in these theories do not capture small firm behavior. Emotional decisions, subjectively perceived complexity, and process perspectives among small firm managers, demand another set of theoretical concepts and models. A suggested alternative theoretical framework is the social psychological perspective. In this perspective "organizing" is a mental process resulting in interpretive schemata that have a tendency to reinforce themselves. This alternative framework shows promising capabilities but should be developed further in the small firm context.

Chapter Two Theories About Organizations

The title of this chapter might seem a bit over-ambitious. What we know about organizations can hardly be captured in a few pages. Nevertheless, it is important to present what earlier research has to say on organizational processes in small firms. First, we need to know what are our present answers to the research questions, and what are the strengths and weaknesses of these answers? Some of the weaknesses with the received view were presented already in Chapter One. Here, they will be explored in more detail. Second, the received view is not all we know about organizations. In this chapter I will also present some alternative ways of looking at organizational processes, particularly in small firms. Third, in an explorative study, such as this one, any influence or departure from existing theories should be documented, as far as possible, in order to facilitate a methodological development. To this latter issue, I will return in Chapter Three.

Today we know that no trained researcher can be theoretically naive. Not only theoretical discussions but even empirical data have been proven to be theory-laden. Theories enable us to see things, or look for things, that otherwise would be hidden. Still, the idea of generating theory from "scratch" is tempting because it might promote novelty. The whole purpose of conducting explorative research, is to generate concepts and theories that enable us to see things in a new way. If the research process is restricted, following a certain "theoretical school," for instance, the contribution of the research process will be restricted as well. One of the characteristic features of the explorative method used in this study - the grounded theory approach - is that it aims to generate theory as far as possible without prior theoretical prejudice.

In other words, I see a possible position between a "fundamentalist" standpoint - the view that our perceptions of reality are always interpreted through a distinctive theory ('let's make it explicit') and a "naive" ('impossible') standpoint. The best defense against fundamentalism is neither to surrender to one particular theory wholeheartedly, nor to suppress a theory. Instead, learning about available alternative theories might support compromises and, reducing strong

emotional attachment could promote openness. Accordingly, I argue for an agnostic or eclectic attitude when approaching explorative work of this type.

Therefore, one of the preparations before this research began, was to systematically develop a kind of theoretical suspicion; in other words, to avoid theoretical fundamentalism. Different theoretical "schools" within organization theory were studied and their focus, basic concepts and weaknesses were compared.¹ However, most important during the preparatory phase was to make any favorite theories conscious, and then neutralize the theories without suppressing them. A way to accomplish this was to formulate my initial theoretical framework. This was attempted in a short textbook on organizational behaviour for the small-business manager.² This chapter is a summary of that book, but contains also a further development of its content .

The first part of this chapter is a presentation of what I have called the received view of organizations. The second part is an attempt to formulate an alternative view, based on the perception of organizations as organizational processes influenced by individual actors.

The received view

We can structure the presentation of the received view using four central concepts within organization theory; Division of Labor, Coordination, Motivation and Institutionalization. It is assumed that all organizations can be described under these headings. One can also suppose that small firms will differ from large firms on these four dimensions.³

¹ The form for this was a 10-week discussion course on "Organizational Paradigms" for doctoral students at the Stockholm School of Economics.

² Brytting, 1989a.

³ Other authors may choose another set of "central concepts". Sjöstrand, for instance, talks about five different "functions of organization structures": Focus (helps the members to choose correct actions), Control (assessment and rewarding of individual performances), Identification (supports commitment of individuals to the organization), Legitimation (stresses that the organization is part of the surrounding value community), Reproduction (the organization as a manifestation of power relations). (Sjöstrand, 1987:154-173). Stymne talks about "five essential processes": Institutionalization (activities through which the organization becomes an indispensable part of a larger social system), Adaptation (activities through which the organization changes its strategy), Exchange (the continuous exchange of contributions and inducements between the organization and its participants), Control (coordination of different parts of the organization), Reward (reinforcement of individual behavior). (Stymne, 1970:301-302). Of special interest is the set of "behavioral patterns" or "categories" found by Johansson Lindfors, in an inductive ("grounded"), comparative case study analysis of four small firms. She argues that these small firms can be described under five behavioral categories; Production behavior (organization of

The lack of growth willingness among small firm managers, and the size of the small firm sector in the economy, lead me to hypothesize the existence of some small scale advantages. An underlying idea in this study is that growth in small firms might be something painful, involving a tension, or dilemma, between, on the one hand "driving forces" promoting growth and, on the other, "restraining forces" aimed at exploiting specific small scale advantages. Given the scientific reflections on organizations and organization behavior presented below, we can extract hypotheses about growth in small firms and the tensions growth involves. The exact subject of these hypotheses will vary. Some concern directly the threats that growth poses on small firms. Some hypotheses suggest how the small firm will change during growth, other hypotheses concern the differences between small and large firms. Taken together they give one picture of how the received view treats organizational phenomena in small growing firms.

Division-of-labor

In the organization, complex problems are broken down into simple ones through division-of-labor. The phenomenon has attracted enormous interest. Only a taste of the debate will be presented here.

The most well known proponent of division-of-labor merits, is of course Adam Smith. His basic idea is that when someone specializes in his work on a specific task, he develops extraordinary skills on that particular task, he does not lose time when shifting from task to task, and he can make full use of specialized technology. In summary, specialization makes use of economies of scale. Accordingly, if a group of people divide a complex task between themselves, and specialize on different sub-tasks, they - as a group - will out-perform a group where each individual performs the whole undivided task.⁴ Specialization will therefore be a common phenomena, and will, according to Smith,

work flow), Administrative behavior (control of materials, capital and employees), Resource allocation (behavior connected to the allocation of financial resources), Development of operations (behavior connected to changes in strategic orientation), Environmental orientations (behavior towards customers and suppliers). (Johansson Lindfors, 1989:221-228). My general impression is that the four central concepts adopted in this study includes all but one of the above mentioned aspects of organizations. Johansson Lindfors's "Resource allocation" captures the small firm managers' specific obsession with liquid capital. My guess is that Johansson Lindfors found this subject to be so common in her material that she, therefore, included this category to discriminate between small firms. Sjöstrand and Stymne have their interest focused on large organizations where a concept like "resource allocation" rather is connected to strategic planning.

⁴Smith, 1976 (1776):7-14.

only be limited by the size of the market.⁵ Division of labour is not restricted to individuals, but relates also to the specialization of firms. However, Smith did not envision the competition between man and machine that made Simon reach his conclusions - conclusions which are, to some extent, the opposites of Smith's.

Simon gives us a cognitively based explanation and elaboration of Smith's discovery.⁶ He argues that the cognitive capacity of the human brain is significantly limited. Therefore, the use of this cognitive capacity has to be efficient. He shows that we use cognitive resources efficiently by dividing complex problems into a series of less complex sub-problems. We continue this process until we reach a level where some satisfying - not necessarily the best - solutions are known and can be executed. In the extreme case - preferably - the solutions are executed by automated technical equipment; like robots or computers.⁷ The costs for programming and automation of new tasks are high, which supports the conclusion that repetitive tasks, e.g. highly divided labour, will sooner be carried out by machines, than non-repetitive tasks. The first problems to be programmed and automated have been simple repetitive tasks, involving few physical movements (robots), and complex repetitive tasks involving manipulation of figures (book-keeping). The kind of non-repetitive tasks where human beings have their greatest competitive advantage, are the ones involving eye-brain-hand coordination, and tasks involving personal service. Simon stresses that the explanation behind this is economical rather than technical. Thus, it is not the size of the market that limits division of labour, but rather the relative price and productivity of human labor versus that of machines.

Braverman, and others, discuss division-of-labour not only from an efficiency point-of-view, but also from power considerations and from moral standpoints.⁸ The idea is that the owner can increase his or her power, or control, by stripping away whole tasks of work roles' planning content leaving the workers with limited and simple physical movements. These movements can be priced and detailed targets can be set, something which enables a detailed control of each worker. The

⁵Smith, 1976 (1776):21.

⁶The idea was of course not new. Man has always practiced some kind of division-of-labour. Smith was one of the first to write a systematic treatment of it, though.

⁷Simon, 1977:19-24,70 presents the essence of this discussion.

⁸Braverman, 1974.

freedom of the workers to choose the sequence of tasks, work pace etc. is severely reduced. The work is devoid of content. All surplus value can be collected by the owners. Workers will be exploited.

Today, this critique has mingled with efficiency aspirations along Simon's way of thinking, and has inspired experiments with new forms of work-organization which promise to, again, allow workers to perform a whole set of tasks, as well as parts of their own planning. It is possible to interpret this as the emergence of a different view of organizations. Smith argues that division of labor is efficient and should be developed until the size of the market becomes a restriction. Braverman argues that division of labour only exploits the worker. Simon argues that human beings have competitive advantages in performing certain tasks, and that the struggle of interest is not so much between capitalists and workers as between the productivity of man and the productivity of machines.

Thus, the perception of the issue of division of labor has shifted, from the market being a determinant of division of labor; understood as specialization, to division of labor seen as a crucial design factor in order to release and commercialize human competence. How shall organizations be designed in order to utilize the energy, competencies and potentials of human beings? The underlying economic reason is obvious. The employee is in the firm eight hours a day, with all his or her competence - utilized or not. The competence which is not utilized makes up a "slack resource." The firm that can put more of this slack resource into its operations will be competitive.

Hypotheses about small firms as outlets for specialized competence

In the small firm, the founder, or owner/manager, often puts his or her stamp on the way things are done; he or she has, or is, the solution to many problems and tries to maintain control of the firm's operations. Therefore, we would expect the firm to reflect his or her knowledge, his or her values and habitual ways of thought. If these very personal qualities, or competences, are essential elements in the business concept of the firm, a small firm might be a better solution than a large one. A small organization can more easily be designed to commercialize such personal, or even unique competence than a large organization, because the latter might have difficulties adjusting tasks and task clusters to individual characteristics.

One can imagine a situation where an employee in a large corporation works out a profitable business concept, based on such unique personal competence. It might be expert knowledge in some area, artistic skills, a special social network etc. The job-specification he or she is at present following, may not be flexible enough to utilize this personal competence. Starting an independent firm might be the only way that this personal competence can be fully commercialized.

On the other hand, a small firm is limited in taking advantage of alternative use of slack resources. Expensive equipment may not be utilized full-time, highly paid professionals with special competencies might have to do routine work etc. In other words, its internal division of labour may not properly reflect the size of its market. A strong incentive in favour of growth therefore, might be that idle slack resources could be put in profitable use if the firm's market, i.e. the total volume of work were larger. As a result, one might predict a tension experienced by specialists between the individual adaptation of work roles possible in the small firm, and the careers for experts and professionals possible in large companies.

It is often said that specialists avoid small firms and seek their careers in large organizations instead. This may be true for any individual firm but not necessarily for small firms in general. The increasing importance of small consulting firms selling expert knowledge and skills, challenges this assumption.⁹ As Smith pointed out, not only individuals, but firms as well, are part of a grand divided labor-system.

When a firm designed to commercialize a special personal competence grows, the owner/manager will discover that management of the firm will prevent him or her from performing this original commercial role. Coordination of activities, personnel management, contacts with banks and authorities etc. will increasingly occupy his or her working day.

Based on this discussion, I would hypothesize that during growth:

⁹Stymne (1989) discusses competence formation in the service sector and hypothesizes that large organizations have significant weaknesses as labour markets - markets for competence. *Due to rigidities in pay structures in large, bureaucratized organizations, highly competent employees may find that they will be better paid as consultants. At the other end of the competence scale, similar phenomena may lead to high costs for a large firm which hires its own labor for low-skilled services. These costs could be reduced by purchasing these services from specialized firms which can maintain more direct contact with external labor markets.*(1989:2).

The owner/manager will trace and isolate those steps in the work flow where his or her contribution is most crucial, and concentrate on them; or, he or she will engage in efforts to transfer his or her own special competence to other employees; or, he or she will standardize this competence in the form of a product or service that can be produced in large quantities; or, the small firm owner/manager will choose to stop the growth of the firm.

In the small firm, each employee constitutes a large percentage of the total labor force. Therefore, if someone is missing, or fails to fulfill his or her duties, the consequences can be very serious for the small firm. By working together in a small group, as a team, close personal ties develop. The lack of replacement opportunities, makes these problems even more intricate. It comes as no surprise that questions related to recruitment, introduction, instruction and dismissal of employees are highly anguished issues for the small firm manager.¹⁰

It could be argued, that the small firm could escape from these problems by introducing much more formal division of labour; designing formalized employment contracts and working instructions, thereby reducing the weight of personnel matters. Through this, the small firm would be less dependent on each employee's personality, instead the firm could engage in the purchasing of standardized labor on an open market, with less emotional involvement. Especially small firms could gain from this, if we accept the reasons outlined above. The fact that small firms do not design their internal work in this way, implies that the careful and personal recruitment/socialization-process in small firms, in the end is more efficient than purchasing standardized labour. Apparently, large firms do not employ "open" working contracts to the same extent as small firms. Therefore we can hypothesize that during growth:

The internal division of labour will be more formalized.

Coordination

In order to be an organization, sub-activities performed in the organization must be focused. The more work tasks are divided, e.g. the higher the degree of specialization, the greater the need for

¹⁰Beckérus & Roos, 1985:86-94.

coordination. Even though division of labor is an important aspect of organizations, organization theorists have been putting more of their interest on coordination, and coordinating mechanisms.

The centrality of coordination in the definition of organizations was formulated by Weber:

Whether or not an organization exists is entirely a matter of the presence of a person in authority, with or without an administrative staff. More precisely, it exists so far as there is a probability that certain persons will act in such a way as to carry out the order governing the organization... On the other hand, so long as there is a probability of such action, the organization as a sociological phenomenon continues to exist, in spite of the fact that the specific individuals whose action is oriented to the order in question, may have been completely changed.¹¹

If the relations between people are not coordinated, we might speak of social relations in general but hardly of an organization.

Coordination of an organization is achieved through a two-way information flow. First the performance of dependent elements - men, machines, units - must be known to those who coordinate the system. Secondly, the actions considered necessary, i.e. orders, must be communicated back to the elements. Accordingly, discussions about coordination mechanisms are closely connected to issues of communication, and communication channels.

Simon argues that hierarchy is the most efficient form of coordination since hierarchical structures minimize the number of links and channels through which this information has to pass.¹² An increase in size implies a more and more elaborate hierarchy. His discussion is based on an information processing view of organizations. However, we know that organizations also use other coordinating devices apart from simple hierarchy, i.e. upward referral of problems.

From the general idea of coordination as an information processing problem, Galbraith works out his model of seven organization design

¹¹Weber, 1968:49.

¹²Simon, 1977:110-113.

strategies.¹³ According to him, hierarchy is not the simplest coordinating mechanism in an organization. Instead, Galbraith claims that:

The simplest method of coordinating interdependent subtasks is to specify the necessary behaviors in advance of their execution in the form of rules or programs. In order to make effective use of programs, the organization's employees are taught the job-related situations with which they will be faced and the behaviors appropriate to those situations. Then as situations arise daily, the employees act out the behaviors appropriate to the situations. If everyone adopts the appropriate behaviour the resultant aggregate response is an integrated or coordinated pattern or behaviour.¹⁴

Hierarchy, i.e. managers, design these rules or programs and take care of new or unique situations. If the complexity threatens the hierarchy with overload, decisions, now involving increased amount of discretion allowed from lower levels, will once more be delegated downward. Instead of rule governed behavior, the organization will utilize "targeting and goal setting" as design strategies. Still, the managers will handle major conflicts and new situations. If goal-setting is not sufficient, the organization has to choose among four ways to reduce the number of exceptional cases referred upward. This can be achieved by creation of self-contained units; by a decrease in performance standards, i.e. by introduction of slack resources; by implementation of management information systems; or by creation of lateral relations, like task forces or matrix structures.

One design strategy of special importance is "creation of slack resources." By this term Galbraith means that less than maximum efficiency is itself a design alternative which will reduce the amount of information processing in the organization, since the coordination of maximum fit or maximum efficiency is extremely costly to achieve. Slack resources - for example, inventories or latent competence - may be created voluntarily, as a means to reach sufficient coordination with other units, or involuntarily, as a sign of less than perfect coordination. Activating available but idle slack resources, however, is an important goal for any organization designer.

¹³Galbraith, 1973.

¹⁴Galbraith, 1973:10.

Thompson's point of departure is his distinction between three types of interdependencies.¹⁵ An organization made up of independent branches, is an example of *pooled interdependence*. *Sequential interdependence* occurs if an organizational unit cannot perform its tasks before another unit has finished its obligations. If two units use each others' products as material for their own operations, they are said to be *reciprocally interdependent*. (Thompson exemplifies reciprocal interdependence with an airline containing both operations and maintenance units). These forms of interdependence represent increasing organizational complexity and an increasing demand for information processing. Depending on the type of interdependence, different coordinating mechanisms are called for.

With pooled interdependence, coordination by standardization is appropriate; with sequential interdependence, coordination by plan is appropriate; and with reciprocal interdependence, coordination by mutual adjustment is called for...Standardization requires less frequent decisions and a smaller volume of communication during a specific period of operations than does planning, and planning calls for less decision and communication activity than does mutual adjustment.¹⁶

Both Galbraith and Thompson claim that a standardization of work tasks and/or a preconceived plan for their coordination, is a less complex, and therefore cheaper solution to the coordination problem, than the creation of information-channels enabling a continuous adaptation.

For Mintzberg, growth in small firms represents the birth of a structure - from no structure to some sort of divided labor coupled with a coordinating mechanism. The organizational process in small growing firms thus resembles a process of specialization and a growth in the number and kind of coordinating mechanisms. He suggests that these coordinating mechanisms are ordered:

As organizational work becomes more complicated, the favoured means of coordination seems to shift...from mutual adjustment to direct supervision to standardization, preferably of work processes, otherwise of outputs, or else of skills, finally reverting back to mutual adjustment.¹⁷

¹⁵Thompson, 1967:54-55.

¹⁶Thompson, 1967:56.

¹⁷Mintzberg, 1979a:7.

Galbraith, Thompson and Mintzberg share many similar conclusions regarding the order of coordinating mechanisms in increasingly complex operations. Mintzberg deviates by including mutual adjustment and direct supervision as coordinating mechanisms before standardization takes place:

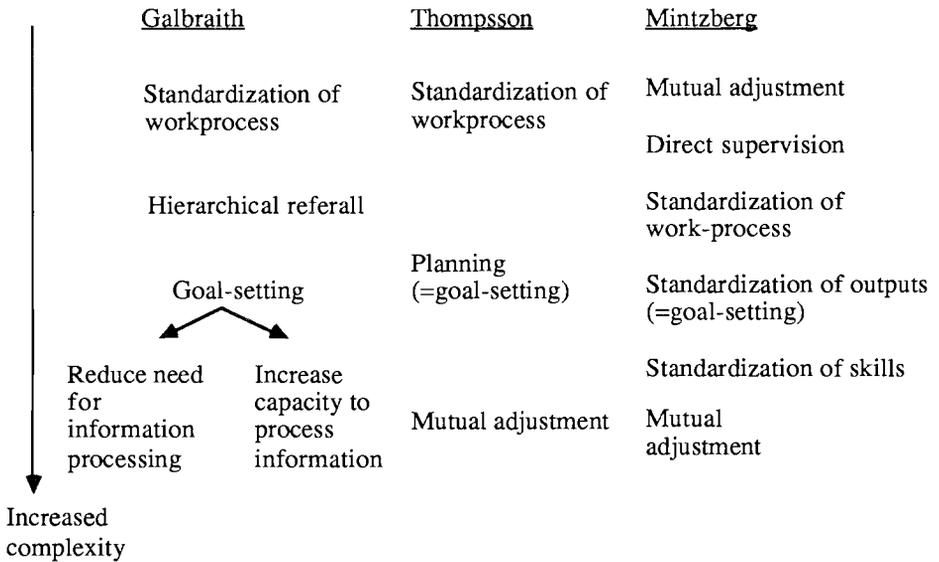


Figure 2.1. Complexity giving rise to coordinating mechanisms, according to Galbraith (1973), Thompson (1967) and Mintzberg (1979a)

Hypothesis about the introduction of coordination mechanisms in small firms

The amount of information needed to coordinate a small firm is limited. In many cases this information can be collected, processed and diffused by the manager him- or herself. He or she will not need any special staff for this as long as the firm remains small. Instead he or she can rely on "direct supervision." The information systems necessary for administrative purposes can be relatively simple and cheap. It is even possible that the information collected by walking around in the firm and actively taking part in its operations, can give an accurate and

detailed picture of the activities. Standardized and formalized information systems are costly to design. Furthermore, they might actually convey a distorted picture of the firm to the manager. These information systems convey a standardized picture of the firm which means that it may miss important features and may create idle slack resources.

A further possible advantage of small firms is that the small size makes it possible for the employees to directly perceive how their own tasks and performance measure with those of other employees. It may also be easier to relate individual tasks to the overall goal of the firm. This might reduce the need for hierarchical control and coordination in favor of mutual adjustment. In other words, if we limit the discussion to growing small firms, the model proposed by Mintzberg, seems more plausible than the Galbraith/Thompson model.

As the firm grows, efficient coordination can no longer be achieved simply through the manager "being around." Increased size and complexity also make mutual adjustment more difficult. Mintzberg proposes that during growth, coordination, therefore, will be formalized.

Instead of several individually designed jobs, which will be increasingly costly to coordinate, the firm will (during growth) substitute mutual adjustment and direct supervision as coordinating mechanisms, for a relatively few number of standardized and well defined work roles. Through "goal-setting," only certain predetermined key issues will be monitored in detail.

Motivation

Neither division-of-labour, nor coordination is exhaustive in any absolute sense. Normally, tasks or work roles are created and responsibilities for certain clusters of tasks are assigned, but within these tasks and responsibilities, a more detailed organization must take place. There are always some possibilities for individual discretion. To get things done, the firm must employ some appropriate form of reward system.

Leibenstein introduced the term "work effort" and defined it as a variable, in order to capture what happens when the employment

contracts are incomplete and open.¹⁸ He argues that work effort is made up of four choices:

...the choice of Activities which compose the effort,
 the Pace at which each activity is carried out per unit of time
 the Quality of each activity, and
 the Time pattern and length of activity.¹⁹

We may conceive this as a micro-organizational process on the individual level. The individual member of the organization can choose his or her own "APQT-bundle," if some individual discretion is possible, or choose between staying or leaving if the APQT-bundle is pre-set.²⁰ Since pre-set APQT-bundles are costly to design and generally inefficient, the effort-level will vary,²¹ and influence both productivity and quality.

Individuals have different ambitions with their work: different motivations. Therefore, it is not enough to assign specific tasks (even if this tasks reflect personal competence), and coordinate these tasks (even accurately). The individuals who contribute their resources to the firm must be rewarded, or punished for that matter, in a way that raises effort level.

Motivation is dependent both on personal and situational factors. Because of each individual's motivational constitution, it is not an easy task to design proper rewards. Schou refers to several studies showing that some people may actually lower their performance if rewarded in the wrong way. For instance, to pay a person to do something that he/she likes to do anyway, may actually lower that persons motivation.²² One of Schou's empirical findings is that in general, the exclusive focus on monetary rewards is misleading. The salary is only one of several factors constituting the total work situation which is more important than generally recognized. He also argues that because

¹⁸Leibenstein, 1976:98-105.

¹⁹Leibenstein, 1976:98.

²⁰It seems reasonable here to give some credit to this idea also to March & Simon. They presented a similar model using the term "performance program content" which included pace, activities and product specifications, (1958:144-146).

²¹Leibenstein illustrates the inefficiency of pre-set APQT-bundles by referring to "working to rule" as an equivalent of a strike, (1976:102).

²²Schou, forthcoming, referring to Deci (1978:197). This effect is especially pronounced in genuine problem-solving, and less so in routine, well-learned tasks.

individuals are motivated by different things, reward systems should be more individually designed.

The connection between division-of-labour, coordination and motivation, has been clearly recognized in the socio-technical school of organization theory. Hackman and Oldham describe the relationships between individual job characteristics and internal motivation:²³

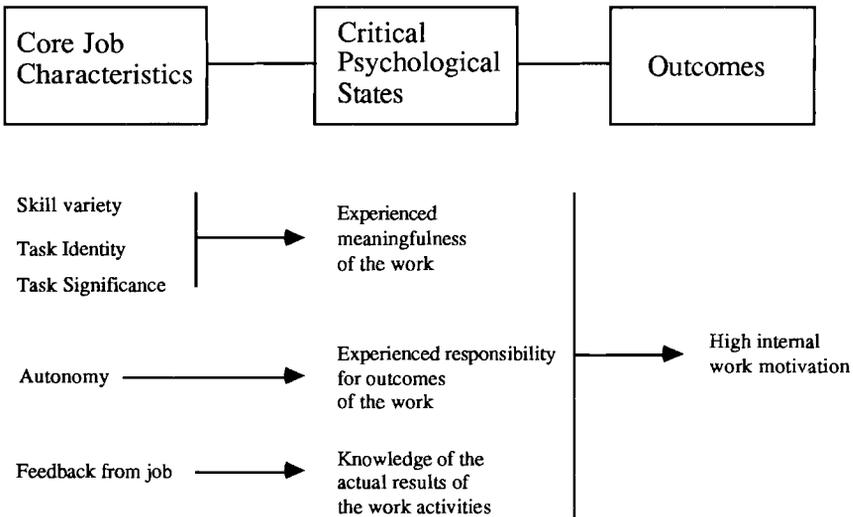


Figure 2.2. The relationship between job design and motivation according to Hackman & Oldham (1980)

Unless the work is perceived as meaningful; the outcome of work can be related back to individual efforts; and the actual results of work are known, motivation will be low. These things can be altered through proper division-of-labour and proper feedback procedures. Payments received will influence how sensitive the workers are to these job-design factors. Hackman and Oldham conclude that motivation and efforts can be improved through proper organization design.

²³Hackman & Oldham, 1980.

Hypothesis about small firms as motivating places of work

To run one's own firm, in many ways, can be a more motivating experience than working in a large corporation. The owner/manager exposes not only his or her skills and competence, but also reveals, in a special way, "himself" or "herself" on the marketplace. There is a direct and visible relationship between efforts and rewards. Payments in and out of the firm have direct or indirect effects on personal economy and are therefore strong incentives to raise efforts. In the small firm, however, monetary rewards seems to be of less importance.²⁴

The psychological identification with the firm is also a motivating factor of great significance. Beckérus & Roos have shown how the owner/manager often associates his or her work in the firm with his or her meaning of life.²⁵ The firm gives him or her identity, both in his or her own eyes and in relation to others.

As the firm grows, the close connection between an entrepreneur and his or her firm could be expected to break up. Less of the operations of the firm relate back to the owner/manager; the employees in the firm act increasingly on their own. The breaking up of this link between person and firm might reduce motivation. Therefore, one hypothesis is that during growth:

Monetary rewards will be increasingly important. The owner/manager will divide work psychologically into two parts: a less emotional part, which could be delegated or acquired from e.g. consultants, and an inspirational part, to which he or she could devote him- or herself.

We have already seen in Chapter One, that general job satisfaction among employees in small firms seems to be relatively high, although salaries are generally lower than in larger companies. Employees in small firms experience more control over their own working conditions and are generally more satisfied with their work. One might explain these findings using the Hackman/Oldham model:

Skill variety: The degree to which a job requires a variety of different activities in carrying out the work, involving the use of a number of different skills and talents of the person.²⁶

²⁴See Chapter One.

²⁵Beckérus & Roos, 1985. See also Berglund & Heideken, 1984.

²⁶Hackman & Oldham, 1980:78.

Small firms lack internal career possibilities, as well as replacement opportunities. This might imply that the variety of employed skills is lower in small firms. On the other hand, employees in small firms are often less specialized. A Swedish study²⁷ found that within the mechanical industry, workers in small firms generally had to perform more complex operations, and demands on skills were higher than in large companies. No such size related differences were found in the plastics industry.

Although work in the plastics industry was much more controlled by machines, and therefore less varied than in the mechanical industry, job rotation was much more common in small firms than in large firms, in the plastics industry. In general, the limited number of employees makes the small firm dependent on the flexibility and willingness of these employees to perform duties not within their normal areas of responsibility.

Task identity: The degree to which a job requires completion of a "whole" and identifiable piece of work, that is, doing a job from beginning to end with a visible outcome.²⁸

This factor is also a reflection of the division of labour in the firm, but also the division of labor between firms. Accordingly, we would expect task identity to be more pronounced in small firms, given the assumption that small firms show less division of labor.

Task significance: The degree to which the job has a substantial impact on the lives of other people, whether those people are in the immediate organization or in the world at large.²⁹

Hackman and Oldham illustrate task significance by comparing the worker who tightens nuts on aircraft engines, with a worker who tightens nuts on decorative mirrors. In this sense, firm size is irrelevant. What counts is the products and services offered by the firm. However, it could be argued, that the products and services offered by large firms, generally have more visible significance to society, than the products and services offered by typical small firms, like bakeries, hairdressers, fastfood restaurants, small shops, sub-contractors, etc. The

²⁷Persson, 1979:78.

²⁸Hackman & Oldham, 1980:78.

²⁹Hackman & Oldham, 1980:79.

significance of a firm's operations might spill over to the experienced significance of one's own job. From another perspective, if the number of employees in the firm is small, the performance of each employee will be both visible and have an impact on fellow workers, thus implying a high degree of task significance in small firms.

Autonomy: The degree to which the job provides substantial freedom, independence, and discretion to the individual in scheduling the work and in determining the procedures to be used in carrying it out.³⁰

Autonomy was investigated in a Swedish study where more than 3,000 workers were interviewed. The results indicates that autonomy is negatively correlated with firm size.³¹ On the other hand, workers in small firms have limited possibilities to influence decisions concerning the short- and long-term planning in the firm.³² In these matters, the small firm manager has absolute control. In large companies, the Swedish codetermination law and other agreements between unions and employers, guarantees a certain degree of organized influence. In small firms, employees instead tend to adopt the values of the manager, see problems from the managers point of view, and therefore do not pursue worker-specific interests.³³

Job feedback: The degree to which carrying out the work activities required by the job provides the individual with direct and clear information about the effectiveness of his or her performance.³⁴

This is a design factor, hardly determined by firm size. Most jobs can be designed in such a way that the individual receives feedback on his or her own performance, no matter the size of the work place. One might hypothesize, however, that in a small firm, it is actually difficult to avoid individual feedback. Each employee, because of the small number of employees, makes a clearly visible contribution to the firm.

³⁰Hackman & Oldham, 1980:79.

³¹Granqvist & Sjögren, 1979:47-49.

³²Granqvist & Sjögren, 1979:64-69.

³³Granqvist & Sjögren, 1979:69, Schou (forthcoming) found conflicts in the workplace to be less common in small firms.

³⁴Hackman & Oldham, 1980:80.

In summary then, from the model by Hackman and Oldham, and also from empirical investigations, we might argue that the small firm have certain characteristics, mainly due to the small number of employees, and the, supposed, lower degree of specialization, which makes it a more motivating place of work.³⁵ Schou, who empirically investigated the variables in Hackman/Oldham's model found that larger firms, in general, had lower values on Task Identity and Autonomy.³⁶ We could hypothesize that during growth:

General satisfaction will decrease among employees. The value community between manager and employees, which might be present in the small firm, will deteriorate.

However, as we have seen, some of the factors influencing motivation are directly connected to firm size, i.e. difficult to control during growth. Others are related to the firm's products and to the presence of proper feedback, and can thus be influenced. Therefore:

A specific small firm might be able to maintain employee motivation, despite growth, by continuously giving direct and clear information about the effectiveness, and significance of employees' performance.

Institutionalization

Finally, the organization is dependent on its environment, adapting itself in order to survive. I call this institutionalization. According to Selznick, one important aspect of a growth process or a maturity process is that organizations should turn into institutions:

Organizations become institutions as they are *infused with value*, that is, prized not as tools alone but as sources of direct personal gratification and vehicles of group integrity. This infusion produces a distinct identity for the organization. Where institutionalization is well advanced, distinctive outlooks, habits, and other commitments are unified, coloring all aspects of organizational life and lending it a *social integration* that goes well beyond formal co-ordination and command.³⁷

³⁵Sjöberg presents a number of psychological research projects supporting the conclusion that individuals in small organizations experience higher levels of responsibility, motivation, satisfaction and fellowship (Sjöberg, 1982:70-81).

³⁶Schou, forthcoming.

³⁷Selznick, 1957:40. Note that Selznick's, and my, definition of institution bear upon individual organizations and not societal structures of the type discussed by e.g. Sjöstrand, 1987 and 1989.

However, this is a description mainly of internal characteristics of organizations, and one could question whether it succeeds in adequately capturing the situation of the small growing firms. The "social integration" may precede any formal coordination in these firms. Small firms may actually be formed around common values, or "shared interpretive schemata,"³⁸ and formal coordination may develop afterwards, as a consequence of growth. In this respect, the institutionalization concept is inaccurate.

On the other hand, the institutionalization concept also has external connotations. A key concept is that of "distinctive competence." Stymne defines institutions using this concept:

An organization has attained distinctive competence in relation to a particular group if this group receives more from cooperation with the organization than it gets by satisfying corresponding needs in any other way...the customers are prepared to pay more for the firm's products than for alternative products.³⁹

The concept of institutionalization, therefore, addresses more than the development of a strong value community within the organization. Institutionalization, in its external sense, means that these values are given a clear shape and are implemented in accordance with the values held by the surrounding environment. An institution does not survive only by serving its customers satisfactorily, but also by having a position in society, having a distinctive competence, which will make powerful groups defend it for other reasons than monetary gains, e.g. for political or nostalgic reasons.

The institutionalization process is normally perceived as a very slow process,⁴⁰ and "institutions" are considered to be large and mature organizations.⁴¹ Nevertheless, small firms are also involved in a process in which their identity, "profile," or even business concept is sharpened and adapted to the constraints of their environment. The institutionalization concept will therefore be adapted here - despite its association with large, mature organizations - because it captures the

³⁸This concept will be discussed later in this chapter.

³⁹Stymne, 1970:69.

⁴⁰Stymne, for instance, claims that "in order to be able to study the institutionalization process, the time perspective involved usually has to be at least one generation of organization leaders." (1970:69).

⁴¹Selznik, 1957:122.

importance of value formation and value adaptation in this external sense.

As will be elaborated further below, values are included here as important factors when treating organization in small firms. How the internal value community is formed is regarded as a coordination and motivation issue. How these values are implemented in accordance with the environment, i.e. how the wider, external, value community is formed, is the topic of the institutionalization issue.

Hypothesis about the institutionalization of small firms

The close connection between person and firm, puts the small firm manager in a favorable position to engage in active and creative participation in local social networks. Johannisson, for instance, has shown that networking is a - or the - crucial activity of the small firm manager.⁴² In these networks the small firm discovers business opportunities, but more important, the firm creates opportunities together with the other network members. This network allows the small firm manager to create resource combinations by using external resources. Johannisson identifies three different types of resources: operative, social and creative. His point is that even for the entrepreneur, the firm loses some of its importance in favor of the network, and that processes in the network cannot be understood or managed with strategic plans, competitive behaviour etc. Instead, successful behaviour is to accurately conceive the internal rules of the game e.g. general reciprocity. The small firm is forced to adapt to, or become part of, local networks.

The small firm may survive not because of its cost-effectiveness, but because it forms part of an industrial network which is competitive. We can take Porter's conception of a "value-chain" to illustrate the idea.⁴³ The individual firm can be studied as a link within a larger value producing system. The elements of this system should not be evaluated as separate entities, but by whether or not they contribute to the system's performance.

The crucial managerial problem is how the firm contributes to this

⁴²e.g. Johannisson, 1986 and 1987.

⁴³ Porter, 1985: He formulated this model as an internal diagnostic tool, but transformed to a net-work context, it is still useful.

value production. The focus is changed from the firm's internal production/control system, to the firm's relations with other firms. For the manager this shift implies changed awareness; instead of competitive abilities, complementarity becomes the focus.⁴⁴ Costs are no longer the only source of information. Instead, mutual trust, technological competence, service etc. i.e. the quality of its network links, will decide economic transactions.⁴⁵ Accordingly, one could suggest that during growth:

*Small firms will be institutionalized faster and more accurately than large firms.*⁴⁶

Continued growth will be dependent on acceptance from other members of the firm's network, because small firms are more dependant than large firms on informal links with the local network.

In a study of the institutionalization process in medium-sized information technology firms, Steiner identifies three phases; the Entrepreneurial phase, the Turbulent phase and the Institutional Management phase.⁴⁷ Of special interest here is his discussion about the transition from the Entrepreneurial to the Turbulent phase. What will happen during this transition is that the founder's management ideals and visions will be replaced by the management team's. Direct control will be replaced by a small hierarchy and by symbolic control, based on a calculating commitment, causing a higher level of conflict in the firm. New forms of ownership will develop. One of Steiner's conclusions is that in the firms with the fastest growth, the founder is still present in the management team during this transition, but not in direct control. Instead, his or her most important role is to supply knowledge about the firm to the management team, but also to maintain the personal relations - his or her personal network - on which the firm is dependent. We might therefore hypothesize that:

Small firms will grow faster when the founder of the firm participates in the management team of the firm⁴⁸, thereby maintaining the firms' external network.

⁴⁴Hägg, et al 1982:49.

⁴⁵Hägg, et al 1982:45-46.

⁴⁶See comment in footnote 37.

⁴⁷Steiner, 1990a:169-181.

⁴⁸This is a slightly different hypothesis than Steiner's own, which is limited to "medium-sized firms in a complex and changing contextual situation" (Steiner, 1990b:9).

Some weaknesses with the received view

The rationalistic fallacy

The received view is the product of an information processing perspective on organizations. In this information processing perspective, the organization is perceived as a problem solving tool, and as such, it reflects the use of reason on a specific problem such as the production of a certain product or service. The organization itself, is the product of a fairly rational problem solving process, but moreover, its structure also performs a problem solving act, for example, by offering "behavioural programs"⁴⁹ or by focusing attention⁵⁰. This view, or the information processing perspective of organizations, rests on certain assumptions which are not self-evidently valid.

The fact that this perspective assumes the existence of organizational goals has been criticized. Instead, it is recognized that owners, employees, authorities and others have different claims on the organization. For the organization to survive, all of these "stakeholders" must be satisfied. Therefore, it is misleading to talk of an "organization's goal." More correct, would be to focus on the goals of individual actors and regard any apparently "coordinated action" in the organization as an expression of the present power situation; i.e. one actor, or one coalition of actors has gained enough power to pursue a specific goal. Any "goal" put forward by the organization can also be interpreted as a reconstructed logic, with or without correspondence to an empirical reality.

As a theoretical critique, this is appealing. Admittedly, conflicting interests are present and put restrictions on all organizations. Sometimes organizations may even fail to reach their formal goals. Is that to be considered a failure? - not if they did not have any goals. The whole issue about organizational failure or success presumes the existence of organizational goals.

On the other hand, and this is my objection, it seems difficult to deny that Volvo Car's goal is to produce cars with a profit, that the goal of the social authorities is to help people in need, or that the goal of a

⁴⁹Starbuck, 1983:92.

⁵⁰Sjöstrand, 1987:155-156.

business school is to teach students. Especially in small firms, the presence of a "goal" or a vision towards which the organization is directed, seems plausible.

Accordingly, I prefer to make a distinction between individual and organizational goals. Even though doctors and nurses may work exclusively to earn money or to gain social recognition, we expect hospitals to treat and nurse patients. It may even be true that we expect our daily bread from the greed of the baker.⁵¹ The fact is that organizations perform functions in society - have goals - other than the individual actor's desires may let us suspect. Byron has formulated this idea in a rather provocative passage:

It is something other than the personal motive which differentiates the surgeon's incision from the assailant's slash, and that something different lies in the nature of the activity...Both the instruments of the profession and the motives of the professional are unable, of themselves, to disclose the purpose of the professional activity.⁵²

The presence and significance of individual goals should, however, not be underestimated. In order to understand organization, as a process being influenced by individuals, we will return to this observation later.

A point of more serious critique has been raised against the received view's underlying, rationalistic assumptions of organized decision making. The fundamental logic, or sequence: problem - reason - choice of solution, is present in most of the theories presented above. The manager will perceive a problem (e.g. overload or slack), he or she implements a certain solution (e.g. division of labour or better coordination) because this will solve the problem, i.e. because the manager has chosen what he or she thinks is the best of several alternative solutions. This assumed order of problem solving processes does not describe comprehensively what is going on in organizations. Instead, it has been suggested that:

...an organization is a collection of choices looking for problems, issues and feelings looking for decision situations in which they might be aired, solutions looking for issues to which they might be the answer, and decision makers looking for work.⁵³

⁵¹Smith, 1976 (1776):18.

⁵²Byron, 1988:526.

⁵³Cohen, March & Olsen, 1972:2.

As an example, we can take the introductory vignette in Chapter One. The small firm owner/manager meeting the financing agency, well illustrates well the case of the "garbage can."⁵⁴ In that situation the problem was ill-defined ("A lot of things were wrong. I had had some ideas and thought that if I should do something it should be prepared in some way."); a solution (a shop) was handy (the financing agency was specialized in loans to small shop-owners); and reasons were re-constructed (the "professional" application). Another illustration: in many small firms money, e.g. this year's profit, could best be described as a solution looking for a problem. For example, the size of profits will guide the search for suitable problems/projects.

Several researchers have expressed frustration with the weaknesses of rationalistic-based theories and have pointed out the problematic transfer of existing management theory and organizational theory to the study of small firms.

Gilad, Kaish and Ronen, study 21 entrepreneurs in depth, to investigate the way in which small firm managers collect and make use of information. Their study describes this process as "an incessant search, unsystematic, many times without any clear objective."⁵⁵ They add that "the majority of our entrepreneurs took pride in ignoring formal market research"⁵⁶ and "our sample of entrepreneurs prided itself on being immensely intuitive." These businessmen show great faith in their 'gut' feelings:

Whether it was selecting an investment banker ('I felt comfortable with him') ...or introducing a product ('I don't have time or patience for market research. I know what sells') they were self-reliant and self-confident but far from strict practitioners of the marginalists' cost benefit analysis.⁵⁷

Bamberger investigates empirically the relevance and potential merits of strategic portfolio analysis in 25 small firms. He finds the conditions for these firms so different from that of large firms, that he concludes:

⁵⁴Cohen, March & Olsen, 1972.

⁵⁵Gilad, Kaish & Ronen, 1986:9.

⁵⁶Gilad, Kaish & Ronen, 1986:11.

⁵⁷Gilad, Kaish & Ronen, 1986:19.

Strategic portfolio analysis may be used in small and medium-sized firms, in its original form, including comprehensive and formalized studies, only in exceptional cases.⁵⁸

Shrader, Mulford and Blackburn, conduct a survey-study in 97 small firms.⁵⁹ The aim is to investigate the relationship between different types of planning and performance. 67% of the firms report that they have no strategic planning. Some of the most frequent reasons given are that "plans are not appropriate for the business," and "the business is too small." Another reason is lack of time. Retail firms show a positive relation between strategic planning and performance, but no such relations are found in the manufacturing and service sectors. Similar ambiguous correlations between strategic planning and performance is also reported by Sexton and Van Auken in a study of 357 small firms in Texas.⁶⁰

Neilson investigates the validity of contingency theory through direct observation of two small firms functioning in radically different environments.⁶¹ He finds that size indirectly influences decision-making on policy and structure. Characteristics of the environment do not have the expected effects on tasks and task structures due to the informal forms of cooperation. On several points Neilson can not verify the predictions made from contingency theory.

In his research, Benvenuti actually finds the opposite relation to the one predicted from contingency theory between environmental characteristics and organization structure. Thompson, for instance, predicts that the complexity of an organization reflects the complexity in the environment.⁶² Benvenuti finds that:

The more complex the farm environment becomes, the less differentiated becomes, on the contrary, the (small) farm business.⁶³

Recently, Davidsson found the lack of profit-maximization goals in a

⁵⁸Bamberger, 1982:54.

⁵⁹Shrader, Mulford & Blackburn, 1989.

⁶⁰Sexton & Van Auken, 1985:11-14.

⁶¹Neilson, 1974.

⁶²Thompson, 1980:92.

⁶³Benvenuti, 1989:94.

sample of 540 small firms (2-20 empl.) in Sweden.⁶⁴ He also found, and investigated the lack of growth willingness in these firms. Based on these and other similar findings, the frequent use of "stages-of-growth-models" could be criticized by observing that only a few small firms actually grow.

Gibb also investigates the "state-of-the-art" in 1986 and uncovers great "misfits" between the values and beliefs of large enterprises and universities on the one hand, and the values and beliefs of the entrepreneurs on the other.⁶⁵ In his 1989 treatment of this problem, the same conclusions are reached. Gibb mentions, for example, "market," "planning," "new products" and "profits" as examples of highly ambiguous concepts taken from large bureaucratic contexts which are not very well suited to describe small firm behavior.⁶⁶ His point is that research has shown that small firms are not only different from large firms, but that small firms should be researched from other theoretical foundations than large firms.

Finally, the lack of meaningful theories is also stressed by d'Amboise and Muldowney in a systematic survey of recent small firm research.⁶⁷ Their study covers more than 70 published reports in this field. They find the area called "managerial characteristics" to be fairly well developed. The least developed area is that of "organizational configuration." In their conclusions, they favor empirical studies in close interaction with the small firm managers. Their conclusion, "small business management includes an adequate number of distinguishing characteristics so that a sub-body of constructs particular to it is necessary,"⁶⁸ also express my own experience.

The objectivistic fallacy

Closely connected to the rationalistic fallacy is the tendency of the received view to assume an objectively given reality which has decisive influence on the small firm. In Chapter One, we noticed, for instance, that the relation between complexity and size is one issue where an objectivistic perspective may yield misleading conclusions. Admittedly,

⁶⁴Davidsson, 1989.

⁶⁵Gibb, 1986.

⁶⁶Gibb, 1989:16-21.

⁶⁷d'Amboise & Muldowney, 1988:237.

⁶⁸d'Amboise & Muldowney, 1988:236.

complexity is a key concept when discussing organization design, but the only complexity that matters is perceived complexity. This means, for example, that complexity might be present also in small organizations.

If we look upon an organization as a collection of people or groups and their chain of command, the small firm is un-complex and represents a fairly trivial case. Mintzberg, for instance, who uses this conception of organizational structure, conceives the small firm as - a "simple structure":

The Simple Structure is characterized, above all, by what it is not - elaborated. Typically, it has little or no technostructure, few support staffers, a loose division of labor, minimal differentiation among its units, and a small managerial hierarchy. Little of its behaviour is formalized, and it makes minimal use of planning, training and the liaison devices, It is, above all, organic. In a sense, Simple Structure is nonstructure...⁶⁹

According to Mintzberg, these simple structures were fashionable at the end of the 18th century, but are now on the decline.⁷⁰ It can still be found in less developed countries with a lack of an educated workforce⁷¹, and in new organizations who have not had the time to elaborate its administrative structures.⁷²

Mintzberg's book is a good example of how small firms, and "simple structures," typically are perceived among organization theorists. Small firms are often characterized by what they do not have. They lack strategic planning, they do not have a clear division of labor, no staff support units etc. We could interpret this as a self-criticism among organization theorists against using rationalistic and objectivistic theories to explain the behavior of small firms. However, it could also be argued that to manage a small firm, one must give attention to most of the so called "support functions" like Personnel Training, Strategic Planning, Reception, Pricing, Purchasing etc.⁷³ In the small firm, these functions will not be delegated to specially assigned employees or units. Instead, each person in the small firm has to perform a number of

⁶⁹Mintzberg, 1979a.

⁷⁰Mintzberg, 1979a:313.

⁷¹Mintzberg, 1979a:309.

⁷²Mintzberg, 1979a:308.

⁷³Mintzberg, 1979a:33 mentions more than two dozens of these support functions.

different tasks. Of course, this is especially pronounced in the case of the small firm manager.

Mintzberg's, and others' perception of small firms seems to be based on a confusion between people and tasks. It is tempting to relate this confusion back to a more fundamental corporate paradigm, based on specialization, where each person in the company performs a relatively well defined task. The structure of persons then mirrors the structure of tasks. One might argue that a small firm is a simple pattern of people, but to draw the conclusion that the small firm therefore is also a simple pattern of functions and task-clusters, i.e. that it is un-complex, could be a mistake. The perceived complexity might have additional explanations apart from organizational size, as we saw in Chapter One.

A too objectivistic bias might also underestimate the importance of subjective values as determinants of action. Two examples:

Boyer and Roth argue that existing financial theory is inadequate in the small firm owner/manager context, for this reason.⁷⁴ They investigate 30 small manufacturing firms, and find that small firm owner/managers are willing to sacrifice rate of return on investments in order to achieve "behavioral rewards," which they exemplify as: prestige, status, self-esteem, independence, realization of self-potential, knowledge, etc.

Davidsson's study of growth willingness among small firm managers found "some signs" of direct influence from objective factors, but:

In all, the core of the matter appears to be the subjectively perceived situation and its relation to personal goals. A majority of the studied small firms managers seem to have reached a condition where they feel they can choose rather freely whether or not continued development should be pursued.⁷⁵

The structuralistic fallacy

A third point of critique is the failure of the received view to draw the distinction between the complexity of an organization, and the organization's ability to deal with complexity. We might say that this is

⁷⁴Boyer & Roth, 1976.

⁷⁵Davidsson, 1989:211.

a result of a structuralistic fallacy. In a steady state world it is possible that complex organizations are able to handle more complex problems than simple organizations. Introduce continuous organizational change, and this statement will become less obvious. A highly adaptive organization, for instance, would in this situation be able to solve a number of different problems (deal with complexity) even though its structure, at any moment, will show a relatively low degree of complexity.

It is this *ability* (to deal with complexity, my comment) that evokes in the dissipative structure process, where as the system's actual complexity...might increase, decrease, or remain the same.⁷⁶

To some extent, the ability to deal with complexity is not only a property of the organization as a structure but also a property of the organization as a process.

Johannisson has described the intuitive and process characteristic of small firm behavior, in the following way:

It is a matter of making one's choice, not only when you and your firm is ready for it, but when the network and the reality it represents is ready. This implies that the most important decisions can be made with very short notice, and the simplest decision may get the longest "treatment." Intuition becomes an important tool before, and reconstructed logic a central ordering mechanism after prompt dealing with the important issues. Intuition also holds conscious insights, revealed through the reconstruction of logic.⁷⁷

The small firm is participating in a flow of events that also involves others. The process in which this network of participants is involved, has its own dynamics, and takes the firms along.

⁷⁶Gemmill & Smith, 1985:763, italics in original.

⁷⁷Det gäller att göra sitt val när inte bara man själv och företaget är moget därtill utan när också den verklighet som nätverket reflekterar är berett. Det innebär att de största beslut kan fattas på kortaste tid och de enklaste beslut ges den mest långvariga 'behandling'. Intuitionen blir ett viktigt verktyg före och efter handsrationaliseringen en central organiseringsmekanism efter den snabba handläggningen i de stora frågorna. Intuitionen rymmer också medvetna insikter som först genom efterhandsrationalisering kan redas ut. (Johannisson, 1986:17).

The alternative view

The "alternative view" is basically a social-psychological perspective on organizations, or better; organizing. It is less rationalistic, objectivistic, and structurally biased than the received view.

Karl Weick on organizing

In this alternative perspective; organizations are not perceived as goal directed problem solving tools, and man is put in the center of an organizational process. "Organizing" is defined as:

...a consensually validated grammar for reducing equivocality by means of sensible interlocked behaviours.⁷⁸

This definition is taken from Karl Weick. His presentation of a social-psychological perspective on organizations is often cited, and will be briefly presented here as a typical version of the alternative view on organizing.

In the beginning of the alternative organizational world view, was (and is) Chaos ("equivocality"). This Chaos is, however, unacceptable for organized human beings, and thus, man will seek to create order. In the received view, this order is created by certain coalitions of powerful actors putting their rules and structures on Chaos, and transforming it to an intelligible and controllable organization. According to the alternative view, man can never subdue Chaos in this way. Man will create order, but not by manipulating Chaos. Order will instead be created by giving meaning to Chaos, through sensemaking processes.⁷⁹ If these sensemaking processes were individual, i.e. if all actors held their own exclusive interpretations, Chaos would remain. Thus, the actors involved will discuss and compare their interpretations, with each other and within groups, and will agree on what interpretation is real and which interpretation is false - for the time being. According to this perspective then, organizations do not exist in the usual understanding of the word. Instead:

- Organizations are *symbols*; symbolic expressions of certain interpretations of reality.

⁷⁸Weick, 1979:3.

⁷⁹Weick, 1979:133-134.

- These interpretations exist mainly as activities, they are continuously reproduced and made public; *organizing* exists, not organizations.
- An organization exists as far as there is an agreement between several involved actors that the organization exists; organizations are *social constructions*.

Accordingly, organization theory is the study of social construction of symbols. One way of studying organizing is to study patterns of behavior. We can expect that organizing processes will determine human actions so that certain patterns will arise, but we will never be able to formulate models from which detailed behavior can be predicted; these processes are too complex, and also interlocked with each other.

In its most general form, organizing, or sensemaking, takes place through three processes:

...*enactment* (bracketing some portion of the stream of experience for further attention), *selection* (imposing some finite set of interpretations on the bracketed portion), and *retention* (storage of interpreted segments for future application).⁸⁰

The result will be an organization in the form of a cognitive map or schema, i.e. "the concepts and the relations a participant uses to understand organizational situations."⁸¹

Enacted environments

Some words should be said about the concept "enacted environments." By "bracketing some portion of the stream of experience for further attention" and giving these experiences a certain interpretation, the firm may actually create its own environment.⁸² It will perceive its environment as a reflection of its own organization and thus, be involved in a self-referential process.⁸³ Impulses of change, will therefore not be found in the "environment" of the firm, as argued in the received view. Rather, change will be triggered by internal events -

⁸⁰Weick, 1979:45, italics in original.

⁸¹Weick & Bougon, 1986:106.

⁸²Morgan, 1986:235-247; Smircich & Stubbart, 1985:726-727; Starbuck, 1983:93; Weick, 1979:131-132.

⁸³Child, 1972:8-10.

like changes in the self-perception of the firm. The rule that says that organizations should adapt to their environments, is given a new meaning. Adaptation to which environment? - asks Smircich and Stubbart:

The nature of what constitutes adaptation can be stated only retrospectively, never prospectively...Whatever is possible depends on which visions people believe in and act on - not on environmental fiat.⁸⁴

Prospective "adaptation" is thus a matter of management of meaning.

Some studies on organizing as sensemaking

Several studies illustrate the idea that collective and ordered action must be based on some kind of shared idea or understanding of the situation. Accordingly, the formal design of an organization can be regarded as a sensemaking device. This organized, formal pattern of activities must be interpreted. Each member of the organization must (partly) create his or her own tasks by deciding on their limits and possibilities. Each must perceive how his or her own tasks are related to those of others, and develop an image of the organization as a whole. Since the organization is also a social setting, each must relate to other people: to their expectations and personalities. He or she must learn skills, collect experiences, meet new people etc. In summary, working in an organization, and particularly during expansion, is a complex and demanding undertaking which calls for some simplifications. Cognitive simplifications in the form of relatively standardized interpretive schemata, overcome some of these difficulties.

In this tradition, Smircich & Morgan, studied how a manager sought to eliminate a backlog of work by launching an internal campaign.⁸⁵ This action singled out a specific problem and made it a target for joint efforts. That was at least the manager's intent, and it was based on an analysis of how to reach "an idealized image" of the future. However the campaign failed because it did not make sense to the staff members. They perceived other, and more basic organizational problems, not affected by the campaign. They had their "meaning framed against past

⁸⁴Smircich & Stubbart, 1985:728-729.

⁸⁵Smircich & Morgan, 1982.

history."⁸⁶ The failure to create shared meaning, or a common denominator in the participants cognitive maps, inhibited joint action.

Bartunek reports a case of changed interpretive schemata in a religious order.⁸⁷ The order turned decentralized, democratic and more open to the surrounding society as an effect of the Second Vatican Council. Some features of its change process is relevant here. For example, Bartunek noticed that:

...when shared interpretive schemes are no longer present as a coordination mechanism, structures that enable relatively easy contact between organizational members and authority figures may serve this purpose.⁸⁸

When the old interpretive schema was changing, the old structure served as a source of stability. The formal structure could not change until a new shared meaning was established. The leaders had a crucial role in this process by legitimizing (or not) new interpretive schemata.

Of special interest here are of course the few available studies of cognitive structures in small firms. Bouwen, De Visch & Steyaert discuss four case studies where leaders acted in order to create consensus in situations characterized by divided meaning.⁸⁹ Two of these cases considered small high-tech firms. In the first firm, a newly hired manager met conflicting logics in the firm. Some members defended an "academic logic" i.e. that each engineer should work on his or her own project. The opposing "commercial logic" stated that projects should be attuned to the market and involve joint efforts. The entrepreneur created consensus around the commercial logic by forming a management team and insisting on mutual agreements within that team, i.e. prohibiting "private" sensemaking. The second case dealt with a classical strategic dilemma facing small firms; scanning-the-market-and-taking-advantage-of every-opportunity versus we-have-to-work-professionally. These two opposing logics were never openly confronted, partly because of rotation at the coordinating position. The diverging logic dominated though, not because of any consensus, rather due to insufficient long-term reflection (according to the authors). The

⁸⁶Smircich & Morgan, 1982:268.

⁸⁷Bartunek, 1984.

⁸⁸Bartunek, 1984:368.

⁸⁹Bouwen, deVisch & Steyaert, 1987.

presence of two conflicting logics, or ways of reasoning, hampered the firms development.

Beckérus and Roos studied the *psychological structures*, or patterns, of 21 small business owner/managers, in various industries.⁹⁰ They found that the firm primarily plays an existential role for the owner/manager. It is not simply a tool with which he or she exploits a business opportunity. Rather, the owner/manager "experiences himself as a totality within a productive environment."⁹¹ He gets his identity verified by exposing it through his firm, and is therefore very reluctant to delegate tasks that involves external contacts. He will maintain a work organization that allows him, if he finds it necessary, to take full control. Delegation can take place only if it *extends* his identity. Another result of this person/firm confusion is that the small owner/managed firm creates structures which are difficult to change. Growth is something problematic and many owner/managers prefer to stay small.⁹² The confusion between person and firm being a dominant psychological structure, is therefore an explanation of several small firm characteristics that otherwise would not make sense.

Johansson Lindfors found that small firms of similar sizes, working in the same industry, using the same technology and facing equal market forces still differ substantially in behavior and performance.⁹³ Thus, she could not verify the claims of contingency theory. She argues that this can be explained by differences in the firm's fundamental values or *ideologies*. She conducted in-depth studies in four small firms and found that these ideologies affects behaviour in two ways - one internal and one including also the firm's stakeholders. First, ideology influences the organizational "behavioral patterns,"⁹⁴ by focusing the interpretive processes of key actors. Secondly, the ideology controls to what extent the firm will co-act with its stake-holders by assigning power over problem interpretation and power to act.

The studies mentioned stresses the integrative function of the sensemaking process, showing that integration fosters action. They also stress the importance of the organization's leader(s).

⁹⁰Beckérus & Roos, 1985.

⁹¹Beckérus & Roos, 1985:148.

⁹²Beckérus & Roos, 1985:122-124.

⁹³Johansson Lindfors, 1989.

⁹⁴Johansson Lindfors, 1989: 186-188. These patterns are classifications of basic organizational behavior in much the same way as the four organizational dimensions presented in the beginning of this chapter. See footnote 3.

The leaders of small, growing firms can be described as being in a position where they constantly have to specify their firm's identity and their own role within it. As leaders, they are in a position - presumably as a result of an implicit social agreement - which gives them the "rights and obligations to define the nature of experience and activity."⁹⁵ They do this by giving meaning to events and phenomena within the firm; for example, when the leader(s) accepts or rejects opportunities in new areas of business. These types of decisions give clear signals to the members of the firm about the nature of the firm, which market it serves, how its business concept should be understood etc.⁹⁶

The often concentrated decision-making power in small firms also allows the leaders to design its formal structures. This design, being a human artifact, will reflect how the problem is defined and the knowledge, preferences and shortcomings of the leading organization designers. Since most of these organizational parameters change over time, so will the organization.

However, concerted action might occur even though sensemaking may differ among participants. The explanation resembles the discussion about organizational goals earlier. The doctor, the nurse and the administrator may engage in concerted action even though they have different cognitive maps; the doctor may see his or her efforts as part of a research project, the nurse may pursue an altruistic call, the administrator may be busy optimizing hospital productivity. There exists, however, a common denominator between the different cognitive maps of these participants: the interest in curing the patient.

Donnellon, Gray and Bougon, argues that organization members might have different reasons for their actions, but may reach *equifinal meaning* through different communication mechanisms.⁹⁷ Equifinal meaning is defined as interpretations that are dissimilar but that have similar behavioral implications. Weick and Bougon specify this by stating that:

⁹⁵Smircich & Morgan, 1982:259.

⁹⁶This way of looking at management has an interesting pioneer in Mary Parker Follet. She said already in 1925: *Integration being the basic law of life, orders should be the composite conclusion of those who give and those who receive them; more than this, that they should be the integration of the people concerned and the situation; more even than this, that they should be the integrations involved in the evolving situation.* (in Pugh (ed), 1971:161).

⁹⁷Donnellon, Gray & Bougon, 1986:43-45.

Concerted action is possible where there is common relevance of two concepts in two cause maps and a *double interact* (a transaction possibility perceived to be symmetrical, my interpretation) to link the maps.⁹⁸

*The process character of interpretive schemata*⁹⁹

Interpretive schemata are used in a general sensemaking process, where outside stimuli are being interpreted and related to previous experience. Very few studies have been conducted on how interpretive schemata are formed, or how and if they change during this sensemaking process.

Bouwen and Steyaert made longitudinal studies of three small high-tech firms.¹⁰⁰ They describe the schema development process as a continuing dilemma. They identify something they call "the creating - integrating dilemma." This creating-integrating dilemma consists of five sub-dilemmas on a cognitive level:

In the motivation dilemma, the creating mode refers to the positive or negative reasons for the entrepreneur to start his firm, while the integrative mode is the continuing and stable involvement and interest in the new enterprise...

...the root dilemma refers to the tension between the use of the background and assets of the entrepreneur and his enterprise on the one side and the integration of other logics and potentials on the other side...

The route dilemma alternates between generating opportunities... and making choices and giving definitive direction to the firms' activities...

...the time dilemma is characterized by being absorbed by short

⁹⁸Weick & Bougon, 1986:110. Kunda argues that people might publicly agree on ambiguous statements as a way to resolve the dilemmas of practice (1985:23-24).

⁹⁹In the following, I will use the term "interpretive schemata" with the following definition: Interpretive schemata *operate as shared, fundamental (though often implicit) assumptions about why events happen as they do and how people are to act in different situations* (Bartunek, 1984:355) Similarities with the term "theory" is notified and will be discussed further in Chapter Three. Researchers working within the social psychological perspective, have added similar concepts, like *cognitive structures* (Downey & Brief, 1986); *cognitive maps* (This concept is usually credited with Tolman (1948); and *shared meaning* (Bouwen, De Visch & Steyaert, 1987, Smircich & Morgan, 1982), as structuring, and simplifying phenomena, alongside formal organizational structures. For a review see also Laukkanen (1989: 22-33).

¹⁰⁰Bouwen, & Steyaert, 1987.

term problems... (versus) ...the construction of a vision and a strategy for the future...

In the management/non-management dilemma the informal cooperation of organizational members from the creating mode shifts to the more formal collaboration from the integrating mode, in which some people receive formal responsibilities and in which an organizational role for the non-management has to be worked out...¹⁰¹

According to Bouwen & Steyaert, these dilemmas are never "solved." Rather, they are coped with, by shifting between the creative and integrative mode over time.

This empirically derived dilemma shares many characteristics with the "Piagetian framework" developed by Hindman and Reichers.¹⁰² They argue that schemata develop through two different parallel processes: *assimilation*, which refers to the incorporation of experience into existing schemata (cf. "integration"); and *accomodation*, which refers to the construction or alteration of schemata in the face of experience (cf. "creation"). They quote Piaget:

Without assimilation, the organism or subject would be like soft wax, as in the reproach leveled against empiricism, ceaselessly modified by chance encounters or changes in the environment. Without accomodation, the organism or the subject would be withdrawn within itself and beyond the reach of any external action.¹⁰³

Over time, the combined effect of assimilation and accomodation will be increasingly complex schemata. In a social setting these schemata will develop through a dialogue involving two or more participants.

The mechanisms whereby this dialogue give shape to interpretive schemata, has been discussed by Berger and Luckman.¹⁰⁴ The immediate meeting between two people, their behavior and the relation between them, is restricted to a here-and-now experience. With the help of language, however, by communicating with one another, the two parties

¹⁰¹Bouwen, & Steyaert, 1987:19-20.

¹⁰²Hindman & Reichers, 1987; see also Björkegren, 1989:34-51.

¹⁰³Piaget, 1958:837.

¹⁰⁴Berger & Luckman, 1984; see also Silverman, 1970.

can overcome this limitation. They can start to talk - before or after the meeting - about their relationship and about the way they behave towards one another. At the same time, however, the originally genuine relation becomes objectified. We could perhaps say that the two parties are handling their relation artificially, as a model relation, and that this objectifies it. They can test the "validity" of their arguments; they can "see" their relation in different "perspectives"; they can "separate" the problems, and so on. What also happens is that the relation is no longer quite so private. It tends to become a relational "type," and they adapt their behavior to the type which they perceive as relevant. This objectified picture - which is a result not only of these two people's meeting but also of earlier conversations relevant to other contexts - will now come to steer not only their perception of the original situation and thus of their behavior within it, but also their interpretation of "similar" situations. The end result is that they (we) come to play a number of more or less standardized roles. The reason is simply that so long as our knowledge or our "repertoire" suffices to make the world comprehensible, we will not question or change it. Only if events occur which cannot be explained in terms of the existing repertoire, can a more penetrating analysis be undertaken and the repertoire itself perhaps revised (accommodation).

Hindman and Reichers make the interesting observation that this dialogue often takes place within an asymmetric situation. For example, a newly hired employee finds him- or herself in an asymmetric dialogue; the organization has to assimilate the newcomer, and the newcomer has to accommodate to the organization. This asymmetric element in schema development has also been noted by Smircich and Morgan:

Leadership is not simply a process of acting or behaving or a process of manipulating rewards. It is a process of power-based reality construction and needs to be understood in these terms.¹⁰⁵

In a recent paper, Bouwen and Steyaert suggest that three organizational processes combine: the development of an interpretive schema, or a "dominant logic" (the assimilation - accommodation process); the development of the small firm's social network; and the dialogue between these two processes.¹⁰⁶ The dialogue is described as a "weaving

¹⁰⁵Smircich & Morgan, 1982:270.

¹⁰⁶Bouwen, & Steyaert, forthcoming.

process" leading to a particular organizational texture. This model is interesting because it points out the often personal social network of small firm managers as influencing interpretive schemata in the firm.

Laukkanen discusses a wide body of literature concerning the formation of cognitive maps, and summarizes this literature in a general model of map formation. This model includes the operation of three factor sets:

...the individual-level processes as a generative/retaining engine and as a logical inspector, the social processes as transmitters of substance and legitimizers of it, and the task and the environment as the ultimate source of substance and criteria for its accuracy, validity or appropriateness.¹⁰⁷

As we have already seen, several researchers would object against the view that the environment is used as an ultimate criteria for schema validity.¹⁰⁸ Instead, they would probably argue that interpretive schemata have a real, functional, existence quite separate from any "environment." They would point out, that even strong signals from "the environment," like a failure to meet customer demands, do not cause a schema change.¹⁰⁹

Many studies of sensemaking processes, have verified that the interpretive schemata resulting from these sensemaking processes, are highly stable phenomena and that they are difficult to change.¹¹⁰ Once established, they have a tendency to reinforce themselves. Hall finds that during crisis, people retreat to first-learned concepts, i.e. show a basically conservative attitude, instead of changing their schemata.¹¹¹ Pool, Gioia and Gray studied top managers attempts to change shemata and found that fairly strong, individual pressure, or even coercion, was needed to influence these schemata.¹¹² Björkegren also found (collective) interpretive schemata to be stable, but reports one case of

¹⁰⁷Laukkanen, 1989:102.

¹⁰⁸These opposing viewpoints, in my view, illustrate the difference between radical constructivism and moderate realism. This issue will be further discussed in the beginning of Chapter Three.

¹⁰⁹A famous case is the Swedish manufacturer of mechanical calculators, FACIT, which failed to notice and react to the electronic revolution (Starbuck, 1983:92-93).

¹¹⁰Löwstedt, 1989:50-51.

¹¹¹Hall, 1984:

¹¹²Poole, Gioia & Gray, 1989:286-287.

successful schema change.¹¹³ He argues that schema change is facilitated: if schemas are made public and the organization remains open to its environment; if the new schema is relevant, i.e. if it can help the organization solve its problems; and if the organization can survive a period of structural changes, for instance by having financial resources.

The stability of schemata, which in some instances might lead to a lack of fit between schemata and environment, could be explained by the observation that feedback loops, and especially negative feedback loops, are mostly absent in cause maps.¹¹⁴ Instead, they tend to be self-reinforcing, or, as Björkegren puts it, the production of knowledge in the organization is closed, instead of open.

The relation between the received and the alternative view of organization

Löwstedt argues that organizations can be studied on three levels; formal, real and cognitive. The formal level is concerned with how things ought to be, thus it is normative. Analysis on the real or manifest level is concerned with what actually happens: e.g. descriptions of what I have called basic organizational dimensions. The cognitive level of organizations deals with the creation of meaning, of how things are and how they should be.¹¹⁵

I will adopt this perspective here and regard interpretive schemata as intervening phenomena in the causal relationship between environmental and task complexity and "real" organization structure, assumed in the received view.¹¹⁶ The alternative view described in this chapter, is interpreted as a complement to the received view; as a perspective with which we might reach a deeper understanding of organizational processes. The received view's concentration on observable acts and on formal and "real" organizations, will be complemented with descriptions of underlying, cognitive patterns. These patterns are individual, but subject to social influence; they influence behavior; they can be more or less relevant to the extent they support favorable

¹¹³Björkegren, 1989:108.

¹¹⁴Weick & Bougon, 1986:121-123, Morgan, 1986:247-249.

¹¹⁵Löwstedt, 1989:205.

¹¹⁶It should be noted that this perspective presupposes a moderate realist epistemology. See Chapter Three.

organizational outcomes; they are relatively stable and difficult to change.

In summary, the alternative view of organization pictures "organizing" as a sensemaking process. Based on this assumption, organizations can be analyzed through reasonings analogous with those in cognitive psychology. In small firms, where formal structures are absent or rudimentary, other organizational structures e.g. shared interpretive schemata, are important areas for research. We may assume that these schemata influence behavior more in non-routine situations and when problems cannot be solved through standard operating procedures.¹¹⁷ The small firm, especially the new or growing small firm, often share these characteristics. To describe and analyze the organizational and sensemaking processes in small firms, can therefore help us understand some otherwise surprising and unexpected small firm behavior.

In my view, however, the alternative view of organization still employs concepts too abstract and crude to function as a theory of organizational processes in small growing firms. For example, to treat organization, which is a highly complex phenomenon, as one single process - i.e. as a sensemaking process, or in some cases as two processes: accomodation and assimilation - is obviously an oversimplification. For example: expansion versus contraction of a company, probably corresponds with two distinct sensemaking processes. Managing daily operations versus considering entrance into longterm business relationships, must also constitute sensemaking processes of different designs. The argument that "sensemaking" is but a first attempt to develop an alternative to the received view, must be followed by research aiming at developing this concept further, e.g. finding secondary "sensemaking" processes and their elements:

¹¹⁷Weick & Bougon, 1986:125.

Chapter Three

Methodology

Summary

The purpose of this chapter is to give the reader an understanding of the methodological reasonings that form the base of this research project. Given the weaknesses of the received view and the need to elaborate and adapt the alternative view's concepts to the small firm context, an explorative study was designed. After conducting a retrospective case-study, a direct longitudinal observation was undertaken. The aim has been to start with the perceptions of those directly involved in organizational processes in small growing firms. From that starting point, and with the perceptions of those involved as raw material, conceptual work takes over.

The method used for exploring the research questions is a formalized version of the "grounded theory approach." Construction of conceptual categories is done in three distinct steps which are described in this chapter: (1) from interview data to condensed "A-level categories"; (2) from A-categories to meaningful clusters of A-categories called "B-categories"; (3) from B-categories to common themes in the B-categories called "C-categories." The method used for analyzing data and building conceptual categories can also be described as a content analysis of the researcher's own cognitive map, after empirical exposure in two steps.

The chapter also contains an epistemological comment. It is suggested that explorative research should be evaluated using four criteria: accuracy of the empirical data, reliability of the analysis, generative capacity of the formulated theory and strong linkages to available theories.

Chapter Three Methodology

The need for a grounded theory approach

The importance of, and interest in small firms is, in my opinion, not matched by adequate theoretical concepts and models. In Chapter Two, we found that the received view has serious weaknesses connected to its rationalistic, objectivistic and structuralistic bias. Concepts taken from traditional management theory and organization theory, are rejected by small firm managers and our models do not make proper predictions.¹ The alternative view offered a complementary framework, but was not considered developed enough to offer an adequate theory of organization in small firms.

Without meaningful concepts and theories, small firm behavior stands out as irrational, complex and difficult to understand. Therefore, I found it worthwhile to design and carry out an explorative study, i.e. a research project designed for the purpose of constructing conceptual categories, and a theory that could help us identify and discuss organizational processes in small firms from a management perspective.

If previous empirical and theoretical work is considered inappropriate in order to tell us what these organizational processes are, a deductive approach will be inappropriate. An inductive approach should be chosen instead. To look on organization as a complex sensemaking process involving the interplay of individual and social processes, implies that an inductive study in this field should employ an intensive methodology. Instead of starting with theoretically derived hypothesis, it was determined necessary to start from the actual actions and perceptions of small firm managers. The ambition is to explore the issue concerning organizational processes in the small firm - not necessarily giving it a firm answer. Like all explorers, I believe this work should be grounded on empirical observations. Theories should be firmly rooted in empirical data. A few number of small firms, and especially the values

¹For instance, Plaschka compared 62 succesful and 63 unsuccessful entrepreneurs and concluded that "schoolish and job oriented education has no significant influence on entrepreneurial success" (Plaschka, 1987:15, success was defined as survival).

and beliefs of managers involved in these firms, should be studied closely. With these ambitions, the use of a grounded theory approach seemed reasonable.²

First, this method is one of a few described ways of moving from empirical data to conceptual categories. It allows for intensive and deep studies of complex phenomena. The grounded theory approach aims for theoretical results; it does not necessarily assume the existence of a specific deeper meaning in the phenomena under study, and can be used to organize empirical data of any form. In other words, it allows for creative theoretical input from the researcher's side.

Second, many researchers - especially researchers interested in small firms - pay lip-service to the grounded theory approach. This frequent reference to the book by Glaser & Strauss made me curious. I wanted to try the feasibility of the grounded theory approach *a la* Glaser & Strauss. However, available attempts were less convincing.³ To develop a rigorous version of the grounded theory approach; to use it in practical explorative research, and to assess some of its strengths and weaknesses, was therefore considered a necessary step in the research process.

This study is not designed to give firm empirical answers to the questions presented in Chapter One. The purpose is exploratory - to map out and elaborate on the area I am studying. The ambition is to formulate some empirically grounded concepts that together will form a theory of organization in small growing firms, from a management perspective. This theory will not be tested on extensive empirical data. Instead, it will be used to elaborate the issue, tentatively, to discuss the relevance of our present understanding, to suggest alternative routes for

²Grounded Theory is strictly speaking not a method but a labeling of a class of methods aiming at generating theory from empirical data through an inductive analytical process. The approach is based on a parallel development of theory and collection of data. The classical presentation is found in *The Discovery of Grounded Theory* by Glaser & Strauss, 1967. An attempt to present a more detailed description of how this is done can also be found in Glaser, 1978.

³The same reflection was made by Lundin after reviewing papers presented at a number of small firm conferences. *Många skribenter inom småföretagsforskningen säger sig dock försöka leva efter den modell som förespråkas i Glaser & Strauss numera klassiska bok "The Discovery of Grounded Theory". Som läsare av uppsatserna från småföretagskonferenserna saknar jag dock någorlunda stringenta försök att faktiskt forska enligt den modell Glaser & Strauss förespråkar.* (Many writers working with small firm research, say they try to follow the model put forward in Glaser & Strauss' now classic book "The Discovery of Grounded Theory". As a reader of the papers from the small business conferences, however, I miss any rigorous attempts to actually do research according to the model Glaser & Strauss advocates. (Lundin, 1986:6)).

further research, and to formulate hypothetical answers to the questions presented in Chapter One. The value, or importance of this theory will depend on its ability to give better explanation than the received view to small firm behavior - especially concerning the issue of advantages/disadvantages of scale. Once again, such an empirical test will, however, not be carried out in this study.

The reason for including a section about the philosophy of science, is to state clearly some basic assumptions underlying this study. Another aim is to search for quality criteria which can be used to evaluate explorative research.

Ontological and epistemological assumptions

Many people would agree that our knowledge of the world is the result of a constant trial-and-error process, in which ideas are tested and modified. Sometimes our knowledge is only slightly adapted to new empirical findings; sometimes overwhelming or revolutionary changes take place. One way or the other, knowledge is based on an interplay between systems of conceptual categories - theories - and empirical data; in the end sensory perceptions. In the past, "scientists" have emphasized various aspects of this interplay. The ancient Greeks seldom concerned themselves with any empirical tests of their hypotheses. Their main criterion of quality was logical consistency among presumptions and conclusions. In positivism, on the other hand, to withstand an empirical test is the only acceptable way of getting a new hypothesis accepted.

So far, most researchers have been occupied with theoretical testing - verification or falsification. Recently however, the generation of theory as such has been put forward as a legitimate and important area of research. The choice of such an approach however, can be based on a number of assumptions. To understand the explorative research carried out in this study, these assumptions must be discussed.

I will focus this discussion on two specific areas; Ontology and Epistemology, and on the difference between realism and constructivism.

Realism

Ontological and epistemological assumptions of realism mean that reality will be perceived as an objective fact and that systematic investigations of this fact can give an accurate knowledge of its properties.

With assumptions of realism, explorative research is reduced to a preparatory activity. Theory is a tool for handling large quantities of data.

A researcher working under assumptions of realism builds a model of the phenomena he or she wants to study. This model contains a selection of variables and relations between variables. The model is an expression of the researcher's conceptualization of the phenomena. It contains everything he or she sees as important in order to describe the phenomena and make proper predictions. The model is tested by investigating how the variables behave in reality. If the model is not rejected by empirical data - sometimes verification is enough - it is considered to be a correct image of reality.

Generation of theory, under assumptions of realism, means finding analogous phenomena in previous research. This research is also reviewed in order to find weaknesses or anomalies in former models. Based on these findings, new and better models are built. Some writers, Popper for instance, allow any methods for generation of theory, including free guesses and intuition.

From assumptions of realism the following demands can be placed on new theories. They shall (potentially):

- be more correct descriptions than earlier theories
- have a higher explanatory value than earlier theories
- mean a simplification of earlier theories
- be possible to operationalize.

Of utmost significance, however, is that a good theory withstand an empirical test. It is even hard to imagine a separate research project aiming at the generation of theory based on realism. The empirical test is often prepared in detail and connected to the formulation of both theory and hypotheses. The main quality criteria of a research project

within this tradition, therefore, is empirical resistibility.

Apart from the fact that the philosophical base for realism is very weak, research based on realism has been criticized because of its claims on absolute truth.⁴ The inherent risk with realistic assumptions, is that researchers and the scientific community grant themselves the exclusive right to develop society. Common knowledge is made non-legitimate and the public debate and production of knowledge becomes elitist.

Constructivism

In some theory-generating research, one finds a constructivistic ontology paired with a constructivistic epistemology. According to these assumptions, there is no objective reality. What we normally call "reality" is instead sensations raised particularly from our use of language. Language characteristics and certain characteristic ways in which the brain processes information, produce regularities and patterns which we, in a slightly misleading way, call "knowledge of reality." We cannot know anything about the "raw material" processed. It can either be plain noise or emptiness. Reality, as we know it, consists of subjective, individual and social constructions.

To the extent that language is individual, so is reality a subjective construction. If language is a social phenomenon, then reality is a social construction. We see that constructivistic assumptions lead us to the conclusion that generation of theory is the only possible form, or way to form knowledge.

If one ordered reality does not exist, one cannot demand that new theories be more correct descriptions of reality. Instead, research that results from this tradition consists of concepts, theories or hypotheses with limited range. Knowledge is temporary and local. The role of empirical work is reduced under constructivist assumptions. Empirical correspondence is of no interest if it is not formulated as a pragmatic criteria.

From constructivistic assumptions the following demands can be placed on new theories. They shall:

⁴Lindholm, 1979.

- help those involved to understand the phenomena differently
- facilitate changes of the subjective and social constructions within which humans exists
- increase exchange and interplay of ideas.

According to my experience, organization research based on assumptions of constructivism, tends to impose political, or normative ambitions. Since no one has, or even cannot have, the true picture of the organization, political processes will determine which interpretation will survive and dominate. For many researchers it becomes natural to democratise research through, for example, action research.⁵ Others focus on conceptual development with the emancipatory aim of uncovering powerful myths or social structures.

One point of critique that can be raised, is that assumptions of constructivism, if they are taken seriously, ultimately lead to a degradation of reason. The production of knowledge becomes romantic, a development which could, and historically has, become fascist.⁶ A further difficulty with radical constructivism is the apparent contradiction between its relativism on the one hand, and its own claims of general validity on the other.

Moderate realism

A more humble position is taken by Popper. There is an ordered reality but our knowledge about it is, and will continue to be, incomplete and evolutionary. In other words, Popper could be said to have a realistic ontology but a constructivistic epistemology.

Popper is critical towards inductive research; i.e. formulating general propositions based on empirical data. Instead, he defines the researcher's goal as that of critically testing if, and under what

⁵...social research is the same as continous collaboration with the people the research relates to, based on interdependence and complementarity. The researcher will have to share responsibility for the decisions made concerning technical and social arrangements and this in its turn means that the people in the field are the primary judges of the quality of the research and not some academic audience...(Gustavsen, 1976:14). Gustavsen, 1990:137, Ravn & Babüroglu, 1989:15.

⁶Lindholm, 1979.

circumstances, a theory is valid. Accordingly, our knowledge of reality consists of not yet falsified theories.

According to Popper, social sciences seldom deal with actual events, but rather with theories and concepts on a high level of abstraction and aggregation. These theories can hardly be falsified. Instead, they tend to be saved by *ad hoc* hypotheses.

To solve this dilemma, Popper argues that social science should be grounded in the analysis of the individual's actions, attitudes and relations. From these analyses, theories can then be built. Building theory is then a matter of "... searching for the non-deliberate social consequences of deliberate human acts."⁷

Popper regards society as a social construction, but in another way than "pure" constructivists do. He argues that social cause-effect relations have a real existence and can be studied scientifically. However, he also treats social science theories as objective phenomena in themselves. When a theory is formulated, it starts to live a life of its own. It can affect the actions of individuals, and through this also add to the changes in society. The existence of social "laws," therefore, does not imply that society is static.

Popper is often criticized for having a primitive view on theory generating research. He seems to reduce this research to a play with guesses. However, from his ideas, it is possible to derive a few criteria that can be used when formulating theories.

A Swedish historian, Klas Åmark, has made the following reflection after a study of Popper's thoughts:

According to Popper, nor can the historian confine himself to making empirical observations and summing up the results of this work. A historian, too, strives for conclusions that reach beyond these steps, and this is best done by venturing to formulate clear and bold conjectures and then applying a critical test in order to find errors...(This) demands the ability really to formulate many conjectures so that one can afford to reject them, and the ability to work up the conjecture or hypothesis. Historians could contribute a

⁷Åmark, 1984:84.

lot more to the development of society...if they could manage to formulate hypotheses, theses, guesses so deeply rooted in a scientific theory that a rejection of the hypothesis, in one particular case or in a limited number of cases, would have retroaction on the theory and show that it had to be re-formulated, thus not only show that the particular hypothesis in question was not valid.⁸

The point he is making is that the generation of theory should be firmly anchored in well established theory.

Even though Popper did not explicitly formulate quality criteria for explorative research, the following could be derived from his thoughts:

- the theory should be possible to falsify through empirical testing
- the theory should be formulated in such a way that an empirical test of the theory implies a test of the largest possible part of existing theory
- *ad hoc* hypothesis should be allowed only if they broaden the empirical domain of the theory, or if it increases the possibility of falsification.

Such a critical attitude towards one's own work and that of others, will be a guarantee against elitist dogmatism as well as destructive romanticism.

The epistemological standpoint underlying this study can now be formulated. The study is designed to generate conceptual categories with which we can describe and analyze organization in small firms. These categories should be firmly based on empirical data. When integrated and elaborated on, these concepts will be used to formulate fragments of theory, hypotheses and models that can be falsified through an empirical test. Falsification or corroboration of these theories etc, should ideally affect present theory.

⁸Enligt Popper kan inte heller historikern nöja sig med att göra empiriska iakttagelser och summera resultaten av denna verksamhet. Även historikern måste sträva efter att komma fram till slutsatser som går utöver dessa moment, och det gör man bäst genom att våga formulera klara och djärva gissningar och sedan kritiskt pröva dem för att hitta felen...(Detta) kräver, att man verkligen kan formulera många gissningar, så att man har råd att förkasta dem, och att man kan bearbeta gissningen eller hypotesen. Historikerna skulle kunna bidra betydligt mer till samhällsutvecklingen ...om de klarade av att formulera hypoteser, teser, gissningar, som var så starkt förankrade i en vetenskaplig teori att ett förkastande av hypotesen i ett enskilt fall, eller i ett begränsat antal fall, fick återverkningar på teorin, visade att denna måste omformuleras och inte bara visade att just den hypotesen inte var giltig. (Åmark, 1984:95).

In my opinion, the use of a Grounded Theory Approach facilitates the formulation of theories that might meet these - high - ambitions.

The Grounded Theory Approach

According to Glaser and Strauss:

The interrelated jobs of theory in sociology are:

- (1) to enable prediction and explanation of behavior;
- (2) to be useful in theoretical advance in sociology;
- (3) to be able in practical applications - prediction and explanation should be able to give the practitioner understanding and some control of situations;
- (4) to provide a perspective on behavior - a stance to be taken toward data; and
- (5) to guide and provide a style for research on particular areas of behavior.⁹

They continue:

Theory that can meet these requirements must fit the situation being researched, and work when put into use. By "fit" we mean that the categories must be readily (not forcibly) applicable to and indicated by the data under study; by "work" we mean that they must be meaningfully relevant to and able to explain the behavior under study.¹⁰

The authors claim that theories of this type can be developed by using the grounded theory approach, which has the following general characteristics.

Conceptual categories are initially generated by a comparison between data observations. The formulation of a *category* is an attempt to find a concept that is on a slightly higher level of abstraction than the data itself. The category labels a set of observations that describe the same

⁹Glaser & Strauss, 1967:3.

¹⁰Some categories such as "strategic management" or "marketing" are often forced on data, especially from descriptions of small firms. They do not "fit" and they definitely do not "work". See for example Mintzberg, 1979b: 585-586, Dandridge, 1979 or d'Amboise & Muldowney, 1988:236-7.

phenomenon. A category is a separate element of a theory - a concept (p. 36)¹¹. The categories must be *analytical* - they shall convey some important characteristics of a phenomenon, not just the phenomenon as such. Categories must also be "*sensitizing*" or meaningful i.e. they should make us interested in, and help us understand what we are studying (p. 38).

Such categories and their *properties*, while indicated by the data, are not the data in themselves. The generation of categories and properties is therefore a creative process that adds something to the data observations (p. 30-31). This process cannot be automated. It demands some acquaintance with both present theory and empirical research.

Empirical observations illustrate and give meaning to categories. These empirical observations are also used to generate the properties of the categories. The properties can therefore be regarded as the elements of the categories (p. 36).

Whether or not a category is appropriate cannot be judged solely from the correctness of the underlying data (traditional reliability and validity demands). Rather, the usefulness of a category must be decided from its ability to contribute to the emerging theory. The categories must "fit" and "work" (see above). Consequently, the collection of data is guided by a theoretical relevance criterion. According to this criterion, the researcher should look for data that can help him or her develop:

- more categories
- more properties in already developed categories
- more relations between categories (p. 49).

The collection of data will continue until no further properties can be found or added to the categories. Glaser and Strauss call this stage *theoretical saturation* (p. 61).

A comparative approach is present throughout their book. By first comparing data, and then comparing data with evolving categories, properties and new categories might be generated. Comparisons between categories generate *hypotheses*, which are defined as categories related to one another (p. 39-40). Hypotheses, even contradictory ones, can also be developed further through new data

¹¹Page numbers given in parenthesis refer to Glaser & Strauss, 1967.

collection and comparisons. Finally, Glaser and Strauss warn against having an impatient attitude towards one's own creative process:

It must be emphasized that integration of the theory is best when it emerges, like the concepts. The theory should never just be put together, nor should a formal-theory model be applied to it until one is sure it will fit, and will not force the data. Possible use of a formal model of integration can be determined only after a substantive model has sufficiently emerged. (p. 41)

Some critical voices have been raised against Glaser and Strauss. One valid point of critique, is that the book lacks practical descriptions of how the research can actually be carried out.¹² Categories and theories are said to "emerge" in the mind of the researcher. A description of how this process occurs and how it can be designed and supported, is neglected. Only vague and sweeping descriptions are given:

Lower level categories emerge rather quickly during the early phases of data collection. Higher level, overriding and integrating, conceptualizations - and the properties that elaborate them - tend to come later during the joint collection, coding and analysis of the data.¹³

No further details are given in the book.

On the whole, I have followed this version of the grounded theory approach when conducting this piece of research. However, I have added some formal techniques for coding data and comparing categories. My aim has been to make the process of theory generation more systematic, documented and open. An evaluation of my method will be presented in Chapter Six.

Small growing firms as a field of study

Kurt Lewin argued that a social system should be studied as a state of fluctuating balance or equilibrium between restraining and driving forces. He called for a "force field analysis" of social systems.¹⁴ This

¹²Turner, 1981:226. Note however, that on the whole, Turner is sympathetic towards the grounded theory approach and gives a valuable contribution to it in his article.

¹³Glaser & Strauss, 1967:36.

¹⁴Lewin, 1952.

suggests that the characteristics of small firms and smallness could best be studied in a change process. Change will (eventually) uncover both restraining and driving forces and in this way help us to understand the organizational processes.

From quite another perspective, studying people during a change process can mean studying people who (presumably) are in a reflective mood. This later aspect is worth further comment. The small firm in particular, is influenced by one or a few dominant persons, for instance the owner or the management team. How these managers think, feel and act will shape the organization. Since they have a strong impact on the activities of the firm, they are important to study, and supposedly they reflect and elaborate on these issues more frequently during periods of change. Therefore, a study of changing small firms not only fits into the process view of organizations adopted here, but also promises to yield us more valid and rich data.

Furthermore, the characteristics of smallness might also be captured if smallness is somehow related to its opposite: large size. Small firms are *comparatively* small, or they have certain characteristics that make them *different* from large companies - this is assumed in this study at least. A first choice, therefore, is whether to compare similar change processes in small and large companies; study large firms that decentralize; or study small firms that grow. In this study, data was collected in small firms that was growing for the following reason:

The independent small firm represents in a sense the most radical form of organizational smallness.¹⁵ Hopefully, the choice of small firms as research objects makes it possible to isolate small scale characteristics. The specific qualities of smallness are then put under stress by introducing growth. As a kind of critical test, this should reveal the strengths and weaknesses of small firms as a particular organizational form, and also "restraining and driving forces." Growth was therefore chosen as an attribute of the research object, but primarily as part of the research design. The combination of smallness and growth is also instrumental in evoking some intriguing questions that were presented in Chapter One.

¹⁵Katz (1984) even suggests that "one person organizations" should be studied. Although I recognize their number and importance, and agree that to study them would reveal certain aspects of the individual/organization relation, I am also interested in organizing structures that enhance joint efforts of several individuals.

Small firms are organized both by formal (normative) and cognitive structures. I have argued that cognitive structures, sometimes called interpretive schemata, are especially important to study. The function of these interpretive schemata is to make sense of the organizational reality. It was therefore determined appropriate to begin the study of such structures by creating a situation where people actually were trying to make sense of their own company history. The first part of the empirical research was therefore designed as a retrospective case-study.

How data was collected

A mid-sized manufacturing firm with 90 employees that had already experienced a period of growth and that recently had reorganized, was the first empirical source ("Case One"). Data were gathered through 11 semi structured interviews. All managers, including first-line supervisors, were asked to give their own description of the firm's organizational structure (responsibilities, coordination, and information channels) and how it had emerged. My notes from these interviews were later redistributed to the interviewees for comments.¹⁶

As a result, Case One is an *ex post* description of a firm and its history. In a sense this description is "shared," meaning that it is a version that is based only on what the respondents have told me. On the other hand, no respondent has given me the whole picture. As will be explained below, the coding of the data also partly includes my own understanding of what the respondents have described. It should be noted that individual differences might be present, although they were not found (or looked for) in the interviews.

After the first case-study had been completed, a study based on direct observation was undertaken ("Case Two"). A very small firm was followed during a growth process of three years. The aim was to elaborate the experiences from Case One by investigating more deeply the reasonings of a small business leader as he or she experienced a significant process of change.

By choosing such a small firm as Case Two (which employed 11

¹⁶I got very few comments. Some wanted to modify some of my formulations but no significant changes in content was made or asked for.

persons at most) I also hoped to get a chance to study the phenomenon of a small firm's growth plateau at 10-12 employees.¹⁷ I wanted to see why this plateau exists at all. I also wanted to vary firm characteristics such as: size, age, industry etc. All of this was aimed at stimulating the development of theory.

My presence at Case Two began with a presentation of my project and how I would work. I then sent the owner/manager a kind of written "contract" which included what we had both agreed on: he would see me for regular interviews; a tape-recorder would be used; I would be allowed to participate in meetings with accountant, bank, partners etc; he would not get normative advice during the study; my material and analysis would be published after due consideration of anonymity.

Data was collected through tape-recorded interviews every second or third month, interviews which I then had typed out. At these interviews the owner/manager was encouraged to talk freely about his firm as it was at that particular time; what had happened since our last meeting, how he felt about the present situation, and what he would do next. This meant minimizing my own influence on what should be considered important and relevant subjects.

On two occasions I interviewed the staff. I also participated in staffmeetings and in one meeting when the owner/manager met with representatives from a financing agency. At the end of the datacollection, I participated in a weekend seminar with the whole firm. There we analyzed the firm and its future. All in all, I conducted 25 formal interviews in Case Two and met with the whole staff on three occasions. The collected material consisted of roughly 300 pages of interview protocols.

Apart from this I had several informal talks with both the owner/manager and with members of his staff - mostly by telephone. On all occasions they took the initiative to phone me. On three occasions I met the owner manager and his wife at private dinners. I also met his accountant on several occasions for informal talks.

My ambition in all of these informal contacts was to remain "neutral"

¹⁷SIND, 1985b:116-117. Bernholtz & Rives (1977:434) have also studied this issue. They have found a plateau at about 30 empl. They also report other findings; Buchele (1967) - 10 empl; Steinmetz (1969) - 25-30 empl; Dale (1952) - 10-25 empl.

and not to give normative advice. My personal analysis of the firm and its possibilities was shared and discussed at the concluding weekend seminar mentioned.

Case Two is built mainly from the interviews made with the owner/manager. Therefore, the data is not "the firm's" shared understanding of the process, but primarily a description of the owner/manager's understanding, agony and joy.

At the time I was working with Case One, I was guided by, and trying to develop the framework called "the received view" in Chapter Two. I therefore structured my questions along the four organizational dimensions: division of labor, coordination, motivation and institutionalization. Case Two was further guided by the findings from Case One, which supported the alternative view of organization, also presented in Chapter Two. Nevertheless, in both cases it was an important part of the research design to allow the individuals to freely choose what should be considered important events or arguments. In fact, I considered almost everything they told me to be relevant data concerning organization in the small growing firm.

How data were coded¹⁸

Data from Case One, i.e. my notes from the interviews, were divided into conceptual categories. These categories could be described as recurrent themes on a micro-level. The same observation could be coded under several categories although this was an exception.

A form was filled in for each category (see appendix A). A name of the category was chosen. The form also contained all data (citations or observations) that made up the category. Every citation or observation used in the category was also marked in the notes from the interview. Generation of categories did not stop until the whole interview was coded.¹⁹ A total of 162 citations or observations from Case One were organized in this way.

¹⁸After this study was completed I became aware of Turner's article (Turner, 1981). Our methods of coding data have much in common. However, our analysis and interpretation techniques differ. Late in my research process Laukkanen (1989) published his method for cognitive mapping, which also has many parallels with the one presented here. His work will be commented on below. My method of coding data was developed in discussions with Chris Steyaert at the Catholic University of Leuven.

¹⁹See Appendix B for an example.

Each category's relations to the other categories were also coded. These relations were found by comparing all categories two by two. Three types of relations were coded; similarity, opposition and influence. Similarity and opposition were necessary to investigate in order to define each category as clear as possible. Influence was necessary to code in order to establish causal chains of these conceptual categories. In essence, these causal chains formed descriptions of organizational processes. It should be stressed that the direction of this "influence" and thus the directions of the arrows in the figures in Chapter Four, are empirically based. For example, the influence from Formalization (A8) on Enthusiasm (A14) stems from interviewees who described situations where a formalization of e.g. responsibilities has released energy.

Each category was given an identification code consisting of a letter - A, B and C - and a number. The material from Case One was divided into 25 A-categories (see appendix C) The letter indicated the theoretical level, or level of abstraction of the category.

On the back of each form, I continuously noted properties of each category and any ideas or theoretical associations that might come to mind.

One category was named *Natural organization* (A9). This category was grounded in data with the following citations and observations:

- NN saw the reorganization as a formalization of the organization in practice...
- ...slowly I moved over to selling...became involved in the reorganization and that's the way it is...
- The present organization is characterized by NN as "the natural"...
- NN is interested in language and images and it is therefore natural that he has taken care of marketing issues...
- His present position did not exist when he entered the firm but has emerged little by little...
- Export was automatically taken over by NN...
- Hospitals were a natural thing for NN to handle...plus what was left...
- Everything sticks together (about the formal organization)...you can't separate - although there are 'clusters'...
- Personal contacts with Norway made NN take responsibility for that export...

This category was found to be related with two other categories (in this particular case through similarity): Coincidences (A15) and Formalization (A8).

Natural Organization (A8) has two different properties, both grounded in data:

- The organization is natural meaning self-evident in the eyes of the respondent.
- The category also depicts a dynamic process; work roles emerge and changes little by little.

A-categories were generated directly from Case One data. An interpretation of relations between these A-categories, resulted in 23 B-categories and 5 C-categories (see Chapter Four and also appendix D and E). These categories formed elements in the emerging theory and guided the analysis of Case Two.

Data from Case Two were coded and analyzed in a similar way. The 300 pages of interview protocols were coded in the form of almost 700 citations. These citations were organized using 23 of the 25 A-categories from Case One, plus an additional 15 A-categories.

How data were analyzed

The properties of a category are most easily found in relation to other categories. For this reason all A-categories were compared two by two. This exercise showed that some categories were vague or inconsistent. Three alternative procedures were then used:

- change of name of category
- division of the category
- collection of more data.

For instance, I changed a category named Lack Of Information to Lack Of Communication (A7). A re-reading of the data showed that this change made the category "fit" the data better.²⁰

An early category named Increased Flexibility covered inconsistent pieces of data. This category (and the data behind it) was therefore divided in three: Internal Flexibility (A23), Adaptation To Customers (A24) and Service To Customers (A25).

I found some categories of special interest. They were either connected to cognitive processes or difficult to relate to traditional organization theory:

- Natural Organization (A9)
- Sufficient Size (A11)
- Think Alike (A12)
- Coincidences (A15)
- Create An Overview (A21)

I found these categories worth elaborating on further through the collection of more data. Longitudinal studies were considered necessary to follow how the small firm is organized, i.e. Case Two.

²⁰See the citation from Glaser & Strauss (1967) in my presentation of the Grounded Theory Approach.

When all A-categories from Case One had been compared and their relations had been established, a visual display of all relations was drawn.²¹ This relations-schema (see figure 3.1) was the raw-material used in the continued analysis.²² The total complexity in these relations-schemata were reduced through four different techniques (described below) with increasing levels of "objectivity." The aim was to identify meaningful clusters of A-categories which could be used as theoretical building blocks. These clusters were called B-categories and were interpreted as descriptions of organizational processes in small firms. Groups of B-categories and a discussion of some general characteristics of these B-categories led to a small number of C-categories.

More data, and more A-categories, were then collected from Case Two. The ambition when analyzing an additional case was not to test, but to elaborate on the emerging categories. Of special interest was to see whether the experiences gathered in Case One would survive a longitudinal direct observation. The following questions were therefore tested on the new material:

1. Does Case Two generate new A-categories?
2. Can Case Two add properties to the B-categories from Case One?
3. Does Case Two generate new B and C-categories?
4. Does Case Two add properties to the C-categories from Case One?

After the study of Case Two was finished an enlarged relations-schema, including A-categories from both Case One and Case Two, were drawn.

²¹The relation-matrix containing all causal links between all A-categories is included in Appendix F.

²²This graphic representation of the 25 A-categories from Case One contains all the A-categories and their relations. The schema is drawn in a way that the number of crossing lines are minimized. The reason was to make the schema less complex visually.

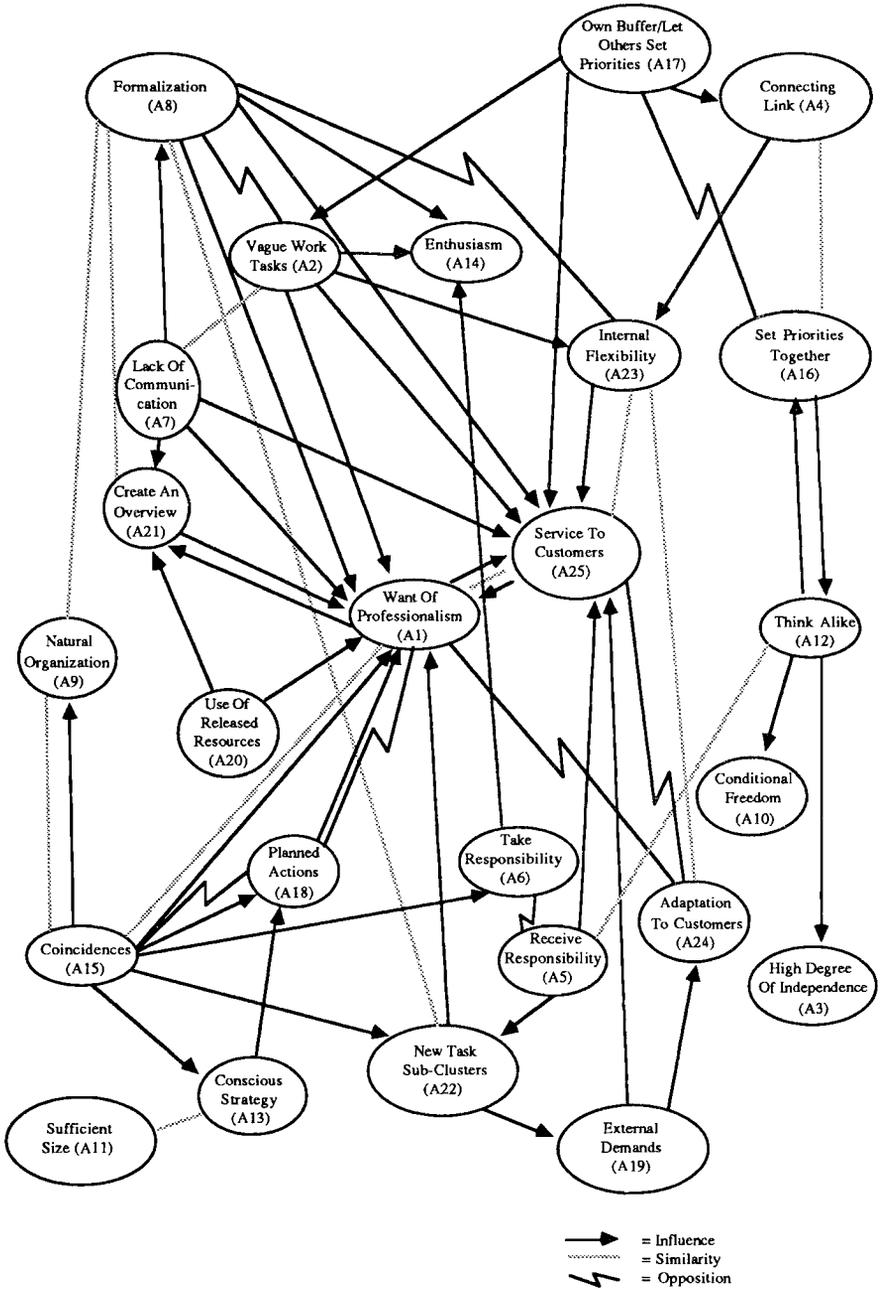


Figure 3.1. Example of a relations-schema from Case One

Moving from A-level, to B-level categories

The analysis of Case One and Case Two developed into a cumulative reasoning about the observed data and about A-categories. B-level categories were formulated as they "emerged." The generation of new B-categories continued as long as available categories did not cover new aspects of the relations-schema from Case One, and later new aspects from the enlarged relations-schema also including A-categories from Case Two. The guiding logic was "theoretical saturation."²³

Unrestricted search

The first method used to organize the total complexity in the relations-schema into meaningful clusters was a search for clusters of A-categories that either described important empirical phenomena (found during the interviews), or suggested some theoretical issue (treated in the literature). This search for relevant or sense-making B-level categories was conducted in a fairly open-minded and unsystematic way - therefore called "unrestricted search." In practice, it meant a careful and playful combinatory search from one A-category to the next, translating labels and relations into meaningful fragments of theory.²⁴ A similar unrestricted search was also conducted on the enlarged relations-schema from Case Two.

The unrestricted search resulted in eight B-level categories from Case One (B1 - B8), and an additional two (B24, B25) from Case Two.

Framework guided search

The second technique used to find sense-making B-categories was deliberately guided by a particular theoretical framework. The analysis of Case One was guided primarily by the received view of organization described in Chapter Two. There, I claimed that organizations could be described in four dimensions: division of labor, coordination, motivation and institutionalization. In the framework guided search in the relations-schema from Case One, the A-categories were therefore used in a more straightforward attempt to elaborate these four central

²³Glaser & Strauss, 1967:61.

²⁴Preliminary results from the "unrestricted search" analysis of both Case One and Case Two were presented at "The Third Workshop on Recent Research in Entrepreneurship", in Durham, and has been published (Brytting, 1990 and forthcoming).

concepts. This was accomplished in four steps. First, by eliminating all relations coded as similarity or opposition, the total relations-schema was transformed into a cause-map. The result is shown in figure 3.2.

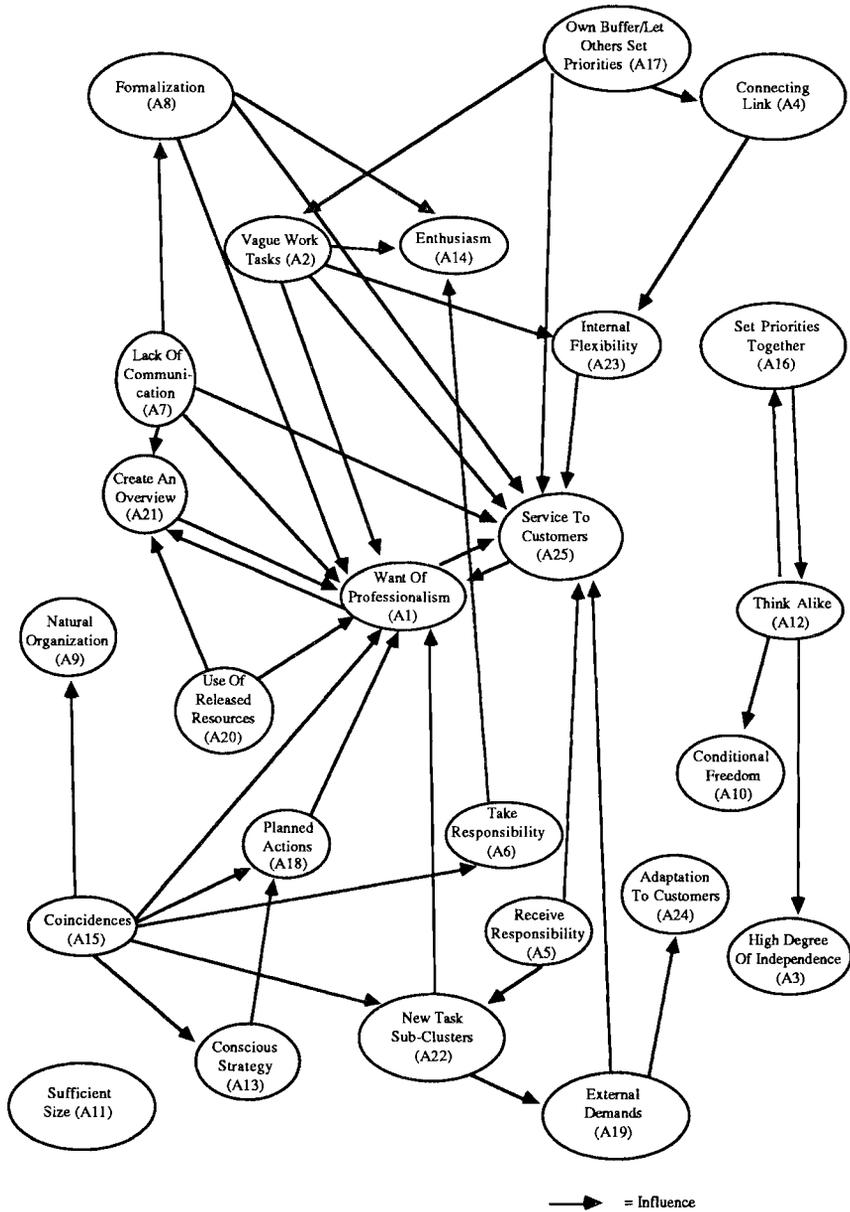


Figure 3.2. Cause-map from Case one

Second, for each of the four central concepts in the received view, those A-categories that were thought to be relevant in the elaboration of that particular concept were selected. In other words, I selected those A-categories thought necessary to describe the mechanisms forming division of labor, coordination, motivation and institutionalization in small firms. Third, the internal cause-maps of the selected A-categories were drawn for each of those central concepts. Finally, independent subclusters - i.e. clusters with no relations to categories outside the cluster - were identified and interpreted. The framework guided search in the relations-schema from Case One, resulted in 10 additional B-categories (B9 - B18).

A framework guided search was carried out on Case Two data as well. However, my experience of analyzing Case One convinced me that the received view of organization did not adequately capture the phenomenon under study. Therefore, it was replaced by the framework reflected in the five C-categories from Case One. These C-categories made up five central concepts in a revised framework which essentially was a version of the alternative view of "organizing" presented in Chapter Two. In this way experiences from the first case were used in a cumulative way when conducting a second case analysis.

The procedure was basically the same as with the data from Case One. Instead of the four central concepts: division of labor, coordination, motivation and institutionalization, the framework guided search in Case Two made use of: Spontaneity (C1), Systematic Planning (C2), Sensemaking (C3), Adaptation (C4) and Confusion (C5) as central concepts. For each C-category, those new A-categories were selected that was thought to be relevant. "Relevant" meant that they were believed to elaborate each C-category respectively. After selecting relevant A-categories, independent sub-clusters were identified and interpreted, resulting in five additional B-categories (B26 - B30).

Cause-map sub-cluster identification

The third method of simplifying the complexity in the relations-schema was designed to reduce influences from any prejudices (which might have reproduced themselves in the unrestricted search) or influences from the structure present in the received, or alternative view of organizations. The "cause-map sub-cluster identification" was carried out in three steps. First, just as in the framework guided search, the

total relations-schema from Case One, was transformed into a cause-map. Second, I decided to merge the two A-categories, Want Of Professionalism (A1) and Service To Customer (A25), into the B-category Professionalism (B1). The reason was that the similarity between the categories guaranteed that no information would be lost. At the same time, the number of relations, and thus complexity, could be substantially reduced. The reduced cause-map is shown below (fig. 3.3).

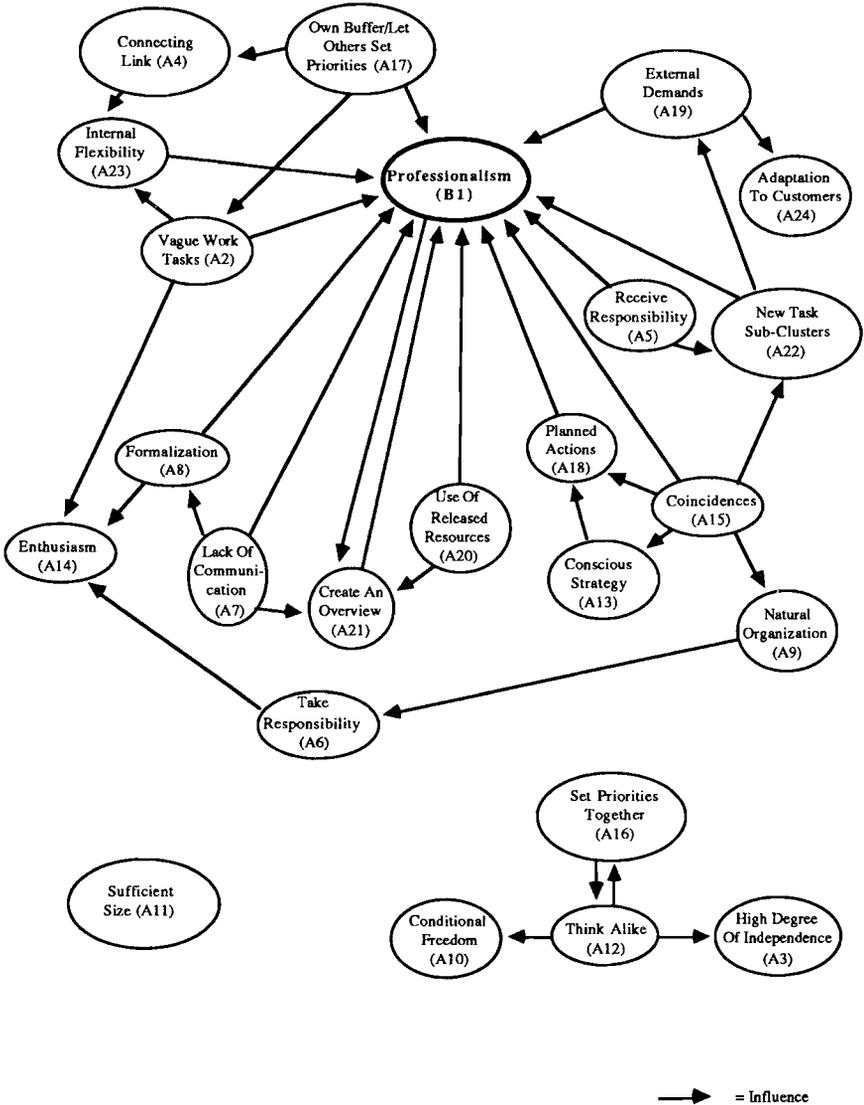


Figure 3.3 Reduced cause-map from Case One

The third step was to identify isolated, or semi-isolated clusters in this reduced cause-map. Semi-isolated clusters were defined as clusters of A-categories with only one causal relation to other clusters (with the exception of Professionalism (B1) since this category was included in all subclusters and thus considered as the main goal of the firm (see more about professionalism in Chapter Four, and about "goals" below). In this way, five additional B-categories (B19 - B23) were identified.

A cause-map sub-cluster identification was not made using Case Two data. The complexity of the enlarged relations-schema, now including 40 categories and a total of 126 causal links, was not feasibly analyzed by this technique.²⁵

Centrality-based search

The fourth method that was used to reduce complexity in the relations-schema focused on central A-categories in the complete cause-map from Case One and from Case Two. "Central" was defined as categories having three or more causal relations. Through this design, only two pre-defined clusters were elaborated. A-categories that were influenced by many other A-categories were named "goals"; A-categories influencing many other A-categories were named "causes."

Moving from B to C-level categories

After each of these four types of analyses of the relations-schema from Case One, I conducted an integration of the results, i.e. a summary of the organizational processes (B-categories) suggested by the analyses. When doing this, certain themes, or common characteristics among these organizational processes, became apparent. These themes were given illustrative labels and together made up the so called C-level categories of this study. These C-categories form a typology of organizational processes in small firms.

The step from B to C-level categories was not guided by any rigorous technique. However, the ambition was to sustain a grounded approach, i.e. to let lower level concepts guide the development of higher level concepts. In retrospect, I realize that these C-level categories fall into a

²⁵Late in the research process, I became aware of some PC-based network-analysis programmes that might be useful for this kind of sub-cluster analysis; GROUP, STRUCTURE PLUS and CONDORE. However, they have not been tried on this material.

dualistic pattern. When a certain theme was found, e.g. Spontaneity (C1), its opposite, Systematic Planning (C2), was easy to recognize. This was, however, not used as a conscious "technique" for analyzing B-level categories.

The search for C-categories followed a cumulative process. A new C-category was introduced only if already available C-categories could not cover the specific aspect in question. For instance, the five C-categories from Case One were considered sufficient in order to cover also common themes in the B-categories from Case Two. Accordingly, no new C-categories had to be introduced during the analyses of Case Two.

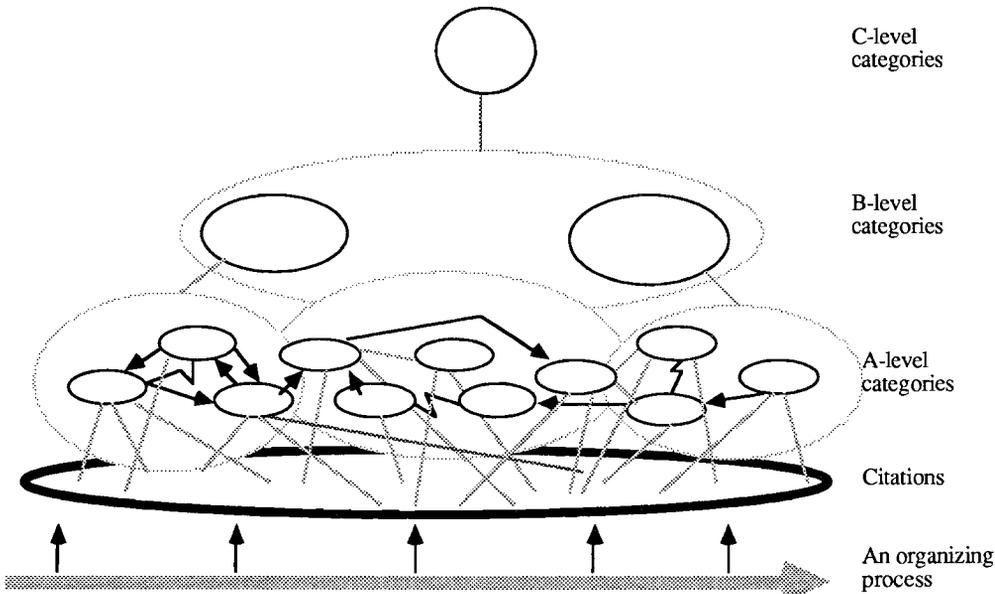


Figure 3.4 A schematic representation of the different analytical steps from an actual organizational process to C-level categories.

Some epistemological comments on the method

The analysis carried out in this research project treats protocols from interviews with individual actors as empirical data. These individual perceptions, feelings and associations are regarded as relevant data in the process of identifying organizational processes in small firms.

It should be noted that the relation analysis is not simply a mechanical counting of relations and forming of clusters. A quantitative analysis can only work with the labels of categories, connecting these with their number of relations and number of data. The analysis will easily lose the original empirical content behind them. A quantitative analysis can select clusters with many data or many relations, but not clusters with theoretically significant data and significant relations.

The material used in the relation analysis is the empirical content of the categories and its properties, not the immediate associations that might grow out simply from their labels. As Laukkanen - from a descriptive objective - points out:

If this is not observed, the A-level cause maps* will start living a life of their own in the mind of the reader, because A-cluster tags will assume a personal interpretation that may deviate from that intended.²⁶

* An equivalent to my "B-categories"

In my case - with a theory generating objective - it is important to take along the empirical content during the analysis, but maybe more important, it is also necessary to leave room for a kind of stepwise value-adding process, i.e. a successive theoretical interpretation of categories and their relations. The method described therefore, uses the researcher and his or her intellect, as instruments - in much the same way as Glaser and Strauss envisioned.

To understand the method used in this study, it is crucial to distinguish between the *extension* of a conceptual category and its *intention*. Extension refers to the empirical observations which form the category, i.e. the empirical data on which the category is grounded. On the other hand, the intention of a category is the theoretical meaning of that particular category. The intention is described in the properties or attributes of the category - properties developed through the comparative analysis described. This leap, from extension to intention, is the researcher's main contribution to explorative research. I believe that this leap cannot be made without prior theoretical knowledge and training; it cannot be made by computers or by laymen. Moreover, the

²⁶Laukkanen 1989:148.

fact that the researcher interferes "subjectively" in the analysis might prove not only necessary but also feasible.

Kaplan has discussed this matter.²⁷ He dismisses the objection that subjective elements are irrelevant presumptions of the investigator and cites two examples:

Consider, for example, the caption NAZI FLYERS STRAFE LIFEBOATS. (Strict objectivity, my comment) would presumably permit the application only of content categories like "military affairs," "ship sinkings," "axis forces," etc. Categories like "unfavorable reference" would be excluded, presumably, as "subjective" and unreliable. But "unfavorable reference" is no more a so-called subjective category than the others. In all cases the analyst *interprets* the marks as having certain significations; in the last he interprets them as having a certain purport. And there is at any rate no *a priori* reason why such interpretation should be always less reliable than the purely semantical. Indeed, it is easy to imagine cases where the mixed characteristics of the signs are more obvious (and presumably subject to more reliable coding) than the purely semantical characteristics. Suppose an editorial contains a sentence like "the plan is without question communistic." Might there not well be instances of occurrence in which it would be far clearer (and more reliable) to say that the editorial expresses an unfavorable attitude toward the plan than to say that the editorial characterizes the plan as being in accord with the doctrines of Karl Marx?²⁸

The act of (subjective) interpretation is in fact an act of choosing meaning (or conceptual intention). My opinion is that the researcher should choose meaning that fits data and conveys relevant meaning to other researchers involved in the area studied. The objection that this subjective act limits the applicability of the categories is admittedly relevant. This subjective choice of meaning implies that the ability to make proper predictions (generalizable models) might be reduced. However, it does not follow that interpretation should be abandoned - in fact, I believe it is inevitable. Rather, a balance between meaning and generality is required. On the one hand, meaning without generality

²⁷Kaplan, 1943.

²⁸Kaplan, 1943: 235-236.

hampers the scientific dialogue and the accumulation of knowledge. On the other hand, generality without meaning is, in the real sense, meaningless.²⁹

The method used in this study shares many similarities with Content Analysis. However, Content Analysis is often presented as an objective method used to *discover* a deeper meaning or pattern in written, verbal or "social" texts. It is, for example, often used in studies of cognitive mapping.³⁰ Usually it uses a pre-set selection of conceptual categories. The Grounded Theory Approach, as applied here, *generates* one of several possible subjective interpretations. It involves an iterative change between data and theory, between extension and intention. Accordingly, the method used here could be described as: *a content analysis of the researcher's own cognitive map after empirical exposure in two steps.*

Those familiar with the literature on cognitive mapping will find apparent similarities between this description of generation of theory and cognitive mapping. This is not a pure accident. A scientific theory is conceptually a type of cognitive map. Both are tools with which we mentally organize and construct meaning from otherwise unorganized and therefore meaningless data. Compare the quotation from Glaser and Strauss above (p. 78), about the functions of theory in sociology, with the following statements from a philosopher of science:

A theory is a way of making sense of a disturbing situation so as to allow us most effectively to bring to bear our repertoire of habits, and even more important, to modify habits or discard them altogether, replacing them by new ones as the situation demands.³¹

and from two organization researchers:

A cognitive map consists of the concepts and the relations a participant uses to understand organizational situations.³²

A theory is therefore similar to a cognitive map, or an interpretive

²⁹This is in a sense a free transcript of Popper's statement that "with increasing content, probability decreases, and vice versa" Popper (1960) in Miller, 1983:174.

³⁰For a review of these studies see Laukkanen (1989: 22-33).

³¹Kaplan, 1964:295.

³²Weick & Bougon, 1986:106.

schema, with some qualifications. A non-scientific, what psychologists call "naive," cognitive map might contain contradictions and be highly "private" and idiosyncratic. What is presented as a scientific theory is a cognitive map deliberately aiming at consistency and public acceptance (primarily) within the scientific community. It is also incorrect to say that generation of theory through a grounded theory approach is equivalent to a mapping of the researcher's prior knowledge and understanding of certain empirical phenomena. It should not be forgotten that the theory is deliberately and actually generated, changed, and put together as part of a specific research project.

For instance, the fact that the use of four different techniques for finding B-categories gave rise to four different sets of B-categories, makes it apparent that the researcher's choice between different alternative theoretical fragments is influenced by his method of analysis. The B-categories are thus more than reproductions of the researcher's theoretical prejudices. On the other hand, the way a certain cluster of A-categories are interpreted into a meaningful B-category, may differ depending on who is doing the interpretation. In that sense, the grounded theory approach, as it has been adopted in this study, allows for creative input during the analysis.

The title of Glaser and Strauss' book - The Discovery of Grounded Theory - is therefore, in my opinion, slightly misleading in this regard. Theory does not exist "out there," (not even "in there") waiting to be discovered. It is - in this case - constructed by the researcher through conscious rigorous empirical work and theoretical training. The trick is to make this theory-building - or even theory-choosing-process open for constructive criticism. The method developed here is an attempt to move in that direction.

Finally, the method used here admittedly involves subjective interpretation of data. On the other hand, the careful recording and coding of data acts against an uncontrolled selective perception that sometimes plagues traditional case-study methods. Here, a deliberate decision must be taken to avoid or disregard a piece of data, and omitted data can be analyzed in order to see any systematic patterns.

Before going into the presentation of the cases and the A, B and C-level categories, it might be necessary to discuss the epistemological status of the so-called B and C-level categories. The discussion is based on Laukkanen's work on cognitive maps.

Laukkanen defines a concept space as a list of words or labels connected to the relevant phenomena - like the list of A-categories in this study (Appendix C). This list of labels also defines the maximum map limits.³³ As was pointed out before, the generation of theory has many similarities with the generation and description of a cognitive map. The B and C-level categories can therefore be defined as sub-maps of the conceptual, or semantic space called the relations-schema.

Cognitive maps have been described in the literature as:

1. Representations of the subject's innate cognitive structures.
2. Manifestations of socially acquired and shared knowledge/beliefs.
3. Ad-hoc-generated products of human procedural knowledge or problem-solving apparatus.
4. Artifacts of the research process/paradigm.³⁴

The first view lets us suggest that the B and C-categories here presented are true representations of how the respondents actually store and process information. I make no such claims. The categories generated in this study are strictly my own. I also want to stress the process character of this study which means that these categories are not necessarily "true representations" of how I store and process information about organization in small firms. Rather, they are building blocks which I will later try to combine into an integrated small firm organization theory.

The second view is important since it points out the fact that theory is something socially constructed. The categories generated in this study are not the result of self-reflection, or "armchair reasoning," but of a deliberate and intensive confrontation with the practice of "organizing" in small firms. This does not deny the importance of having an overview of relevant previous research in the area.

The third view is problematic only for those who want to describe the respondents' cognitive maps as true representations of how they think and make decisions. The respondents may describe ways of thinking which have very little to do with actual cognitive processes.

³³Laukkanen, 1989:25.

³⁴Laukkanen, 1989:40-48.

The fourth view has already been discussed. Just like all other forms of research, the generation of theory is methodology dependent. The theories we develop will differ, depending upon what kind of method we use. Unfortunately, these questions have received little interest so far.³⁵ Hopefully, accumulation of this kind of knowledge will increase in the future:

Theory cannot be improved until we improve the theorizing process, and we cannot improve the theorizing process until we describe it more explicitly, operate it more self-consciously, and decouple it from validation more deliberately.³⁶

Criteria for evaluating explorative research

Since traditional validity and reliability considerations are inadequate in explorative research, one has to find other criteria that can guide the research process. The ambition during the research process has been to satisfy the following four criteria:

Accuracy

The empirical material shall be as accurate as possible. My interview protocols from Case One were returned to the interviewees for comments and approval. Since no non-trivial changes were asked for, and the factual content of the interviews was similar, I consider the descriptions of the growth and organization processes in Case One to be accurate. Case Two was followed closely through direct longitudinal investigation which reduced the possible steps from empirical event to coded data. The interviews were tape-recorded and typed, to guarantee that the analysis made use of the correct data from the interviews.

The factual content of the interviews was controlled through parallel interviews with the owner/manager, employees and external actors (accountant, bankers, etc.).

³⁵An exception is the recent publication of proceedings from The Academy of Management's special forum on theory building; *Academy of Management Review*, Volume 14, Number 4, October 1989.

³⁶Weick, 1989:516.

Reliability

The analysis, and the result of the analysis shall be reliable. Admittedly, some parts of the explorative research process remain non-conscious and therefore hidden from any outside judgement. However, the described method of generating conceptual categories has several appealing qualities.

By forming "A-categories," a whole multitude of data can be summarized and visualized in the form of tables and relations-schemata. We might describe it as a form of data condensation. Through this condensation, the researcher's treatment of data and elaboration of categories can span a large number of empirical observations. This compensates, in some way, the selective perception all of us are subject to.

The generation of theoretical fragments can be made successive and systematic. This facilitates a constructive critique of the research work. A further advantage is that the different steps in the process of theory generation can be documented.

Generative capacity

The results shall support the interplay of ideas. One of the most important arguments for using the Grounded Theory approach in the first place, was that available theories and concepts do not work as scientific concepts in small firm research, or that they at least should be developed further. One way forward was believed to result from a close connection between empirical data and theory. My ambition has been to generate concepts as close to a "natural," or everyday language as possible, and to treat organizational matters of great significance for the small firm's owner/managers. Hopefully, this enables the concepts to "fit and work," as Glaser and Strauss put it. I also hope that it facilitates the dialogue between practitioners and scientists.

Theoretical linkage

New theories and hypotheses shall be related to existing theory. This criteria is inspired by Popper. He criticizes the idea that general laws or "truths" can be discovered through a logical inference of empirical observations - inductive research. Instead, he argues that scientists should devote their effort to the critical testing of theories and

hypotheses. The aim shall be to try and falsify existing or reasonable hypotheses. Popper is completely unconcerned with how these hypotheses are generated. In fact, he says that "there is no such thing as a logical method of having new ideas, or a logical reconstruction of this process,"³⁷ and he cites Einstein: "They can only be reached by intuition, based upon something like an intellectual love (*Einführung*) of the objects of experience."³⁸ In spite of this, Popper develops the idea of a rational choice between theories.³⁹ From this discussion, especially from Popper's conception of falsification, it follows that the ideal hypotheses should be grounded in previous knowledge - have "great informative content" - so that, if these hypotheses are rejected, knowledge must change.

³⁷Popper (1934) in Miller, 1983:134-135.

³⁸Nevertheless, this study is based on the opposing conviction, that the generation of hypotheses can be supported and documented with proper methods.

³⁹Popper (1960) in Miller, 1983:172-178.

Chapter Four

Result; Categories and Their Properties

Summary

The purpose of this chapter is to present the result of the analyses of Case One and Case Two. All categories are presented in the same order they were "found" or worked out. Hopefully, this will illustrate how the research method was employed in practice. Empirical illustrations of the B-categories are taken from both Case One and Case Two in order to give as rich an understanding as possible to these categories.

It will be argued that the organization process in Case One can be described with 11 B-categories. To cover some of the aspects of Case Two, five additional B-categories are added. The B-categories are constructed out of 40 A-level categories.

The initial framework of the study, which was based on the received view of organization, is found inadequate to describe Case One. Instead, the experience from Case One suggests that organization in small firms resembles a cognitive sensemaking process that develops from a state of confusion into some kind of common understanding of the firm. This process has both rational and irrational, spontaneous elements. The analysis of Case Two therefore aims to further develop the categories from Case One and develop new categories that could be used to describe and understand this sensemaking process.

Taken together, the analyses suggest that organization in small growing firms could be described with the help of 16 B-categories which are ordered under five C-categories. It is argued that these categories describe "organizing" sub-processes in small growing firms.

Chapter Four Result; Categories and Their Properties

Case One

Case One was founded in 1926. In the beginning, it produced and marketed a whole range of technical-chemical products. The firm later specialized and is now engaged solely with bandages and first-aid kits. In 1969, the production was moved to a new factory (70 employees) some 180 kilometers outside Stockholm. The headoffice including the administration and marketing functions (20 employees) remained in Stockholm. In 1987, the turn over was 63 million SEK.

Case One is competing on a relatively small (Swedish) and stable market (bandages and first-aid kits to the military and to the automobile industry). The demand for bandages and first-aid kits is independent of any fashions, trends or economic junctures. The only way to grow - and the way that has been followed - is through internationalization and entrance into new market segments, like work safety or health care.

The firm started to experience some problems in its marketing function in 1978. Until then, one of the salesmen had the responsibility of coordinating sales. In 1979, that responsibility was taken over by the owner/manager, but the problem with coordination between sales and production persisted. The firm did not act "professionally" on the market. Confusion arose too often about prices, discounts and terms of delivery. The reason was said to be that customers "fell between" salesmen. It was felt that the firm lacked adequate and fixed administrative routines. A reorganization was initiated in 1982.

During this year, the present chairman of the board moved abroad and a new chairman (a professional consultant) was hired. He was chosen because he had a marketing background. His first move was to initiate a thorough analysis of the firm's market position. The management team then conducted a "brain-storm" meeting with his report as a starting point. The meeting resulted in a great number of ideas and proposals. These were put together into a business concept and a strategic market plan. The sales organization was also clarified.

The marketing function was divided into three homogenous submarkets, or relatively autonomous "business areas." Each business area manager was to work independently within the limits set by the yearly budget. Failure to meet this budget would be discussed by the management team and by the board. A product development function was also instituted as a separate responsibility. This function had earlier been integrated in the sales organization but never in any formalized way. Although these changes looked thorough, they were afterwards described as mainly a formalization of how the firm actually worked.

Since Case One is quite small and since all three business area managers, the product development manager, the owner/manager and the administration are placed close to each other, most coordination can be solved through very informal meetings. Even the more severe problems can be solved this way.

Despite the favourable circumstances, small size and close relations, there are some complaints about the communication between business area managers. Different attempts have been made to introduce formalized information systems like internal post, written memos and a computer-based information system. Internal communication is a continuing concern in the firm.

Case One had a surprisingly strict functional structure, considering its size. The idea of an alternative, divisional form was raised during the interviews but was rejected as irrelevant. The interviewees referred to market characteristics that, in their opinion, made the present structure self-evident. Case One's market is characterized by stability: few large customers, undifferentiated demand, relatively simple and highly standardized products, automated production made in large batches and mostly un-skilled labor. Because of this, respondents feel little need for close coordination between marketing and production, apart from scheduling. Production and marketing problems can be solved separately - the geographical separation of production and marketing is, in this particular case, therefore symptomatic.

Apparently, the rationale behind the present structure follows well-known organization theory. The actors used a contingency model to explain to themselves why their organization structure was functionally specialized.

One striking characteristic is the common emphasis on "professionalism" as the organizational goal. Professional treatment of customers - not profit - was obviously the standard for measuring performance. Everyone in the firm knew that the company had to make a profit in order to survive, but the wish to appear professional, was clearly what directed their actions. The actors assessed themselves and their firm by how easily orders were processed, by the lack of friction between workers, not by financial results. Even more interesting is the elaboration of this concept. It is defined by the respondents themselves in a negative form; want of professionalism is what triggers actions. They clearly know when customers are not treated professionally.

A professional behavior refers to a prompt delivery of products solving a particular customer's need. The customer shall not be troubled, surprised or even involved in the process. The firm shall take care of everything in a predictable way. Above all, the firm shall be reliable.

In summary, Case One illustrates the basic dilemma of mechanistic versus organic structures. On the one hand, mechanistic structures promise the machine-like professional appearance that obviously is so vital for the small firm to achieve. On the other hand, organic structures can be cheap, smooth and humane, because they rely on spontaneous coordination instead of calculated management actions.

A-categories from Case One

All the data (interview protocols) from Case One were coded and organized into 25 proposed "A-categories." This list of A-level categories form the vocabulary which I propose as necessary to use when describing and understanding organization in Case One. The vocabulary can be described as:

...a format or level of description that is roughly equivalent to the (natural language) for and in these specific domains of action. Thus, it should enable one to understand and analyze the thinking patterns in approximately similar terms as the responding managers themselves do. Yet, compared with the richness of natural language, the ("A-categories," my comment) is much more compact.¹

¹Laukkanen, 1989:141.

Each A-category will be briefly presented here. In those instances where I think the properties (found through the coding of "similarity" and "opposition" in the comparative analysis), either differs from, or elaborates on the usual, common meaning of the words, I will add some comments:

Want Of Professionalism (A1) - This category is used by the respondents to describe dissatisfaction with administrative routines and market profile. The opposite of professionalism is amateurism, in its negative sense.

Vague Work Tasks (A2) - Small firms are dependent on flexibility. To define work tasks vaguely supports flexibility. On the other hand, vague work tasks can emerge because other employees do not do their job properly, or do not inform the others in the firm. Vague work tasks are sometimes perceived as highly motivating, sometimes as causing problems.

High Degree Of Independence (A3) - Describes a subjective experience.

Connecting Link (A4) - This category covers the role played by an individual who coordinates or communicates with two or more other interdependent individuals or units.

Receive Responsibility (A5), and Take Responsibility (A6) - These two categories are opposites. For someone to receive responsibility means that others decide on new work tasks for him/her. To take responsibility means to recognize a problem or opportunity and act autonomously.

Lack Of Communication (A7) - For an individual member, this category has some similarities with Vague Work Tasks (A2). Lack Of Communication (A7) is however, somewhat problematic. It is an obstruction to control, and has no positive properties. Its solution is always formalization.

Formalization (A8) - Formalization is mentioned as a solution to vague information, lack of communication, misunderstandings etc. When implemented, it very often is described as "empty"; as simply a formal way of doing what was already established practice.

Natural Organization (A9) - The organization is called "natural" meaning self-evident as perceived by the respondent. The category also depicts a dynamic process; work roles emerge and change little by little.

Conditional Freedom (A10) - Employees have a high degree of independence as long as they behave in accordance with standards set by the owner/manager or by the firm collectively. If behavior deviates from these standards or expectations, control is tightened.

Sufficient Size (A11) - A subjective standard with which the respondent compares the actual situation. The owner/manager has an idea of a sufficient size of the firm; some of the sales managers also have an idea of a sufficient size of their part of the firm's turnover. Empirically, sufficient size can virtually mean any actual size. The category explains a kind of mental standard.

Think Alike (A12) - A category used when people make the same evaluations about people or interpret situations in similar ways. Resembles the term "shared interpretive schema." If people think alike, delegation and problem solving are simplified.

Conscious Strategy (A13) - Several decisions are described as "strategic," meaning deliberate and long-term.

Enthusiasm (A14) - Describes a subjective experience. Often used to describe a situation when messy situations have been clarified. For instance, when responsibilities have been formally delegated instead of being a collective problem.

Coincidences (A15) - This concept covers a wide variety of phenomena. Their common feature is that they have had decisive influence on important events in the firm, and are "external," meaning out of the firm's control; these external events are perceived as coincidences. This category's underlying data can be organized into four sub-groups; Sudden unexpected meetings or separations between individuals; Sudden unexpected changes in market demands; Unexpected behavior or demands from the owner/manager (as perceived by the subordinates); and physical limitations, in the factory or office for instance, which "suddenly" are crucial for how the organization can be designed.

Set Priorities Together (A16), and Own Buffer/Let Others Set Priorities (A17) - These categories are opposites. The first category is a common way to solve problems in the small firm. It is supported by Think Alike (A12) and the close daily contacts between individuals. It is also a way of working that respondents prefer. Own Buffer/Let Others Set Priorities (A17) have strong negative connotations. The category has many similarities with the term "suboptimization" in the organization theory literature.

Planned Actions (A18) - The category depicts an ideal. Actions should be planned. It has some similarities with Conscious Strategy (A13) and a complex relation with Coincidences (A15). Actions should preferably not be made at random. On the other hand, in certain coincidences, actions planned in advance, could be triggered and have positive impact on the firm.

External Demands (A19) - The firm has to follow demands or restrictions set by its environment. Some are legal, others have to do with customer preferences. Some of these external demands are activated or perceived because the firm changes its business concept.

Use Of Released Resources (A20) - This category describes an essential activity carried out in the firm. Many decisions and organizational adjustments have the purpose of releasing resources in the form of time or money. The ambition is mostly to use these released resources on strategic long-term issues.

Create An Overview (A21) - The category has similarities with Formalization (A8) but without its association with "emptiness." Many organizational investigations or changes have as their purpose to clarify something complex or messy.

New Task Sub-Clusters (A22) - New organizational positions or task clusters are not formed independently from the old organization. Instead, they are clarifications, or better, definitions of specific sub-clusters hitherto undefined, within the total task cluster.

Internal Flexibility (A23) - The possibility of solving unexpected problems "on-line" i.e. without pre-set solutions - supported by Vague Work Tasks (A2), for instance.

Adaptation To Customers (A24) - Describes various attempts to adjust products, terms of delivery, ways of conduct, etc, to individuals, or types of customers. Often in opposition with Service To Customers (A25)

Service To Customers (A25) - The ability to give fast and accurate information to customers. The absence of delays.

Unrestricted search - Case One²

These A-categories were the first building blocks in the formulation of theoretical fragments. First, their relations, i.e. their similarity, influence or opposition, were included in one visual display called the relations-schema. The unrestricted search for sensemaking clusters of A-categories in this schema, resulted in the following B-categories:

Professionalism (B1)

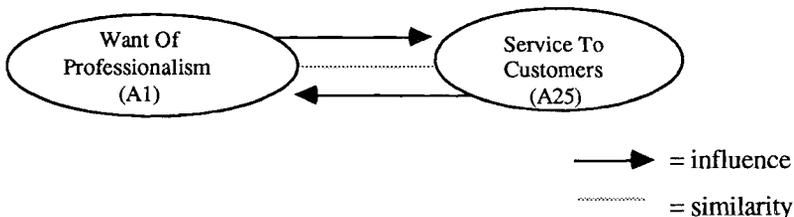


Figure 4.1 A-categories forming the B-category Professionalism (B1)

Want of professionalism (A1) was singled out as a core concept already during the first interviews. It was obvious that the actors evaluated themselves and their firm with this ideal in mind. Want of professionalism is put forward as the reason behind restructuring the firm. It is one of the main problems related to growth. Professionalism (B1) should be associated with logistical problems rather than with impersonal client relations. It has several similarities with Service To Customers (A25). Both are central categories in the relations-schema in the sense that they "receive" influence from other categories. In other

²This technique of analysis is presented on page 101.

words, they have the character of ends or goals. They are also conceptually similar. Accordingly, Professionalism (B1) describes access to frictionless internal administrative routines, a clear and firm outward profile, and most important of all, a quick and accurate response to customer requests.

There is a clear tension between Adaptation To Customers (A24) and Professionalism (B1). Too much listening to customers might lead to un-professional behavior. Other relations between Professionalism (B1) and other A-categories are presented figure 4.2:

Negative impact

Vague Work Tasks (A2)
Lack Of Communication (A7)
Coincidences (A15)
Own Buffert/Let Others
Set Priorities (A17)
Adaptation To Customers (A24)

Positive impact

Formalization (A8)
Planned Actions (A18)
Use Of Released Resources (A20)
Create An Overview (A21)
New Task Sub-Clusters (A22)
Service To Customers (A25)

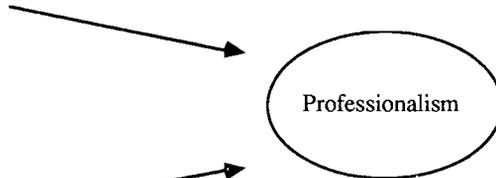


Figure 4.2 A-categories influencing the B-category Professionalism (B1)

The solution to Want Of Professionalism (A1), or maybe better; amateurism, was described as:

- clear division of responsibilities
- rules to guide customer treatment
- written agreements
- fixed administrative routines

"Professionalism," therefore resembles something which might be called "Bureaucracy," in its original, Weberian sense.

In both Case One and in Case Two it sometimes happened that employees gave arbitrary answers to customers concerning times of delivery, terms of payment etc. Sometimes this was the result of a negotiation with the customer, sometimes the employee was unsure of company practice. The internal uncertainty and complexity this caused, created misunderstandings and extra work later on when the order was to be carried out. In both Case One and in Case Two, the owner/manager insisted that discounts, terms of delivery etc. must follow established rules, and that any details negotiated with the customer should be written down. In Case Two discounts were abandoned totally - to avoid confusion.

At one occasion, the owner/manager in Case Two signed a contract together with his bank and a large customer. After a few days, he double-checked with the bank and found out that the matter had come to a halt because the bank had made a formal error in the contract. The mistake demanded that a new contract be signed. The owner/manager found this incidence - to return once more to this large and important customer, asking for a simple signature - so embarrassing that he considered changing his bank connection.

Spontaneous Coordination (B2)

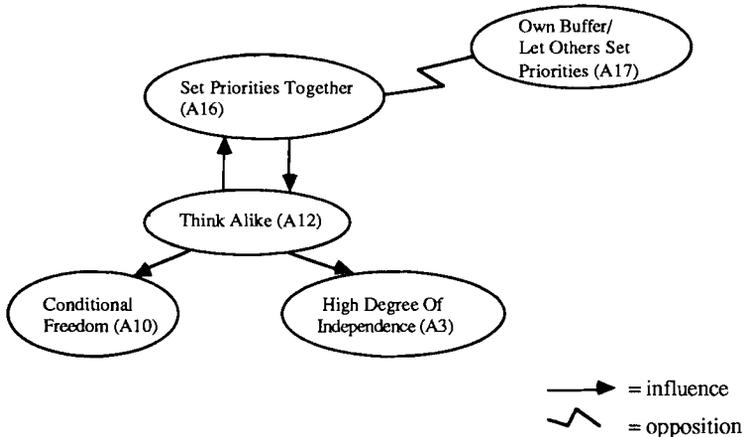


Figure 4.3 A-categories forming the B-category Spontaneous Coordination (B2)

A shared view of the firms activities (A12) can be achieved by solving priorities together (A16). This will in turn facilitate future problem solving. As long as this shared view is maintained, participants can act autonomously (A3). This autonomy will be withdrawn as soon as conflicts arise (A10).

This category describes a situation in which coordination between several activities in the firm is reached without any referral to higher, or other, organizational units or positions. The actors coordinate themselves. Sharing similar interpretive schemata is crucial in order for Spontaneous Coordination (B2) to function.

The production manager in Case One said he was independent because he knew and understood the owner/manager's way of thinking. Nevertheless, delivery dates were sometimes difficult to meet. On these occasions, sellers together with someone from the factory decided which orders to give priority to. The production manager claimed that the sellers sometimes did not "understand" production and therefore signed orders that created problems for the firm. Sellers, on the other hand, claimed that the factory sometimes lacked understanding of marketing and therefore made priorities that might solve problems in the factory but created problems for the firm. Sellers sometimes visited the factory, lecturing about marketing and the firm's new image in an attempt to raise the priority, given to the sellers requests.

Two Administrative Growth Strategies (B3, B4)

The relations between A1 - A2 - A7 - A8 - A14 - A21 - A23 - A25 in the relations-schema are dense. They form a distinct cluster and together they form a coherent piece of theory:

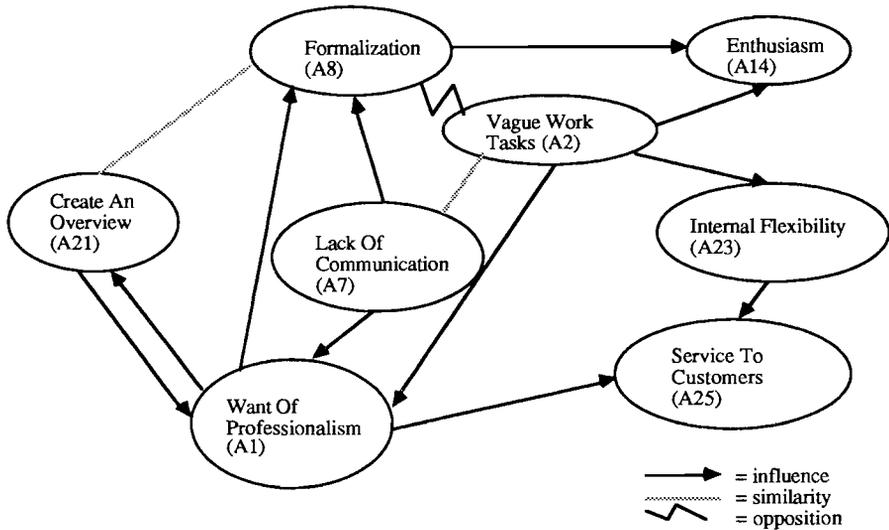


Figure 4.4 A-categories forming the B-categories Information-Flow Routinization (B3) and Task Routinization (B4)

This cluster can be described as follows. On the one hand, an organization with vaguely defined work roles (A2) can increase its level of service (A25) by allowing a flexible internal division of labor (A23). On the other hand, vaguely defined work roles place high demands on the communication within the firm (A7). If this communication does not work, then customers will not receive professional service (A1). Moreover, motivation of the employees will decrease (A14). It is therefore the communication within the firm that decides whether a flexible/"loose" organization is favorable or not. One way of solving this is through a formalization of the internal communication (A8). To create an overview (A21) is both a goal in itself and a means to further professionalism.

This theoretical element can also be presented in the form of a typology for administrative growth strategies in small firms, one which focuses on the coordinating system, and one which focuses on the division-of-labor:

Division of labour:	Communication:		
		Vague	Formalized
Vague		A spontaneous organization	Information-Flow Routinization (B3)
Formalized		Task Routinization (B4)	A bureaucracy

Figure 4.5 A typology for administrative growth strategies

A typical situation in Case Two was that the customer decided what to purchase in the shop, but had to wait a few weeks for delivery. This meant that the storage and retrieval of order information, especially concerning large orders, could be quite a complex task involving several suppliers and subcontractors. In the beginning, when the company had only three or four employees, most coordination was carried out through informal meetings and the verbal exchange of information. Gradually, however, different systems of written information were installed: "log-books," notebooks for different types of products or different classes of customers, file-systems, etc. The owner/manager insisted that certain routines should be followed when dealing with subcontractors. He instituted a weekly meeting where the progress of orders was to be reported and coordinated. Gradually, however, the firm routinized work tasks instead of information flow. One employee focused on larger projects and less qualified employees were hired to work in the shop. Bookkeeping and contacts with the bank were delegated to a special employee. The firm even hired a special employee as a sales representative for one of its largest suppliers. At the end of the period studied, there was a clear division of labor between those who designed a project, "the artists," those who administered the project and those who did the paper work.

Emergence Of Hierarchy (B5)

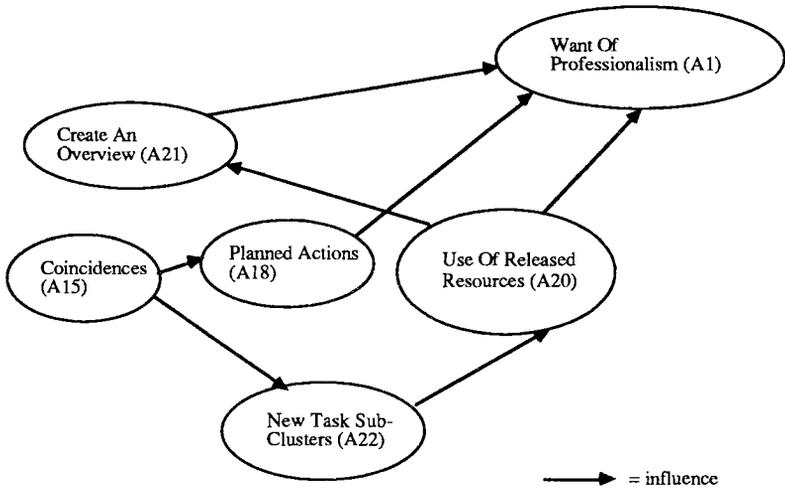


Figure 4.6 A-categories forming the B-category Emergence Of Hierarchy (B5)

The creation of new organizational positions (A22) is triggered by coincidences (A15). These positions free resources (A20) by enabling an overview of certain areas of responsibility (A21). This overview acts in favor of professionalism (A1). Coincidences may also start activities, planned in advance (A18), to increase professionalism.

This element of theory can be elaborated by going further into the data behind the A-categories, and their properties:

It is mainly within marketing that work is divided into areas of responsibility (A22 - A20). An overview is made possible through specialization and/or through more time-resources (A20- A21). The experience of want of professionalism is less severe when the firm's external image is clarified (A21 - A1). To free resources makes uncontrolled priorities in the factory less common, and also has a positive effect on professionalism (A20 - A1). (Uncontrolled priorities can disrupt communication within the firm (A7) which is an important property of Want Of Professionalism (A1)).

Emergence Of Hierarchy (B5) seems to depict a planned strategic action triggered by coincidences. This contrasts with Legitimation Of Structure (B6).

The owner/manager in Case One took over responsibility for coordinating sales and production from one of the sellers in 1979, because she wanted the sales organization to have a more professional orientation. At the same time, a male nurse contacted the firm. He ended up as a salesman in Case One. His former experience as a nurse soon led him into the health- and medical care market, which at this time was an area that Case One had decided to develop. The need for a new chairman of the board was an opportunity for the owner/manager to start the reorientation of the firm which the owner/manager saw as necessary. Part of that reorientation was to divide the market into three segments. The business area manager and the owner/manager both claim that by defining the health and medical care market as his special area of responsibility, i.e. as a "business area," these customers are treated more professionally than before and long-term issues have come into focus. To strengthen longterm strategic work in these segments even more, so called "market assistants" has been introduced as a support function under each business area manager.

Legitimation Of Structure (B6)

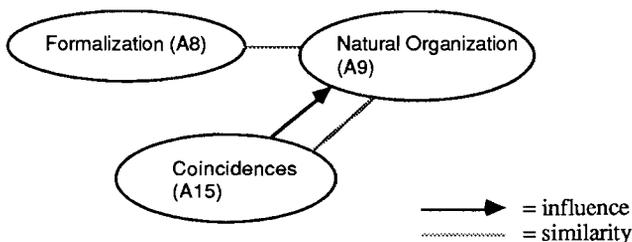


Figure 4.7 A-categories forming the B-category Legitimation Of Structure (B6)

The organizational structure of the firm is regarded as self evident and continuously changing (A9). It often gains shape through a formalization of habitual practice (A8). Both the timing and the content of these organizational changes are influenced by coincidences (A15).

Coincidences can be people that meet and part, sudden changes on the market, capricious managerial behavior and available physical space. (This category will be included in B22).

This element of theory characterizes a fated organizational development. Emergence Of Hierarchy (B5) includes also more rational arguments for organizational changes. There is a tension between Emergence Of Hierarchy (B5) and Legitimation Of Structure (B6), as two processes forming the organizational structure in small firms.

The fast growth of Case Two caused a great deal of pressure on the employees. Even though the firm tried to reduce the number of customers by raising its prices, it soon became evident that the shop was too small. The fact that the firm had reached its physical limits, and moved to larger facilities, triggered a lot of changes in the firm. One of the most important was that retailing was clearly separated from selling and implementation of larger projects and was given a show room for itself. This specialization of operations went so far that the owner/manager surprisingly terminated his retail operations and leased out the shop space to another firm.

Enactment (B7)

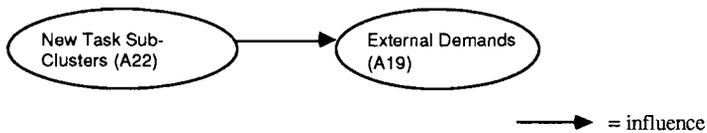


Figure 4.8 A-categories forming the B-category Enactment (B7)

By creating areas of responsibility (A22) certain parts of the firm's environment are singled out and observed (A19). This means that new demands will have effect on the firm's behavior. (This B-category is included in B21).

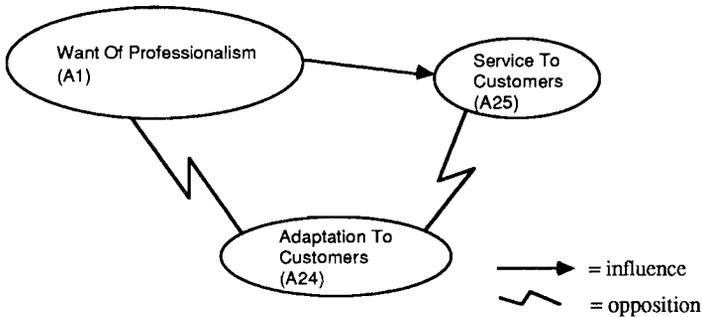
Segmentation (B8)

Figure 4.9 A-categories forming the B-category Segmentation (B8)

This B-category says that there is a limit on the number of product variations, terms of delivery, terms of payment, discounts, etc. A clear tension exists between the desire to adjust to customers (A24) and the will to give good service (A25) and to act professionally (A1). This tension can be relieved by segmentation of the market, either through Emergence Of Hierarchy (B5) or by abandoning certain customers, i.e. through specialization.

Case Two started with the ambition to give professional service to all customers, no matter whether their budget was 10:- or 100,000:-. Soon, however, they discovered that many customers came to the store mainly to get professional advice, not to buy their products. The firm had to turn some customers away because these customers prevented employees from solving larger and more urgent problems. At the end of the period studied, the firm abandoned the store altogether. Instead, they focused their operations on larger projects.

The reorganization of Case One's sales organization into three sub-markets, is another example of segmentation.

Spontaneity (C1) and Systematic Planning (C2)

If B1-B8 are put together, the result will be one interpretation of Case One. Described in a generalized language:

The goal of the firm is to work professionally, i.e. correct and smooth treatment of customer demands. A small firm with vague internal division of labor might meet this standard.

A consequence of growth is that the individual actions taken within the firm become difficult to coordinate. This leads to both internal and external misunderstandings - an un-professional behavior. This could be solved either by regulating ways of communication, or by formalizing task responsibilities.

A crucial issue is how to set priorities i.e. how to use available, but scarce resources. By setting these priorities together, in open discussions, a shared understanding of the firm and its activities - shared interpretive schemata - can develop. This in turn, facilitates the future sharing of scarce resources. The shared interpretive schemata also means that everybody can easily take on the role of mediator during the priority-setting discussions.

When the firm is small and all members have vaguely defined work tasks, everybody can act autonomously using his or her interpretive schema for guidance. Autonomy is withdrawn however, if the actions taken do not fit the interpretive schema of the leader(s).

This way of working - conditional autonomy based on shared interpretive schemata - places great demands on the internal communication between members. If communication doesn't work, customers will receive un-professional treatment. Communication break-downs also have a detrimental effect on motivation.

The growing firm will face contradictory demands. On the one hand, it wants to adapt to customer demands. On the other hand, it wants to act professionally, i.e. correct and smoothly. With customer demands being increasingly divergent, both goals cannot be met at the same time. One way of solving this problem is specialization, another is segmentation of the market. Each segment

can then be managed with the "conditional-autonomy-based-on-shared-interpretive-schemata" philosophy.

Segmentation has both mental and formal structural consequences. The creation of a formal responsibility for a sub-market means that typical sub-market features are perceived and acted upon.

The firm receives its formal structure through two different processes. The first can be described as a planned division of responsibility in order to get a sufficient overview of the firm and of its different sub-problems. The structure is planned but the timing of its implementation is determined by coincidences. The other organization process is a natural, self-evident, and in this sense, non-rational division of labor. Coincidences create a structure that is formalized retrospectively.

It is not immediately clear how this piece of theory will help us identify organization, or "organizing" processes in small firms. We can move towards this issue by investigating how the categories B1-B8 can be used to discuss the four central organizational dimensions developed in Chapter Two: The received view.

Division of labor

Work roles, i.e. division of labor, are formed through two different processes, the first of which is labeled Emergence of Hierarchy (B5). As we have seen, this category depicts a fairly planned strategic action, albeit triggered by coincidences. This contrasts with the second process which is labelled Legitimation Of Structure (B6), and which describes a fated organizational development. Emergence Of Hierarchy (B5) describes the use of more rational arguments for organizational changes. There is, therefore, a tension between Emergence Of Hierarchy (B5) and Legitimation Of Structure (B6), both being processes shaping the work-organization in small growing firms.

Coordination

The second issue, how the work is coordinated also has two answers. Perhaps the most important coordinating mechanism in the small firm, is what I have called Spontaneous Coordination (B2). This form of coordination is based on a common understanding among the organization's members about the operations of the firm. According to

my data, the development of such a common understanding is a deliberate management technique which meetings are designed to support. Think Alike (A12) is an important category to describe the reasoning behind, for instance, recruitment of new staff, introduction of formal communication links, briefings and downright indoctrination.

However, during growth, the small firm must sooner or later introduce formal administrative techniques. In order to process the increasingly complex information some kind of standardization must take place. The firm can choose between two different ways of proceeding: Information Flow Routinization (B3) or Task Routinization (B4).

This observation leads to several other questions: Do successful small firms combine formalized communication with vaguely defined work roles? What is formalized first during growth: the roles, or the communication between them? These questions are interesting but will be postponed for the moment.

Motivation

The third dimension is Motivation, but the material in my interviews is meagre indeed. This particular analysis of data has not produced any clear suggestions in any direction. Actually motivation does not seem to be a significant topic judged by the content in the relations-schema. If we move down to the A-level we find that Enthusiasm (A14) exists as an "output" or receiving node in the schema. To have a certain amount of autonomy brings enthusiasm as does a clarification of responsibilities and expectations. However, none of the interviewed mentioned the reward system as a relevant issue when talking about the growth and re-organization process investigated. This absence will be discussed later.

Institutionalization

Finally, how is the small firm institutionalized? Information-Flow Routinization (B3) and Task Routinization (B4) are of course two processes through which the firm gains a clearer shape. Viewed from the outside, the firm receives a formal structure. These two processes are planned and analytically derived activities. Often, external influences, like professionals, accountants, banks etc are important ingredients.

Growth in a small and fairly unfocused firm, implies that new types of customers, products or businesses will arise. These tend to be interpreted as opportunities. Sooner or later, however, the complexity will be unmanageable, and responsibilities and thinking patterns must be ordered - structured. The structure thus created reflects conditions, contingencies and expectations in specific market segments. Therefore, these conditions will be called "enacted" conditions. Once these external conditions have been enacted, it becomes important to solve or stand up to these peculiarities. When, and if the firm succeeds in doing this, it will find itself having the type of "distinctive competence" which is one important feature of an institution.³

Enactment (B7) of a certain market segment, however, is not necessarily either a planned activity - or an unplanned activity. The material analyzed here, however, suggests that the firm is institutionalized through a fairly planned process called Segmentation (B8).

The tension between Adaptation To Customers (A24) and the ideal of professionalism, can reach a point where further adaptation is impossible or even threatening to the firm. A solution is then to abandon certain customers, i.e. to specialize, or segmenting the market through the process called Emergence Of Hierarchy (B5).

A basic dualism

To summarize this discussion, we have found two fundamentally different types of organizing processes; one that is spontaneous, non-analytical, and sometimes surprising. This type of organizing process has especially pronounced influence on the organizational dimensions called division of labor and coordination. The other type of organizing process is planned and analytical. We might therefore introduce these conceptual categories at a very high abstract level - as C-categories - labeling them Spontaneity (C1) and Systematic Planning (C2).

There are two different ways to interpret the category of Spontaneity (C1). One way is simply to refer to it as a measurement of a model's predictive power. The underlying idea is that a model that makes good predictions does not contain factors like "coincidences," "spontaneous

³Stymne, 1970:69.

judgements" etc. These factors are instead signs of ignorance - of not yet clarified causal links in the model. Spontaneity (C1) is thus considered as a residual in the model and therefore of less theoretical interest.

This rationalistic interpretation obviously underestimates the complexity hidden in Spontaneity (C1). The properties of Spontaneity (C1) not only include pure chance, but factors like: deliberate attempts to exploit sudden opportunities, to make opportunities fit deliberate plans, and spontaneous, but nevertheless coordinated judgements based on a shared understanding of the firm (Think Alike A12).

A less rationalistic interpretation is that Spontaneity (C1) is an abstract theoretical concept which covers a number of lower-level categories, and which is necessary in understanding important processes affecting - or even forming small firms. It could be argued that a serious treatment of Spontaneity (C1) is needed simply because it is a significant empirical observation.

One of the business area managers in Case One was formerly employed as a nurse. He wanted to change employment however, and opened up the telephone directory. Starting from letter "A" he phoned companies he thought might be interesting places to work - he ended up as salesman in Case One. His former experience as a nurse soon led him into the health- and medical care market, which at this time was a less developed area for Case One. Because of his artistic interests, he also became responsible for the firm's marketing activities. Since he had several contacts with Norway, Case One also started exporting their products to Norway.

Framework guided search - Case One⁴

The framework guiding this analysis of Case One was the received view of organization, as described in Chapter Two. Four basic concepts were elaborated with the help of A-categories from Case One, namely: division of labor; coordination; motivation and institutionalization.

⁴This technique of analysis is presented on page 101.

Division of labor

The following A-categories were selected as reasonably relevant for a discussion about division of labor mechanisms:

Vague Work Tasks (A2)	Think Alike (A12)
High Degree Of Independence (A3)	Conscious Strategy (A13)
Connecting Link (A4)	Coincidences (A15)
Receive Responsibility (A5)	Own Buffer/Let Others Set
Take Responsibility (A6)	Priorities (A17)
Lack Of Communication (A7)	Use Of Released Resources
Formalization (A8)	(A20)
Natural Organization (A9)	Create An Overview (A21)
Conditional Freedom (A10)	New Task Sub-Clusters (A22)
	Internal Flexibility (A23)

Together they formed a cause-map made up of four independent sub-clusters that were identified and interpreted in the following way:

Clarifying (B9)

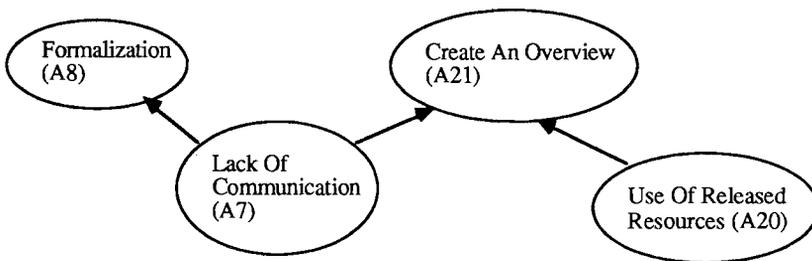


Figure 4.10 A-categories forming the B-category Clarifying (B9)

The small firm's division of labor is often vaguely defined or at least vaguely communicated (A7). This might increase flexibility, but can also lead to misunderstandings and duplicated work. Responsibilities and communication in the firm are therefore clarified or even formalized (A8) in order to understand or control what is going on (A21). To create this overview demands special resources (A20).

Case One experienced problems with the coordination of sales and production. Often sellers failed to communicate with each other and

with the factory. It happened, for instance, that a seller promised prompt delivery to a customer, not knowing that the product had run out of stock. Sometimes, customers were promised product modifications which were both costly and difficult to produce. To solve these problems, one employee was given the responsibility to facilitate the coordination between sales and the factory. He became responsible for "purchases and product development."

The content of this category is already captured in Information-Flow Routinization (B3) and Task Routinization (B4).

Reacting (B10)

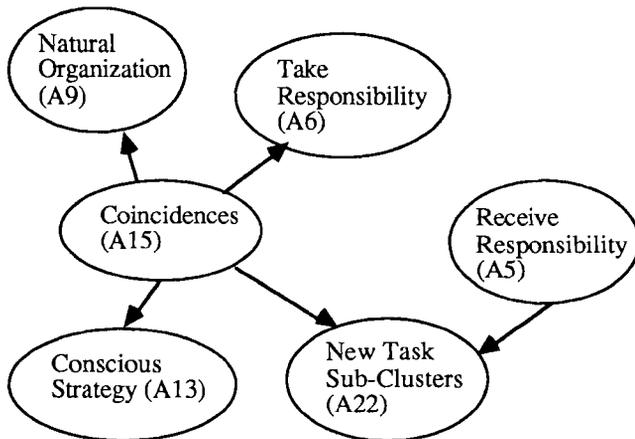


Figure 4.11 A-categories forming the B-category Reacting (B10)

Reacting (B10) resembles Legitimation Of Structure (B6). Here, the basic source of energy is Coincidences (A15). Sudden unforeseen incidents directly, or indirectly - by triggering pre-conceived strategies (A13) - determine how work is divided. The actual division of labor (A22, A5) is perceived as a "natural" process (A9).

When the chairman of the board in Case One emigrated, his successor initiated a market research project. Based on the report from that project a "brainstorm-session" took place where the firm's position on the market, its products, image and business concept were discussed. The result was a major reorganization of

the firm. The most radical change was that the firm's sales activities were divided into three relatively autonomous areas of responsibility. Afterwards this new organization was described as a "formalization of how we've always worked." The psychological effect of this clarification of responsibilities was reported to be substantial, however.

Many of these properties are included in Natural Organizing (B22), below.

Detaching (B11)

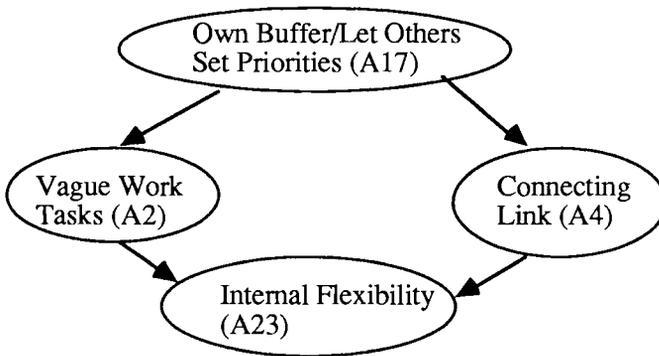


Figure 4.12 A-categories forming the B-category Detaching (B11)

A special case of division of work occurs when members dissociate themselves from mutual problem solving and let others set necessary priorities (A17). This makes other members uncertain about their responsibilities (A2) and creates a need for some kind of connecting link (A4) between the separated parties. This mechanism, if it works, will keep internal flexibility possible (A23).

The clear separation between production and sales in Case One implied that production problems and sales problems, to some extent, could be solved separately. On the other hand, this arrangement placed high demands on those working as mediators or connecting links between production and sales: the owner/manager and the man who was responsible for purchases and product

development. These two often had to find solutions to problems involving conflicting interests in the firm. These two were also the ones who had the greatest difficulties in describing and defining their work tasks and responsibilities.

It happened on two occasions in Case Two that the owner/manager announced that he should leave the firm and start something new on his own. This started discussions among the employees about their autonomy and internal division of labor. The owner/manager also referred to instances where cooperation between employees suddenly broke down, and each one worked strictly with only their own customers or projects. These situations demanded that someone take a mediator's role.

Independence (B12)

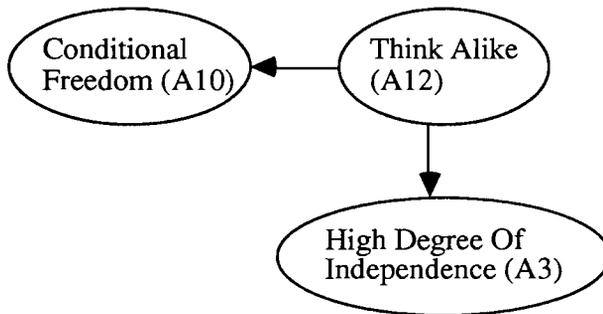


Figure 4.13 A-categories forming the B-category Independence (B12)

Finally, Independence (B12) describes subjective experiences of the present division of labor. If this division of labor is based on a mutual understanding of the firm and its goals, image, etc. (A12), then the individual will experience a high degree of independence and autonomy (A3). On the other hand, this independence is withdrawn when actions are taken that do not fit into this common understanding, or when mistakes are made (A10). The cluster is very similar to Spontaneous Coordination (B2).

Coordination

The following A-categories were selected as reasonably relevant for a discussion about mechanisms supporting coordination:

Want Of Professionalism (A1)	Think Alike (A12)
High Degree Of Independence (A3)	Set Priorities Together (A16)
Connecting Link (A4)	Planned Actions (A18)
Receive Responsibility (A5)	Create An Overview (A21)
Formalization (A8)	New Task Sub-Clusters (A22)
Conditional Freedom (A10)	

The corresponding cause-maps were made up of two independent clusters:

Goal-Setting (B13)

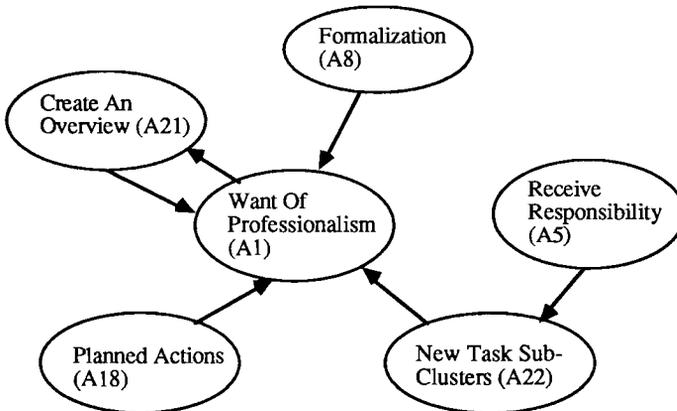


Figure 4.14 A-categories forming the B-category Goal-Setting (B13)

The head of the firm coordinates activities by deliberately (A18) reinforcing the goal of professionalism (A1). The fact that this ideal is well-circulated and accepted in the firm has a coordinating effect in itself. For the manager, it is also a way to reach an understanding of the firm, which is an important goal (A21). Organizational measures, such as formalization (A8) and new areas of responsibility (A22), are also used for coordination which aims for professional appearance.

One part of the reorganization in Case One was to give the so called business area managers profit responsibility. This decision implied a lot of changes in these persons - former sellers - worktasks. A new task that was mentioned was participation in the formal budget process, and in performance appraisal meetings.

Consensus (B14)

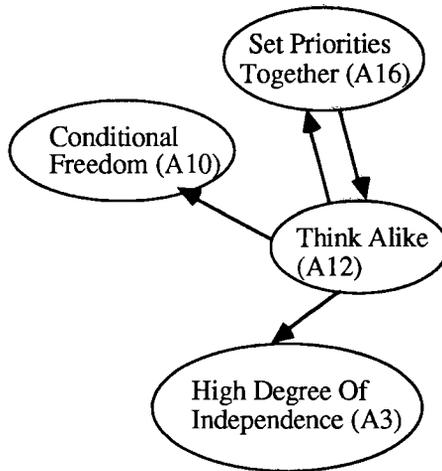


Figure 4.15 A-categories forming the B-category Consensus (B14)

This cluster is equivalent to Spontaneous Coordination (B2).

Motivation

To describe motivation the following A-categories were selected:

Want Of Professionalism (A1)	Think Alike (A12)
Vague Work Tasks (A2)	Enthusiasm (A14)
High Degree Of Independence (A3)	Create An Overview (A21)
Lack Of Communication (A7)	Service To Customers (A25)

The corresponding cause-map consisted of two independent sub-clusters:

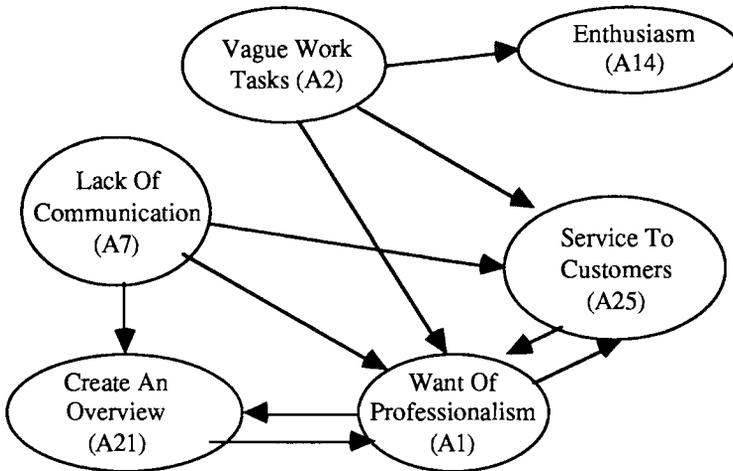
Uncertainty/Creativity (B15)

Figure 4.16 A-categories forming the B-category
Uncertainty/Creativity (B15)

Vagueness has two different faces. On the one hand, it resembles autonomy and independence and in this sense it can be highly motivating. On the other hand, vagueness, especially if it is paired with a lack of internal communication (A1, A7, A25), can also mean confusion. The employees and the owner/manager want to do a good job. Confusion is therefore highly un-motivating.

One of the employees in Case Two described the frustration she experienced as a new employee. She wanted to learn which combinations of wallpaper, curtains, colors, etc. that made a nice aesthetic impression. Instead she was encouraged to try it out by herself, and her suggestions were criticized in, she thought, a highly esoteric and confusing language. On the other hand, one of the more experienced employees was asked by the owner/manager to decide colors for the interior of his summer house. His only specification was that it should be "something extra." She obviously understood what he meant because he claimed afterwards that he got exactly what he had envisioned.

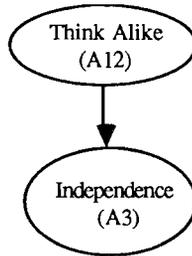
Identification (B16)

Figure 4.17 A-categories forming the B-category Identification (B16)

Identification (B16) means that members are motivated when they share the same understanding of the firm (A12) and therefore can act autonomously (A3), as if they worked for themselves. The cluster and its properties are already included in Spontaneous Coordination (B2).

One of the employees in Case Two used the metaphor of Jesus Christ and his disciples, to describe her relation to the firm. The owner/manager (Christ) had developed a business concept (the gospel) which she and the other employees (the disciples), after due preparation and training, now gladly spread all over the world. To work in the firm was described as missionary work.

A less extreme example can be taken from the interview with the production manager in Case One: *I'm free to make my own decisions. I know how the owner/manager thinks and I act accordingly.*

Institutionalization

Finally, the following A-categories were selected to describe the mechanisms through which the small firm is integrated into its environment:

- | | |
|------------------------------|-------------------------------|
| Want Of Professionalism (A1) | Coincidences (A15) |
| Natural Organization (A9) | External Demands (A19) |
| Sufficient Size (A11) | Adaptation To Customers (A24) |
| Conscious Strategy (A13) | |

This selection's corresponding cause-map also consists of two independent sub-clusters:

Being Fickle (B17)

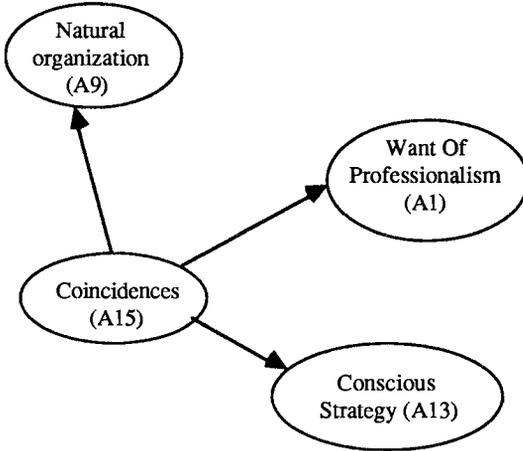


Figure 4.18 A-categories forming the B-category Being Fickle (B17)

Sudden unforeseen events in the environment trigger strategic actions that affect the performance of the firm. Since these events are caused by factors out of the firm's control - factors called "coincidences" - the process is perceived as a natural one. The category is similar to Reacting (B10) and is included in Natural Organizing (B22), below.

Adaptation (B18)

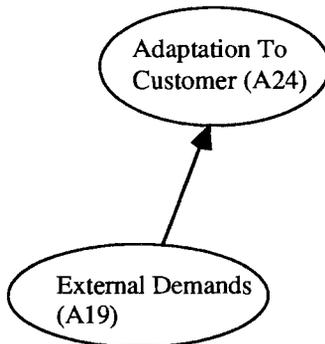


Figure 4.19 A-categories forming the B-category Adaptation (B18)

This B-category says simply that the firm tries to adjust itself to customer demands, as they are perceived. (This category is included in B21).

Sensemaking (C3)

If B9-B18 are put together into a connected piece of theory, the following reflections could be made:

In the small firm it is important to perform, feel and think as a team. Division of labor, coordination and motivation are thus highly overlapping features, and refer back to a common sensemaking process.

The division and delegation of work tasks in the small firm is based on a common understanding of its basic goals and ways of conduct. This sharing of the same picture is achieved first by clarifying it. Thus, "organizing" results from collective sensemaking. Borders and interdependences between people become evident during this clarification, or definition of responsibilities. If the totality and its parts are comprehensively defined and accepted, individuals will find great autonomy in their work; they will, "by themselves," understand what needs to be done. Conscious efforts and resources are being put into this clarification of the mental picture.

However, this sharp picture is continuously being blurred, balance is upset, and order has to be re-created within the firm. One special case is when members of the firm narrow their perspective and start to optimize their own immediate interests. This can happen, for instance, during periods of heavy workload. Other upsetting events emanate outside of the firm's control. Then restoration of balance is an immediate reaction to these events. The new order has been caused by coincidences. Sometimes the new order or balance reflects a conscious restructuring of the mental picture. (We recognize the distinction between Spontaneity (C1) and Systematic Planning (C2)).

Coordination is achieved through similar mechanisms. By clarifying, and reaching agreement and commitment to organizational goals, coordination with others becomes a natural aspect of work.

Division of labor and coordination in the small firm are described according to this view, as intimately connected activities. Division of labor is, in fact, an effort to create coordinated action. The similarity between the two is not accidental, it is their separation which is artificial. To divide work into well-defined sub-tasks, as we have seen, is a way to make sense of a complex phenomenon, and develop a complex understanding. Division of labor and coordination therefore have many similarities to a learning process.

The elaboration of concepts and theories within a specific area is in no way an obstacle to the sensemaking process. In fact, one often reaches a deeper understanding by using a complex language. Understanding might even be obstructed if the tools (=concepts) are too few and too simple. Similarly, division of labor, even though it implies organizational elaboration, is not contradictory to decreased complexity. In fact, division of labor is in itself an important tool for coordination.

Likewise, it seems artificial to make a distinction between coordination and motivation. To share the same understanding of the firm and its conduct, is in itself motivating because it creates a sense of community in the firm. It also means that each member can act autonomously. This autonomy is however a two-edged sword. On the one hand, it is motivating to see how one's own free actions contribute to the goal one appreciates. On the other hand, this individual autonomy might develop into confusion for the group as a whole - which decreases motivation.

Institutionalization also functions, like division of labor, as a sense-making activity, but is now concentrated on the firm's relation to its environment: that is, the firm receives - the process is mainly passive or non-deliberate - a place on a market or societal level, within a larger system of the division of labor.

In summary, the framework-guided search leads us to include Sensemaking (C3) as a crucial category when we discuss the organization of small firms. To name this concept also implies a critique of the division of the categories of division of labor, coordination, motivation and institutionalization, as four separate features of the organizing process.

Cause-map sub-cluster identification - Case One⁵

This technique for analyzing the relations-schema from Case One, identifies isolated, or semi-isolated sub-clusters of A-categories in a slightly reduced relations-schema. The exercise resulted in the following B-categories:

Flexibility/Confusion (B19)

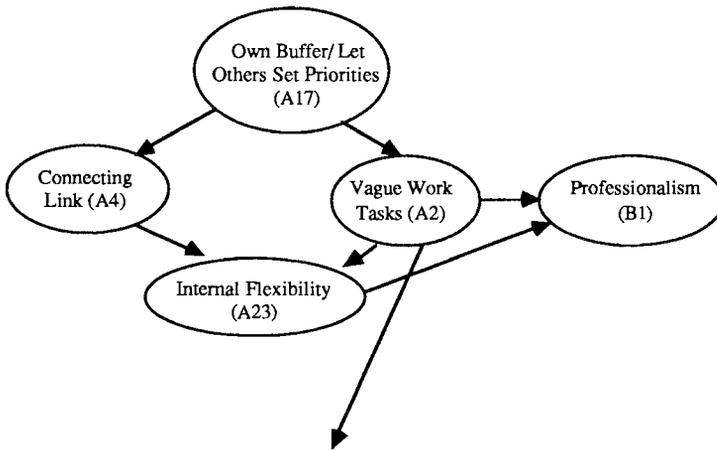


Figure 4.20 A-categories forming the B-category Flexibility/Confusion (B19)

When people act in egocentric ways (A17) in an organization where the division of labor is already vague (A2), confusion will result. A strong need for "mediators" or connecting links will arise (A4). These links might retain one positive aspect of vague work tasks: flexibility (A23). Confusion, however, is always perceived as malfunctional (A17 - B1). The category has many properties in common with Detaching (B11). It also has obvious similarities with Uncertainty/Creativity (B15), and does not add any specific theoretical properties.

⁵This technique of analysis is presented on page 103.

Sensemaking (B20)

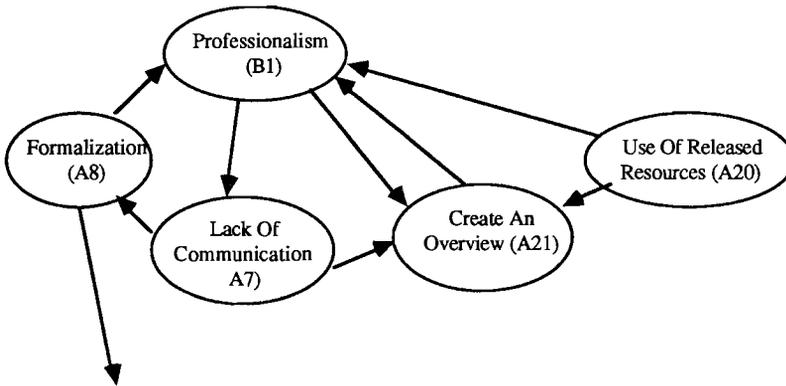


Figure 4.21 A-categories forming the B-category Sensemaking (B20)

Lack of communication (A7) and an un-professional treatment of customers (B1) creates confusion in the company and accordingly, a need to create an overview (A20 - A21). One way of doing this is through a formalization of information channels (A8). Another way is to devote more time and money to sensemaking (A20).

In Case One, I heard people in the factory talk about themselves as "us" and the employees at the head office in Stockholm as "them": "We try to produce what they come up with, but we must defend our own interests." This was described by one seller as a difference in mentality. He tried to overlap this difference by going to the factory and talking with the workers about marketing issues and his customers. Once a year, the firm hired a physician to give a lecture on hygienic demands and issues concerning sterilization of the firms products. Both these examples illustrate deliberate attempts to make the factory workers think in a more market oriented way.

Sensemaking has already been thoroughly discussed as Sensemaking (C3) above.

Enactment - Selection - Retention (B21)

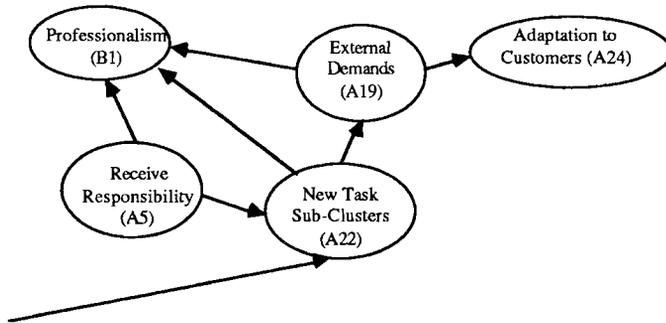


Figure 4.22 A-categories forming the B-category Enactment - Selection - Retention (B21)

New task sub-clusters (A22) can be defined through a formal decision-making process (A5). This new task-cluster focuses attention on new aspects of the firm's environment (A22 - A19). This may lead to changes in the firm's products or administrative routines (A24), sometimes resulting in a better service to customers (B1). The label "enactment - selection - retention" is chosen to refer to the ideas of Weick, who developed these concepts in detail.⁶

The owner/manager in Case Two discovered that there was a potential market for short courses in home decoration. He developed such a course and sold it to his customers. When doing this he also discovered that the larger chains of retail stores sometimes sent their shopkeepers to these courses. However, these students needed to adapt the content of the course to their own range of products. Case Two therefore developed a special course for these retail chains. To offer short courses in home decoration and coloring developed into an important part of the firms operations.

⁶Weick, 1979:131-132. See also the discussion of "the alternative view of organizing" in Chapter Two.

Natural Organizing (B22)

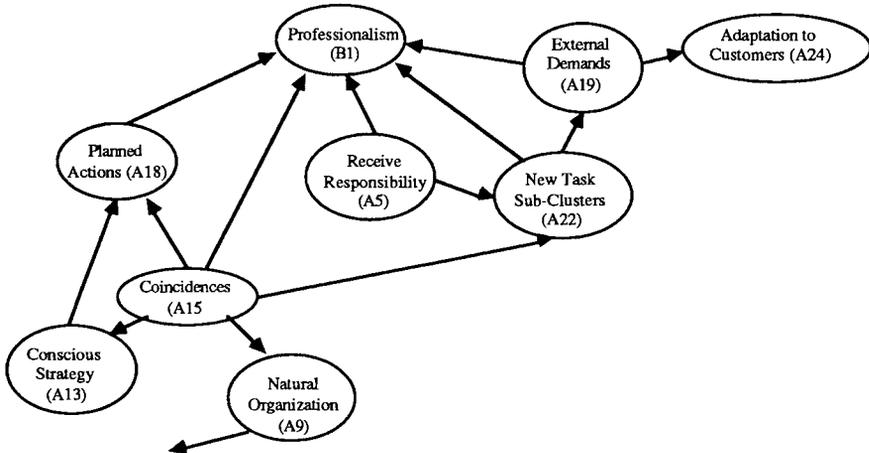


Figure 4.23 A-categories forming the B-category Natural Organizing (B22)

This B-category is an extension of Enactment - Selection - Retention (B21). What is added, is the observation that coincidences are of crucial importance (A15). Coincidences trigger, or affects in some other way, more consciously planned decisions and actions (A13, A18). Coincidences has also a strong impact on how new task-clusters are defined (A22). The organization of the firm is accordingly perceived as a "natural" process.

Spontaneous Coordination (B23)

This category is identical with Spontaneous Coordination (B2).

Adaptation (C4)

As we have seen, many of the links and categories developed above were already identified in the earlier analysis. The theoretical "value added" from the cause-map sub-cluster identification can therefore be restricted to the meaning of Natural Organizing (B22); which also includes Enactment - Selection - Retention (B21).

In some aspects, this category merely repeats the content of Emergence Of Hierarchy (B5) and Legitimation Of Structure (B6): both planned and unplanned events influence organizing processes in the firm. What is clarified here, is that no matter whether the initiative comes from within the firm (a decision to create new responsibilities), or from outside the firm (Coincidences), the firm will adapt itself to new demands and aspects of its environment. From the point of view of members of the organization then, organizing in the firm is more or less a determined or fated process, and freedom of organizational choice must be questioned. Adaptation (C4) is therefore included in the emerging theory and covers these aspects. It has special relevance to the institutionalization process.

Centrality-based search - Case One⁷

Centrality-based search meant to identify those A-categories with more than three influence links to other categories. These A-categories were considered to be "central" concepts in the conceptual space called the relations-schema from Case One.

Goals

The central goal-categories were Want Of Professionalism (A1), Enthusiasm (A14), Create An Overview (A21) and Service To Customers (A25). According to this method of analysis then, organizing in the small firm has two distinct goals. The first goal is Professionalism (B1) having the same meaning as above: "access to frictionless internal administrative routines, a clear and firm outward profile, and most important of all, a quick and accurate response to customers requests" (A1, A25, in other words B1). The second goal is to make sense of a complex and messy activity (A21), what above we have called Sensemaking (C3). Enthusiasm (A14) is often the result of such a clearing up of confusion, or sensemaking, through Formalization (A8), for instance.⁸

⁷This technique of analysis is presented on page 105.

⁸See the definition of Enthusiasm (A14), page 104.

Causes

The cause-categories found through this method could be thought of as one set of mechanisms which trigger or fuel organizing processes in small firms. In the way cause-categories are defined here, they make up a large part of what activates the relations-schema, and thus, what causes changes in the firm.

Vague Work Tasks (A2), Lack Of Communication (A7), Coincidences (A15) and Own Buffer/Let Others Set Priorities (A17) form a homogenous group of causes. All describe mechanisms through which confusion, uncertainty and/or autonomy are generated in the firm. We might therefore introduce Confusion (C5) as a central category causing organizing processes in the small firm. Note that only Coincidences (A15) emerge from outside the firm, other cause-categories are derived from internal factors.

The two remaining causes are diametrically opposed. Formalization (A8) is an "empty" and thus symbolic action, but nevertheless necessary. The other category, Think Alike (A12) is not a symbolic activity but an invisible one. To think alike, or to have similar interpretive schemata, facilitates coordination, increase autonomy and makes work meaningful. However, both Formalization (A8) and Think Alike (A12) have a normative impact on the firm, and belong to the group of activities captured by Sensemaking (C3).

Confusion (C5)

From this analysis it seems reasonable to include a C-level category, which we call Confusion (C5), to summarize a powerful reason for organizing processes in the small firm. Confusion (C5) is thus the counterpart to Sensemaking (C3). To give meaning to this category we might refer back to Weick's definition of "organizing" as:

...a consensually validated grammar for reducing equivocality by means of sensible interlocked behaviours.⁹

Confusion (C5) is thus a category which clearly belongs to the

⁹Weick, 1979:3.

alternative view of organization since it refers to the very reason for sensemaking processes (organizing) in the first place.

Summary of the analysis of Case One

A total of 23 B-categories were developed as a result of employing these different analysis techniques on data from Case One. However, several categories were so similar that a reduction in number was possible. By eliminating those categories that were similar, or included in other categories, 10 B-categories remained. They are:

Professionalism (B1)	Segmentation (B8)
Spontaneous Coordination (B2)	Detaching (B11)
Task Routinization (B3)	Goal-Setting (B13)
Information Flow Routinization (B4)	Uncertainty/Creativity (B15)
Emergence of Hierarchy (B5)	Natural Organizing (B22)

After this extensive analysis and discussion of Case One, I found no reason to abandon my initial view of the firm as a goal directed organization. I found that *professionalism*, i.e. a smooth treatment of customers and a more or less frictionless internal administration could be used as a general formulation of the goal. Naturally, this must be combined with a restriction. No firm can survive with a long-term deficit. The other nine B-categories describe organizing sub-processes.

My initial framework, which built on four central organizational dimensions: division of labor, coordination, motivation and institutionalization, must, however, at this stage be criticized and reconsidered. I found it hard to distinguish between division of labor and coordination as two separate sub-processes within a larger organizing process. Rather, division of labor and coordination should be considered as highly integrated activities of a cognitive nature. The elaboration of the organization (creation of special areas of responsibilities and certain sub task-clusters) is a way in which the organization's members capture more and more of the total complexity of its mission; the creation of a shared meaning presupposes a sufficient level of complexity. If the organization is too simple, its members will only be confused. This cognitive process is perhaps best captured if we recognize it as a learning process.

My ambition to subdivide the organizing process into division of labor and coordination as a tool for analysis did not work. It was not a theoretical meta-structure with which I could sort my data. To treat motivation as a special organizational dimension also met with problems. The interviews did not contain statements about "motivation." Instead, data had to be forced under this heading, something which I wanted to avoid.

Much more relevant concepts than those reflected in this set of four organizational dimensions were "confusion" and "sensemaking" and their derivatives. Instead of speaking about "motivation," for instance, one could use the word "meaningful jobs." This concept includes the appreciation of material compensations for physical and psychological sufferings, but retains its main connotations to the word "meaning." For example, there is for me, a significant meaning in doing this job. To organize work in this way seems meaningful. Or the opposite, why am I doing this? These statements come closer to approaching the way people think and argue, than any statements based on a separation between division of labor, coordination and "motivation."

Institutionalization might be used, for analytical purposes, as a separate organizing sub-process. It was defined as a process through which the values expressed in the firm's identity, or profile, are put in accordance with the firm's environment. The discussion of Case One suggests that the firm is fairly passive in this process - it adapts itself. Actors in the environment, or actors in the firm when they view themselves from an outside perspective, have certain expectations about the firm. These expectations include explaining how the firm "makes sense" from a broader perspective. When the firm tries to meet these expectations, the firm is accordingly "institutionalized." The firm perceives no real choice in this. Its "institutional" character is "natural."

Two other fundamental categories developed in this chapter were: Spontaneity (C1) and Systematic Planning (C2). Together they form a cognitive dilemma for the practitioner as well as for the theorist. Some phenomena in small firms can be described as the result of a stepwise reasoning about alternatives. Other phenomena can only be understood as spontaneous responses to unforeseen events; responses reached with a minimum of reason.

To summarize, the organization of the small growing firm is driven by a mental development. This mental development starts from a state of

confusion and moves towards a sensemaking understanding of the firm, its activities and its environment. The development takes place within a cognitive paradox or dilemma. Sometimes it can be described as a systematic search, analysis and choice of alternative ways of acting. At other instances, sudden events within or outside the firm have decisive effects on the firm's organizational structures. We can also say that the small firm reaches a clear understanding of its situation through two diametrically different processes, one spontaneous, the other systematic.

Case Two

Case Two was founded in 1981 by two entrepreneurs who left their former employer. Both were around 40 years old and had long experience in the industry. They started a shop for home decorating products but very soon they also began to carry out larger projects like furnishing and decorating entire houses and offices. One of the founders left the firm soon after the start-up.

The original shop was situated in a part of town distant from the main shopping area. Despite this fact, the shop managed to attract a large number of customers. It soon got a reputation of being "something extra." The present owner/manager explains the success with his business concept. While most other shops in this business specialize on a certain range of products like paint, wallpaper, textiles or furniture, Case Two offers a wider assortment of these products. The customer can come in and buy a whole package, although the staff prefers to talk about selling "milieu," "solutions" and "happiness" instead of products and "packages." In fact, this way of talking about the firm's products is illustrative. The firm wants to have an image of selling good advice, good taste and "experiences," rather than tangible products.

The industry as a whole has experienced a period of decreasing demand. Suppliers and retailers have cut prices to sustain volume, which has led to severe financial problems. Case Two followed another strategy. Instead of cutting prices, they have combined the selling of products with a service-content, i.e. a professional ability to combine colors and design interiors. This business concept rather than price competitiveness explains the firm's success.

Being one of the few to succeed in this industry, Case Two has been

approached by several large suppliers and business organizations with offers of cooperation. The owner/manager is often called in as consultant by these organizations. He also produces and sells short courses and gives seminars.

The first year's turn over was less than 600,000:- and the firm did not employ anyone except the two owners. Seven years later, it employed 11 (mostly young) people and the turn over was 12,000,000:-. By then it was active in several different areas including retail, wholesale, consulting and education. The firm also carried out total contracts through hiring and managing subcontractors.

The history of Case Two is full of examples of ambivalence between the willingness to grow and the temptation to harvest. The owner/manager is also uncertain about what part (if any) of his business to expand. The business concept gives some guidance about the firm's image, and ways of conduct, but does not state in what form it shall work - if it is a retail, wholesale or consulting firm for example. The consequence of this ambiguity has been that some projects, customers and "coincidences," have had a decisive influence on the company. Its development - however successful - has not been consciously planned.

A constant source of problems and conflicts in this firm is its administration. Since most staff members, including the owner/manager, have interior decorating as their main interest, paper-work is seen as an inferior task. A clear distinction is drawn between "producers" and "consumers" in the firm, the administrative personnel defined as belonging to the latter. During the firm's seven years of existence, 6-7 different people have worked on this (single) post. Most of them have been fired. The present accountant is the fourth. Today, all paper work is delegated to a professional service company.

At the end of the period studied, an attempt was made to concentrate the focus of the company and to formally organize it along functional lines. This was a consensus decision on which everybody agreed. A decision was taken that retail should be dismissed. The basic work flow was to be divided between the staff members, each having his/her own functional responsibility (marketing/selling, coloring & design, implementation/project management, administration). Teamwork had to be developed.

These decisions meant a major strategic change for the owner/manager.

First, the root of the company - retail - would be abandoned. Second, the clear delegation of responsibility to his subordinates meant a change in his, so far, patriarchal style of leadership. Third, individual budgets were to be replaced by a total budget for the whole firm. Teamwork was substituted for individual performance.

Introduction to the analysis of Case Two

With the exception of two categories, A-categories from Case One were used in order to cover the data in Case Two. The general impression was that considering the difference between the cases and the different techniques for data collection, the old A-categories fit the new data surprisingly well.

The two categories, Connecting Link (A4) and Own Buffer/Let Others Set Priorities (A17), were not considered relevant for this case. These categories were used in Case One to describe the organization when it had been divided into relatively independent sub-units. Coordination of these sub-unit activities was sometimes made through a connecting link, i.e. a person having a position which involved close contacts with both "parties." Actions taken solely on the basis of an individual or sub-unit rationality, were described by the category Own Buffer/Let Others Set Priorities (A17). This phenomenon is usually called suboptimization in the literature. It was obviously the very small size of Case Two that made these two categories redundant.

However, the variety of data from Case Two could not be included into the analysis by simply using the remaining 23 A-categories from Case One. Fifteen new categories were generated. Most of them were connected to the goals and strategies of the owner/manager. Many categories described aspects of the confusion of person and firm. An interesting question is, of course, why these additional categories were needed in Case Two but not in Case One. Part of the explanation is methodological. The very long and personal talks I held in Case Two, revealed more of the owner/manager's inner reasoning than the interviews conducted in Case One. The longitudinal design made it also possible to study reconstructed logics. The development of Case Two, therefore, did not appear as conscious and as "simple" as that of Case One. Still, a comparison between these two cases suggests size-related explanations.

Generation of more A-categories

The following A-categories were added as a result of coding interviews from Case Two:

Generate Coincidences (A26)	Networking (A34)
Personal Organization (A27)	"Choose" Opportunity (A35)
Have Fun (A28)	Recruiting (A36)
To Deviate (A29)	Motivating (A37)
Withdrawal (A30)	Liquid Capital (A38)
Each Man A Cost (A31)	Secret Dealings (A39)
Diversification (A32)	Free Rider (A40)
Selfsustained Organization (A33)	

The small size of Case Two made it possible for the owner/manager to take full responsibility for every significant decision in his firm. He made no distinction between his firm's appearance on the market, and his own person (Personal Organization A27).¹⁰ If he signed a contract on behalf of his firm, he made a personal commitment. If his firm, or his counterpart were to fail later on, he would feel personally ashamed, or deceived. If the firm was successful, he would feel clever and talented. Delegation of responsibility took place after a long period of "indoctrination" - as one of the staff said: "What I actually sell here is (the owner/manager) himself."

This confusion of person and firm was an interpretive schema of major significance. First of all it meant that the owner/manager was emotionally involved in the firm 24 hours a day. On the occasions that I observed him during private dinners and parties, he constantly discussed his firm and its business philosophy. He also told me that most of his best business contacts were discovered through friends, and on occasions like these where he "spread the word" (Generate Coincidences A26).

Secondly, he denied himself a high salary saying that the firm could not afford it. The fact that he earned considerably less as an entrepreneur than as an employee was irrelevant to him. The argument that he was financially compensated through the increasing value of his firm is not necessarily true either. It is doubtful that any buyer would be interested in a firm so dependent on and dominated by one man. The firm has

¹⁰This confusion of person and firm is described and discussed in detail by Beckéus & Roos, 1985 e.g. page 37-38.

very little substantial value such as machinery, liquid capital, stocks, patents etc. The dominating asset is the knowledge and enthusiasm of the owner/manager. This knowledge could hardly be sold on an open labor market. This asset, in order to be mobilized, might demand a particular organization - a small and fully owned firm. If this is true, the person/firm confusion in this case, makes traditional micro economic explanations lose much of their explanatory value. Other driving forces, such as professional appearance or "having fun," replace these explanations (Have Fun A28).

Third, strategic decisions are not always based on a rational analysis. On one occasion the owner/manager met with the chief executive of one of the largest companies in this industry. The meeting was set up to discuss forms of cooperation between this company and Case Two (Networking A34). The owner/manager of Case Two left the meeting and refused cooperation because of personal dislikes. As he later explained to me: "I said to myself: Do I really want to work with that jerk? No! Some kind of love and passion must be there. That's what develops your firm and make things work. If it's not there, it will never work."

Fourth, financial issues were described as liquid payments - to put it figuratively - money spent was perceived as taken from the pocket of the owner/manager (Each Man A Cost A31, Liquid Capital A38). As long as the person/firm confusion was at hand the owner/manager could see himself engaging in some black-market transactions (Secret Dealings A39). However, when outlining the future of the firm as a self-sustained, "real" firm, such transactions were regarded as obstacles. A "real" firm was a self-sustained firm without any secret dealings whatsoever.

It is easy to maintain the person/firm confusion in a very small firm, like in Case Two. Case One, on the other hand, with its 90 employees and rather autonomous middle-managers, makes a public appearance "of its own." The owner/manager might have the formal, but not the psychological, responsibility for all the firm's activities - partly because he does not know about them. Interestingly enough, this is a state that the owner/manager of Case Two sometimes longed for. As part of the struggle to act professionally - which was the main conscious goal, just as it was in Case One - he tried to make the firm behave independently (Selfsustained Organization A33). He dreamt about a future where the firm was a self-sustained unit, which was defined as a firm where

everybody was a copy of himself. Then he would withdraw from the firm and live the good life (Withdrawal A30). This withdrawal from the firm is, of course, a bright contrast to the person/firm confusion described earlier, and reflects a cognitive dilemma. To maintain the idea of programming the staff to behave like him was a way to reduce this dilemma. During the time of study, the owner/manager actually made several attempts to withdraw from the firm, but each time he returned.

Several additional A-categories were needed to describe the "strategies" used.¹¹ One was mentioned above: Create Coincidences (A26). The owner/manager tried consciously to expose himself and his business concept as much as possible: in his shop, as a member of different trade organizations, in interviews with trade magazines, as a lecturer, when meeting friends etc. When a project had ended and was formally handed over to the customer, he usually held a short lecture explaining the philosophy behind both the particular project and his firm. This exposure resulted in uncontrolled effects - sudden events - or opportunities - which he could exploit. I refer to these events as "coincidences," because they were perceived as such by the owner/manager and his staff. The "deliberate" strategy was to increase the probability of a coincidence.

Coincidences played an important part in shaping the structures in both Case One and Case Two. Case Two deliberately tried to create coincidences. This strategy was paired with the "scanning-the-market-and-taking-advantage-of every-opportunity-strategy" (Diversification A32, To Deviate A29) which, however, was a non-deliberate, or "emergent," strategy. It was simply the way in which the firm operated. Together these two strategies formed an interesting mechanism that helped shape the firm.

The owner/manager in Case Two did not have a clear idea of what kind of business activities he should engage in other than the decorating business. In order to survive, in the beginning, he had to accept any order or task. Not surprisingly, these tasks were of all kinds since he, at the same time, was involved in "creating coincidences." The result was that the firm became a hyper-sensitive market actor. The firm's history

¹¹"Strategy" is a problematic concept since it has an instrumental-rational overtone that does not correspond to the reality of the (this) small firm manager. To solve this problem, I will adopt the definition used by Mintzberg: *Defining a strategy as a pattern of decisions, our central theme has been the contrast between "deliberate" strategies, that is, patterns intended before being realized, and "emergent" strategies, patterns realized despite or in the absence of intentions* (1979b:582).

was then one of slow focusing. What happened was that, during the three years of study, Case Two was led into a most profitable market niche: exclusive high-fashion interiors. This did not happen because of an analysis of the market, but through a trial-and-error process.

During the time of study, the owner/manager made some deliberate strategic decisions. These were often reactions to sudden opportunities. But many times a strategic alternative could linger on for years, and gradually become a "natural" part of the firm - or fade away. The owner/manager had great difficulties describing why certain alternatives developed into major changes for the firm ("Choose" Opportunity A35). Events in the firm's environment made some alternatives more attractive, and gradually the firm changed. On other occasions, vague ideas were sharpened in discussions with others.

Another "strategic" pattern is captured in the category Free Rider (A40). It describes situations where someone profits from using others' resources. The owner/manager himself regarded this as a prime goal when negotiating with potential business partners. For instance, when he rebuilt his office, he made the firms he represented pay for most of the costs - as a marketing activity. The category has also another property. A source of constant irritation was when staff members used this strategy but turned it inwards - and became free riders within the firm. This was reported to be a phenomenon directly related to increased size. As soon as more people were employed, someone always turned into a free rider from time to time.

In addition to the A-categories described so far, two categories were generated that describe issues related directly to the staff: Recruiting (A36) and Motivating (A37).

Recruiting - and dismissal - were major concerns during the period studied. It was clear that people were employed in order to facilitate an overview of the company either by relieving the pressure on the staff, or by separating a specific set of tasks into a new area of responsibility. Recruiting issues were always discussed together with the categories Think Alike (A12) and Have Fun (A28) - the atmosphere in the firm had to be sustained despite new members.

Motivating (A37) the staff included both direct payments (Each Man A Cost A31, Liquid Capital A38), and immaterial benefits (Having Fun A28).

Adding properties to the B-categories from Case One

One of the questions present during the collection and coding of data from an additional longitudinal case, was whether this additional data could be used to add properties to available categories. These elaborations will be presented below. The general impression was, however, that Case Two supported the emerging theory, rather than changing it or adding totally new features to it. In many ways, Case Two deepened my understanding of small firms and underlined the very personal aspects of being a small business owner/manager.

Professionalism (B1)

The strive for professionalism was earlier singled out as the main objective for the small growing firms. Case Two explained and illustrated the very personal meaning of this. Professionalism is tied not only to the fear of losing customers, but also of losing face. The importance of professional appearance is made clear when considering the following persistent - reconstructed - interpretive schemata of the owner/manager in Case Two:

Through my firm I present myself to a wider social audience. I want to be trusted, efficient, happy and I care about people. It is because of this that my company pays it's bills on time, and delivers high-quality products and services. It is because of this that my company should solve all client needs, no matter how small or large. My firm hires people whose personalities I like. The firm cooperates with other firms if they share my business philosophy, and if I enjoy being with their people. My firm must act professionally so that I may not lose my good name. I must have fun.

Spontaneous Coordination (B2)

The idea of a spontaneous coordination based on a common understanding of the firm's activities and goals was put forward as a very efficient or even necessary small business management tool in both cases. In Case Two, the importance of spontaneous coordination is even more pronounced and took the form of a utopian state, i.e. when the business concept is internalized by everybody, the firm will perform

exactly according to the will of the owner/manager; it will be a Self-sustained Organization (A33) acting professionally.

Two Administrative Growth Strategies (B3, B4)

The longitudinal design of Case Two made clear that Information-Flow Routinization (B3) was chosen before Task Routinization (B4). This was a bit surprising and will be discussed below, since traditional theory predicts the opposite results.¹²

Segmentation (B8)

This B-category says that there is a limit to the number of product variations, terms of delivery, terms of payment, discounts, etc. A clear tension exists between the will to adjust to customers (A24) and the will to give good service (A25) and to act professionally (A1). This tension can be released by segmentation of the market, either through Emergence Of Hierarchy (B5) or by abandoning certain customers, i.e. through specialization.

The findings in Case Two suggest that this category depicts one way in which the firm is being led into a market niche or is being "institutionalized." The firm was caught in the struggle between two opposing small firm strategies. Scanning-the-market-and-taking-advantage-of every-opportunity versus we-have-to-work-professionally.¹³ Through a trial-and-error process, Case Two shifted from a pronounced strategy of the first kind to the latter strategy. In other words, Segmentation (B8) is one way in which an external selection mechanism influences the firm. Case Two illustrates the cognitive processes involved in Segmentation (B8). A very open business concept was slowly being closed and focused through the process of Segmentation (B8). The history of Case Two describes the non-trivial social, or external, influence on interpretive schemata - in this case on self-perception.¹⁴

¹² see Chapter Two.

¹³This dilemma is well-known. I have borrowed this particular formulation from Bouwen, De Vish & Steyaert, 1987:9.

¹⁴For a discussion of the social influence on cognitive maps see Laukkanen (1989:218-232).

Reacting (B10)

The category named Coincidences (A15) played a central part in the analysis of Case Two. Coincidences were the lifeblood of the firm. Coincidences were essential, or even necessary requirements for the firm to remain flexible and innovative. Coincidences were actually searched for, encouraged or "created." The formal division of labor that existed in the firm could be explained as a reaction to coincidences. Reacting is also a crucial element of the management of this small firm.

Unrestricted search - Case Two¹⁵

An "unrestricted search," primarily involving the new A-categories, resulted in two additional B-categories, necessary to cover the data in Case Two. As with the additional A-categories, I suspect that the inadequacy of the B-categories from Case One to also cover Case Two, can be explained by the different methodologies and by the differences in size. The additional two B-categories address the incremental and personal nature of the small growing firm. This is quite natural considering the longitudinal design of the study and the close relationship I developed with the owner/manager during this study.

Emerging Strategy (B24)¹⁶

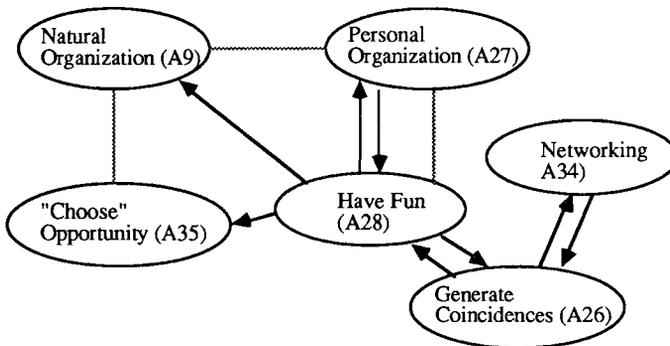


Figure 4.24 A-categories forming the B-category Emerging Strategy (B24)

¹⁵This technique of analysis is presented on page 101.

¹⁶The name, although not in its detailed connotations here, is borrowed from Mintzberg, 1979b:582.

Coincidences are consciously or unconsciously generated by the owner/manager when he exposes himself to a great variety of social contacts (A26). Some of these coincidences are exploited, others are not. The wish "to have fun" (A28) is a personal goal. Since the owner/manager makes no distinction between himself as a person, and his firm (A27), then the goal "to have fun" becomes decisive also for the firm's development. The owner/manager exploits those coincidences which allows him to have fun (A35). He takes part in several talks about cooperation (A34). Unable to point out any single decision, he sees some of these talks develop into strategic changes for his firm (A35). Others of these strategic chances fade away. In this way the firm develops and "decisions" taken are perceived as self-evident (A9).

A meaningful strategy cannot be identified other than retrospectively. In that sense, strategy is a part of the general Sensemaking (C3) taking place in the small growing firm.

Just before the meeting with the financing agency mentioned in Chapter One, I asked the owner/manager in Case Two what his objectives were with this meeting. He answered that he only wanted to develop good relations and to have an open ended discussion about what do do in the future. Later on he described the situation in these words: "My shop was too small, my employees complained. A lot of things were wrong. I had had some ideas and thought that if I should do something it should be prepared in some way. So I called them (the financing agency)up and asked for their opinion. I mean, I have borrowed money from them before. So we went there, and suddenly we discussed something as if it was for real!"

Person/firm Confusion (B25)

Almost the same cluster can be used to illustrate the person/firm confusion that is well-known from the literature.

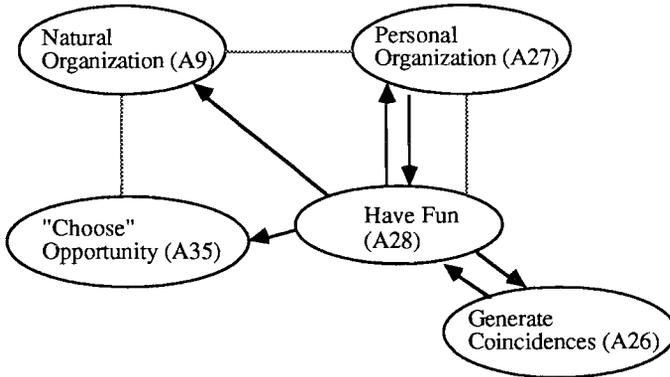


Figure 4.25 A-categories forming the B-category Person/firm Confusion (B25)

The firm is influenced by un-planned events (A26), sometimes called opportunities. The manager chooses to develop opportunities (A35) that allow him to have fun (A28). This process leads to a continuously changing internal organization (A9). This organization is a personal tool for the manager (A27), and reflects his personality and goals.

Examples of how the owner/manager in Case Two failed to make a distinction between himself and his firm have been presented above. This person/firm confusion can also be illustrated with examples from the owner/manager's environment. His creditors, for instance, regarded Case Two's debt as a personal loan and made a thorough investigation not only of his firm's financial condition, but also of the owner/manager's person; his reputation, economic situation, etc. One of his employees said: 'In the beginning, my friends were worried that I started to like the same things as he did. But it is the firm's idea which he has transplanted...I have no reason for being in this firm if I don't adapt his way of looking at color and form. Another employee said: Sometimes I have the feeling that I don't sell products. What I actually sell is the owner/manager himself.

It is important to understand the meaning of the category Have Fun (A28) in these two B-categories. It describes an immediate evaluation of a situation, often without any reflections or signs of doubt. It is simply an intuitive feeling, seemingly of a non-cognitive nature. It is highly decisive, because it precedes any rationalizations or reflections. Rational

reflection is more or less an effort to reconstruct some kind of logic behind one's immediate evaluations.

The Person/Firm Confusion (B25) has fundamental importance when trying to understand the behavior of small firm managers. I will not repeat the presentation on page 159-161, but only suggest that, quite apart from any present or possible monetary rewards, identification with the firm is an important coordinating and motivating mechanism.

This seemed also to be the case, but to a lesser degree, for employed members. The presence of strong shared interpretive schemata in the firm, in combination with smallness, i.e. overview, also created a feeling of identification on the part of the employees. Another source of motivation connected to this was the autonomy, albeit conditional, received from these shared schemata. However, the two main properties found under the category Motivating (A37), were money and the possibility of doing enjoyable things - to have fun.

Monetary rewards are important motivators, but the feelings are ambiguous. The category, Each Man A Cost (A31), captures how both employer and employees experience their relationship. The small size implies that knowledge about the financial performance of the firm is well distributed. If times are prosperous, employees demand to get their "fair share." If times are bad, one is - figuratively speaking - paid with the last coins in the owner/manager's private piggy bank.

Revised framework guided search - Case Two¹⁷

One of the results from Case One was that the initial theoretical framework ought to be replaced by a theoretical framework reflecting experiences from Case One. Thus, the framework guided search in Case Two data is made using a "revised" framework which is built on the five C-level-categories from Case One.

Spontaneity (C1)

Spontaneity (C1) was elaborated using the following A-categories: Generate Coincidences (A26), Personal Organization (A27), Have Fun

¹⁷This technique of analysis is presented on page 101.

(A28), To Deviate (A29), Diversification (A32), "Choose" Opportunity (A35) and Free Rider (A40). One attaching cause-map was found.

Spontaneity (B26)

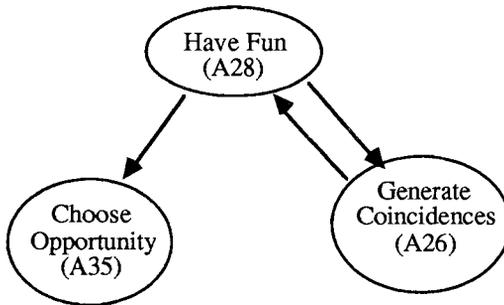


Figure 4.26 A-categories forming the B-category Spontaneity (B26)

Through his behavior (A28), the owner/manager generates a lot of incidents or coincidences that he perceives as opportunities (A26). Both the generative process and the act of choosing which opportunity to explore, could be described as spontaneous (A35). The process, or mechanism is already included in Emerging Strategy (B24).

Systematic Planning (C2)

The cause-map belonging to Systematic Planning (C2) were made up of the following categories: Generate Coincidences (A26), Personal Organization (A27), To Deviate (A29), Withdrawal (A30), Each Man A Cost (A31), Selfsustained Organization (A33), Networking (A34), Recruiting (A36), Liquid Capital (A38), Secret Dealings (A39) and Free Rider (A40). The corresponding cause-map contained three sub-clusters:

Double Standards (B27)

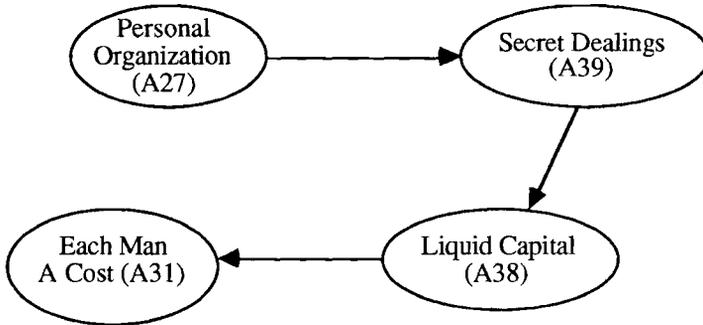


Figure 4.27 A-categories forming the B-category Double Standards (B27)

To use black payments in and out of the firm (A39) is considered acceptable or even necessary as long as the firm is very small and personal (A27). Of necessity, this black money is cash money (A38) and is often paid for services (A31).

To engage in secret dealings is seen as an inescapable effect of the present tax-system in Sweden. The data underlying Secret Dealings (A39) enforces the idea that business is a question of direct payments in and out of the firm and often involves payments for labor, in one form or the other. These secret dealings have an intricate relationship with the owner/manager as a person. He engages in these types of dealings as long as the person/firm confusion is strong. But secret dealings have no place within his image of the firm as a "real firm." Real firms stay alive even though they follow the law. Anyone can be successful if he doesn't pay taxes, but this success is dubious. It is something much more exceptional, and therefore a greater sign of outstanding managerial performance, to be able to succeed within the letter and spirit of the law.

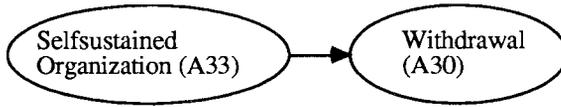
Reproduction (B28)

Figure 4.28 A-categories forming the B-category Reproduction (B28)

The owner/manager envisions that someday he will withdraw from the firm and start a period of harvest and rest. The necessary condition is however, that the firm is a self-sustained organization, running itself according to the founder's vision. Of course, this state of affairs seldom occurs. Nevertheless, this ideal was mentioned on several occasions. An attempt to summarize the content of these parts of the interviews, and reconstruct the corresponding interpretive schema produced the following results:

I prefer to see myself as the man who started the firm, got people to think and behave as I do, and then left it. I have made my race and showed them that I am able. Now I want to withdraw and live the good life. Like a *Deus ex machina* I will now leave my self-sustaining living machine - the image of myself - and start something new.

Reproduction (B28) is also included in Curiosity (B30).

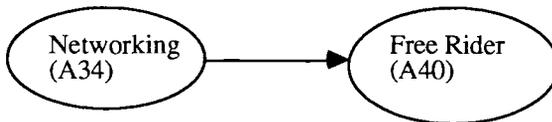
Hitchhiking (B29)

Figure 4.29 A-categories forming the B-category Hitchhiking (B29)

Hitchhiking (B29) simply refers to the conscious effort of negotiating with potential collaborators. The goal is to make profitable use of others' resources, as opposed to the alternative of having direct control, or ownership of these resources.

During the period studied, the two large retail chains on Case Two's market merged and a foreign competitor appeared. The owner/manager in Case Two had more or less open contacts with all three of these actors. His plan was to be asked to design their assortment of colors, or even their new shop design, and then get his logo printed on their advertising material. To give a similar example, he managed to get the organizers of a trade fair, to offer him - free of charge - a large stand at the entrance as publicity for the whole fair.

Sensemaking (C3)

The cause-map corresponding to Sensemaking (C3) was made up of: Have Fun (A28), Withdrawal (A30), Selfsustained Organization (A33) and "Choose" Opportunity (A35):

Curiosity (B30)

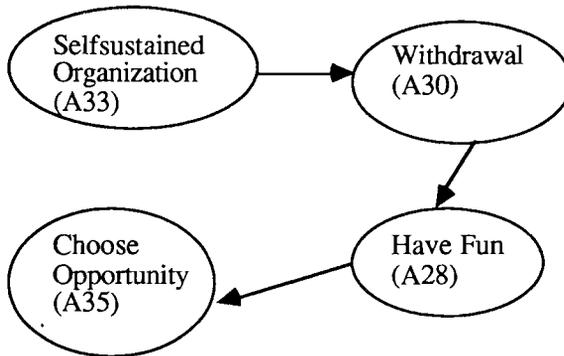


Figure 4.30 A-categories forming the B-category Curiosity (B30)

This cluster describes one way in which new ideas and routes are discovered. As soon as a type of business or activity becomes a matter of routine, it is temporarily taken out of the urgent agenda and the search for new, different and "funny" deals or cooperations begins. Another way to describe this category is that it depicts a restless flight from everything well-known or routinized.

The first time the owner/manager in Case Two withdrew from his firm, it was because he was convinced that his employees could run the firm without his presence, and because he wanted to be more creative. He said he would get "a small office, a telephone, a desk and a big, fresh pad of paper." Starting from scratch, new ideas would then hopefully emerge. One of his principles was to renew parts of his product line every year. As soon as a new "fashion" was established, he introduced something different.

Adaptation (C4)

Adaptation (C4) was elaborated using: Generate Coincidences (A26), Personal Organization (A27), Have Fun (A28), Networking (A34), "Choose" Opportunity (A35) and Free Rider (A40). The sub-clusters found were the same as Spontaneity (B26) and Hitchhiking (B29)

Confusion (C5)

Finally, the new A-categories that were chosen to elaborate Confusion (C5) were: Generate Coincidences (A26), Withdrawal (A30), Diversification (A32), Secret Dealings (A39) and Free Rider (A40). Interestingly enough, all these categories were unrelated (!) and formed no meaningful cause-map.

Centrality based search - Case Two¹⁸

Centrality based search meant that categories, with three or more causal links in the relations-schema, were identified either as "causes" or as "goals," depending on whether they influenced, or received influences from other categories. A centrality based search, including additional data from Case Two, resulted in nine new central A-categories. Four of these categories were generated from Case One, but became central categories when data from Case Two were added. These additional central categories were: Natural Organization (A9), Coincidences (A15), Planned Actions (A18), New Organizational Positions (A22) Personal Organization (A27) and Have Fun (A28). These additional central categories were used in order to elaborate the findings from the centrality based search in Case One.

¹⁸This technique of analysis is presented on page 105.

Goals

Natural Organization (A9), Planned Actions (A18), New Organizational Positions (A22) and Personal Organization (A27) were additional goal-categories related to Professionalism (B1). Natural Organization (A9) and Personal Organization (A27) together with Have Fun (A28) were important categories underlying Sensemaking (C3). Coincidences (A15), however, did not fit into either of these two types of organizational goals, and might therefore need a comment.

The combination of Professionalism (B1) and Sensemaking (C3) as goals in the organizing process, suggests a vision of a fairly closed, harmonious and machine-like organization. The category Coincidences (A15) as a goal, on the contrary, opens up the organizing process for unforeseen opportunities, or even disturbing events. Coincidences (A15) is, therefore, both a category which balances the integrative character of Professionalism (B1) and Sensemaking (C3), and also a goal that might be quite important. Therefore, although it might first appear as a contradiction, certain aspects of Confusion (C5), e.g. variation, describe a central goal of the organizing process.

Causes

From this discussion, it comes as no surprise that Coincidences (A15), Personal Organization (A27) and Have Fun (A28), were both central goals and central causes. The other additional causes were: Generate Coincidences (A26), Recruiting, (A36) and Liquid Capital (A38). Generate Coincidences (A26) illustrates Confusion (C5) as a cause.

To say that the organization changes because new employees are hired (Recruiting (A36) is, in this context, almost a tautology. In a small firm, each member makes up such a significantly large part of the organization, that recruitment and dismissal turn into organizational changes. In this sense, Recruiting (A36) is a central cause-category, interesting because it contributes to both Sensemaking (C3) and Confusion (C5), which were the superior cause-categories originating from Case One. Finally, Liquid Capital (A38) is a category that describes a certain way of thinking. The firm, as an economic phenomenon, is perceived as direct payments in and out of the owner/manager's wallet. This way of thinking affects how information channels are designed, how employees are evaluated and how they are

motivated. From this it follows that Liquid Capital (A38) is a cause-category connected to Sensemaking (C3).

It seems as if the abstract C-level categories could describe both goals and causes present in the organizing processes. Does this make them less useful as categories in an organization theory? The answer would be yes, if one wants to maximize the categories' discriminating capacity. In that sense, Confusion (C5) and Sensemaking (C3) cannot discriminate between goals and causes. The next question is whether they must. From another perspective, it is less surprising that goals and causes intermingle. We might recall the picture of an endless chain of means-ends relations; some ends are means for other ends, and so on. We can also refer to these categories' double set of properites as their push and pull properties. On the abstract C-level, we can therefore expect to find categories that do not discriminate between goals and causes, since goals and causes are not distinctive phenomena in themselves.

Summary of the analyses of Case Two

The search for meaningful patterns or clusters of A-categories generated from Case Two, led to five additional B-categories. All of them described personal and dynamic aspects of managing a small growing firm:

- Emerging Strategy (B24)
- Person/Firm Confusion (B25)
- Double Standards (B27)
- Hitchhiking (B29)
- Curiosity (B30)

The exercise also helped developing some of the B and C-categories from Case One. The revised framework that was made up of five superior C-categories was found to be useful when analysing Case Two data and was not changed.

Chapter Five

Organizing Processes In the Small Growing Firm - Conclusions

Summary

The research study that is being presented here has, so far, been an exercise in qualitative coding and analysis of interview data. The description of this exercise has closely followed empirical data and direct results. The aim of this chapter is to suggest some answers to the research questions formulated in Chapter One, using the categories developed in Chapter Four. To be able to do that, we need to engage in a less rigorous integration, interpretation and discussion of the research results. First I will describe the organizing processes in small growing firms. It is argued that intentional processes do not discriminate between small and large companies. A search for unintentional, or spontaneous processes might develop our understanding of small firm characteristics better. Second, a discussion about the effectiveness of these processes suggests that they might be inefficient from an economic point of view, but that they might be effective means for self-expression. Third, growth might reduce economic small firm advantages but supports analytical management which can improve profits. It is argued, however, that this makes it more difficult to realize the deeper personal aspects of running a small firm. Finally, the complementarity of small and large firms are stressed. They play different roles in the economy and in social life. Economic small firm advantages might be reproduced in decentralized hierarchies, but the existential importance of small firms demands full autonomy.

Chapter Five Organizing Processes In the Small Growing Firm - Conclusions

The analysis of Case One and Case Two suggests that 16 "organizing sub-processes" contributes to the organization of small growing firms. The first outline of a model relating these processes to a more general frame work was presented in Chapter Four. It will be further developed here.

Organizing processes in small growing firms.

Some of the organizing processes in small growing firms are deliberate attempts to maintain a certain order or behavior in the firm. These sub-processes were summarized earlier in the category Systematic Planning (C2). Other sub-processes are not intentional in that sense. Instead the firm has to adapt to strong outside pressures, or to certain mechanisms within the firm that are perceived as fated or automatic. These aspects of organizing in small growing firms were captured in the category Spontaneity (C1).

Organizing is not simply a struggle between intentional actions of managers and a teasing and capricious reality. The process has a direction. It moves from confusion to comprehension. The formal division of work and the routines implemented in order to coordinate activities within the firm, also achieve a cognitive purpose. They are efforts to make sense of the firm. The need to know what is going on, to know why people do what they do, or why they do not do what they should do, these needs are pronounced by both the owner/manager and his or her employees. What is happening in the firm has to make sense, and the best way for the members to make sense of the firm is to share the same interpretive schema and then act according to that schema. Organizing a firm is thus a sensemaking process.

Intentional organizing

If we start with those sub-processes which describe intentional organizing, we find that they aim at managerial control and predictability of individual behavior. Information-Flow Routinization (B3) and Task Routinization (B4) implies clearly that routinization is introduced to prevent misunderstandings or malfunctional behavior. Emergence Of Hierarchy (B5) describes how the manager distributes defined areas of responsibility and resources to reduce perceived complexity. In turn, this reduction of perceived complexity will support a systematic (read: "professional") approach within each of these areas of responsibility. Likewise, Segmentation (B8) describes a clarification of responsibilities but of a more external kind; the firm finds its niche which will make it possible to give customers in that niche a professional treatment. Goal-Setting (B13) describes a process whereby the goal of the firm, i.e. professional conduct, is formulated as an ideal and impressed in the minds of all the organization's members including the manager. To reach coordinated action, the small firm also spends time and money on Sensemaking (B20), i.e. on reaching a common understanding of basic norms and values that should govern individual behavior. Finally, I suggest that Curiosity (B30) describes an intentional organizing sub-process. As soon as the firm can function on its own, i.e. without the direct supervision of the owner/manager, it is time for him to withdraw and find/create new business opportunities. These new business opportunities will cause a need to review or change the way in which the firm operates.

These sub-processes illustrate traditional and well-known management and organizational theories. The small firm is engaged in a complex problem-solving process. The problem is divided in sub-problems which can be solved separately. Coordination is achieved through goal-setting and mutual adjustment directly between employees. Impetus to change comes from both internal administrative problems and from events outside the firm. These sub-processes do not identify any specific small firm characteristics. What they show is that on these dimensions organizing in small growing firms does not differ from organizing in large companies.

I have also defined two additional sub-processes which I will call intentional, but which are small firm specific. The first is Double Standards (B27). The owner/manager perceives his firm as a highly personal undertaking. To engage in black market transactions is

considered to be "my own business." When the firm grows, however, when it becomes a "real" firm, black money is (will be?) abandoned. The interesting thing with this sub-process is not that black transactions are constituents of small firms - such an interpretation is not intended here - but that the small firm owner/manager does not regard his firm as a "real" company, and therefore feels entitled to engage in certain deals otherwise forbidden. The category Double Standards (B27) suggests the existence of two quite separate norm systems, one for "real" established firms and another for not yet established firms. During growth, the small firm owner/manager thinks he has to adopt a new norm system.

Hitchhiking (B29) is another intentional small firm specific sub-process. The small firm manager may have a low need for owning resources. The important thing is if he can use resources, his own or others, to realize what he wants to do. Ownership can be one way of getting access to resources; an especially attractive way if growth is an important goal, or a dominant value. "Hitchhiking" is another way of getting access to resources without having to own them. Hitchhiking is to be preferred if flexibility is of higher value than growth. Presumably, small firms differ from large companies on this point.

The intentional organizing sub-processes in small growing firms are similar to those in large companies. Differences could be expected between norm systems underlying these intentions in small and large companies.

Spontaneous organizing processes

Some of the organizing sub-processes describe processes or mechanisms which are out of the manager's or the firm's control. They are perceived as fated, accidental or "natural."

Accordingly, the way in which Spontaneous Coordination (B2) develops is not always the manager's concern. The fact that members of a small firm share the same understanding of how the firm operates, know what its profile is, know what the owner/manager likes and dislikes, feel loyal to the firm, etc, i.e. the fact that they tend to "think alike," is not necessarily the result of deliberate actions, it tends to come "naturally". In some situations, e.g. during periods of heavy workload, some individuals might withdraw from the others and narrow their concerns

to what is strictly their own responsibilities - Detaching (B11). It could also be the owner/manager who withdraws from the firm for a period. This might cause confusion and serious problems in the small firm where members normally help each other and work closely together. In these situations, connecting links are needed in the organization to restore contact with the detached person or group.

Uncertainty and creativity (B15) are two outcomes of the same cause. The small number of employees makes it both necessary and possible to have vaguely defined work tasks. Naturally, this promotes flexibility and team work as well as individual creativity. At the same time, however, it might mean confusion, double work and omissions.

The organizing process which perhaps most clearly describes the unintentional aspects of small firm organization is Natural Organizing (B22). Fate, coincidences and blind chance determine directly or indirectly the design of the small firm's organization. This design will influence how the firm will perceive and interpret its environment, thus influencing the operations of the firm. However, these "coincidences" can, to some extent, also be influenced. By maintaining a large personal network, and being prepared to grasp sudden opportunities, the owner/manager can increase the probability of a favorable "coincidence." Naturally, these coincidences and opportunities do not always follow a specific plan. Therefore, strategy is something emergent or reconstructed - Emerging Strategy (B24). Another interpretation of this last sub-process is that the small firm is not only a system for efficient production of goods and services. The small firm is also a person having fun, expressing himself, proving to himself that he is free and in charge of his own destiny - Person/Firm Confusion (B25).

It remains to show why small firms are more vulnerable to coincidences than large companies. At face value, this looks reasonable but it needs an explanation. A starting point for such a discussion could be found in an article by Albert Bandura. He argues that:

In a chance encounter the separate chains of events have their own causal determinants, but their intersection occurs fortuitously rather than through deliberate plan. Some fortuitous encounters touch only lightly, others leave more lasting effects, and still others branch people into new trajectories of life.¹

¹Bandura, 1982.

As an outline towards a "psychology of chance encounters and life paths" he distinguishes between personal ("firm") and situational ("environment") factors. In a reasoning analogous to his, one could argue that when firm specific norms, guidelines and belief systems are less developed, or less spread and accepted, coincidences will have a stronger impact on the firm. Compared with large companies or divisions in large corporations, growing and/or changing small firms could be expected to show these characteristics. This makes small and growing firms more sensitive to chance encounters than large companies.

Bandura argues that if the social context in which the chance encounter happens is closed, e.g. like in certain religious cultist communities, the encounter will have a strong influence on life paths. One could argue that in a large company any influence from a chance encounter has to pass through the hierarchy before it is allowed to have any substantial effect on the company. Furthermore, the internal structure of the organization will influence how it perceives its environment. In the large company this means that information about the environment will be structured. Production technology, finance, customer preferences, all these bits of information will be the focus of different managers, and "the environment" will be the sum total of these persons sensemaking processes. This will postpone action, support compromises, etc. To engage in a sensemaking process involving individuals with different perspectives and from different positions in the company may promote "decision rationality," but at the same time, it may reduce "action rationality."²

Accordingly, the "social context" is therefore not allowed to be closed in the large company - in the sense that a chance encounter involving one manager will have direct effects on the whole company. There will always be a need to confront new ideas with other influential organizational members. The situation in the small firm is radically different. The "environment" will be the integrated interpretation of one single individual. The owner/manager might take far-reaching strategic decisions and act without having to confront opposing arguments and logics.

Spontaneous organizing processes are more crucial in small firms than in large companies.

²Brunsson, 1985:21-30.

The efficiency of small firms

The efficiency of small firms was discussed in Chapter One because of the observation that small firms are so common, and also increasingly important as suppliers of jobs. In a competitive economy, this might suggest some sort of small scale advantages. The question can also be rephrased. Do small scale advantages really exist, or are small firms just a source of variation in a variation - selection - retention process? I have already suggested that this question, about efficiency, should be divided into three sub-questions: operational performance, organizational potentiality and individual satisfaction. Based on the analysis carried out, and equipped with a new set of hypotheses about organizing processes in small firms, we can now return to these questions for an explorative discussion.

Operational performance

As we saw in Chapter One, available studies indicate that small firms, in general, are not especially profitable organizations. The profitability of the two small firms studied in this project cannot verify or falsify this indication - an objective never intended. Instead, the value of this study lies in the possibility of using the organizing processes defined and see if they can help us formulate hypotheses about mechanisms affecting operational performance in small firms.

Previous research suggests that the relatively low profitability in small firms can be explained with factors like:³

- presence of economies of scale
- power exerted by a few strong customers
- low level of appropriations
- low reported profit for tax reasons

This study argues in favor of a further class of explanations based on the process and cognitive aspects of small firms adopted here.

One small scale advantage suggested by this study is related to internal coordination and control costs. The small number of employees, and the physical concentration of both men and machines, makes it possible to gather a sufficient amount of information through relatively simple and

³for references see Chapter One.

cheap information systems. Many times it suffices to take a short walk through the premises to get a rich and accurate picture of what is going on, and what problems exist. The members of a small firm can easily get a rather detailed understanding of the firm's operations: its products/services, its clients, its business concept, its image, ongoing negotiations, etc. Based on that information they can adjust their behavior so that it fits with that of other members, and with the goals of the firm. This was called Spontaneous Coordination (B2). One important ingredient in this process is that the people involved make the same, or similar interpretations of events happening in the firm. They think alike. The principle cognitive process active here is assimilation: the incorporation of experiences into existing interpretive schemata.

Of course, shared interpretive schemata might both support concerted action, and also reduce costs for coordination and control. But on the other hand, these shared interpretive schemata can also impede development. First of all, it means that recruitment of new employees is a sensitive problem. Each new employee will become a new member of the "family" and is not easily found or chosen. My suggestion is that this might be one additional explanatory factor behind the lack of growth willingness among small firm managers.⁴ A second problem is that shared interpretive schemata might lead to rigid "group think" or even a conservative and critical attitude towards new ideas and changes, something which may make the small firm short-sighted and cause problems in the long run.

I have argued that organizing in small growing firms has several spontaneous or un-intentional elements. Of course, the small firm has, as one of its advantages, the possibility of profiting from coincidences happening in its environment; but the small firm is also the passive victim of such coincidences. The small firm might have difficulties adopting dedicated and efficient machinery, financing, routines, habits, etc. because they are too prone to cognitive accommodation - i.e. changes in interpretive schemata according to new experiences.

On the one hand, the small firm can adjust itself to local peculiarities, soon becoming a local institution "infused with values,"⁵ and having a

⁴Davidsson's investigation showed that fear of losing control, deteriorating employee well-being and increased vulnerability was what made small firm managers reluctant to grow (Davidsson, 1989:113).

⁵Selznik, 1957:40.

"distinct competence."⁶ On the other hand, this same capability can prevent institutionalization and turn the small firm into a play thing for the market forces, a process I described as Natural Organizing (B22) and Emerging Strategy (B24). If these sensemaking processes are characterized by continual accommodation rather than assimilation, members of the firm will not get the necessary time to adapt their shared interpretive schemata, and any distinctive competence it might have had will evaporate. It will be "ceaselessly modified by chance encounters or changes in the environment."⁷ Thus, the accommodating small firm suffers from liability of newness in a cognitive sense, rather than from liability of smallness. We might suggest as an hypothesis that small firms accommodate to environmental changes in a way that obstructs the development of static internal efficiency or productivity. In other words, the shared interpretive schema, which facilitate internal coordination under relatively stable conditions, cannot give necessary support in a situation where environmental changes continuously invade the organization.

Organizational potentiality

To treat organizational potentiality as an aspect of small firm efficiency, is to consider the process character of organizing. Successful adaptation might increase organizational potentiality. As we noted in Chapter Two, a highly adaptive organization might be able to deal with a relatively high level of complexity, i.e. turbulence, even though its structure might look simple at any single point in time. This relatively simple structure might be succesful in solving the problems encountered, but not necessarily in an efficient way.

What strikes as an apt description of small firms in Thompson's theoretical discussion of organizations in action is his presentation of *synthetic organizations*.⁸ Synthetic organizations develop more or less spontaneously to solve a specific and urgent problem - e.g. giving first aid after an earthquake. These situations, and thus synthetic organizations, show an extreme lack of necessary conditions for systematic planning. Thompson argues that synthetic organizations can show *instrumental rationality*, i.e. they get things done, but they are not efficient in terms of optimal usage of resources from a technical or

⁶Stymne, 1970:69.

⁷Piaget, 1958:837 also quoted in Chapter Two.

⁸Thompson, 1967.

economic perspective. Synthetic organizations profit from a strong and shared problem definition and commitment among its members, and it can make use of "free" resources - for the moment. Its main disadvantage is that all parts must be coordinated under great uncertainty, as if they were reciprocally interdependent, i.e. without the help of rules, procedures and hierarchy. The synthetic organization has to clarify and establish its own structures at the same time that it performs its operations.

Accordingly, the same mechanism that stops a small firm from developing internal efficiency, in a static sense, might make it efficient from a process perspective. A small flexible firm can solve a variety of problems and survive in a turbulent environment. However, what should be added is that not only earthquakes but also cognitive accommodation might function as catalysts for synthetic organizing. Permanent accommodation implies a high level of readiness in the firm, emergencies are common, enthusiasm abounds, but so does confusion, frustration and inefficiency. If this accommodation (in small firms) does not correspond to actual environmental changes, myopic and pragmatic small firms will be knocked out by intentionally structured and planned organizations, i.e. large companies.

Liabilities of both newness and smallness, too low capitalization, and lack of managerial competence and experience, combine with the sensitivity of small firms to outside events and may result in low organizational potentiality and high failure rates. As the National Industrial Board puts it:

...the rate of growth in small, newly established firms has declined during the 1980's, and... the time elapsing between start-up and closing down is decreasing...Acceptable levels of profitability can be reached in 2 out of 10 newly established firms, at its highest. The rest muddle along, are bought, transformed or declared bankrupt and expire.⁹

In summary, one could argue that many factors suggest low efficiency and low organizational potentiality in small firms. This is not surprising. To realize efficiency, profit and growth demands great skills

⁹...tillväxttakten i små unga företag har avtagit under 1980-talet, och (...) tiden från start av företag till nedläggning minskar (...) Acceptabel lönsamhet kan kanske nås i högst 2 av 10 nya företag. Resten hankar sig fram, köps upp, ombildas eller går i konkurs och läggs ned (SIND, 1990:63-64).

and efforts. Also, the market (-niche) in which the small firm finds itself, must allow growth and some possibilities of monopolistic profits. Thus, both internal and environmental conditions must be present before the small firm shows profit and growth. If factors supporting growth as an ideal are missing, e.g. anonymous shareholders and growth-seeking managers, other goals will be decisive. As we have seen these other goals, in small firms, can be the professional treatment of customers and owner/manager satisfaction. It is not self-evident that these goals foster growth and profit. As one owner/manager has said: "Freedom is worth 20:- per hour."¹⁰

Individual satisfaction

Instead of talking about "individual satisfaction," a more proper heading for this section would be "small firms as a form of self-expression." My hypothesis is that the frequency of small firms can be explained, at least partly, by their potential of allowing people to express their personalities, ambitions and competencies. In that sense, small firms might promise unique potentials for individual satisfaction. One of my personal insights from conducting this study is that the small firm should be explained as a highly personal phenomenon - for better or worse.¹¹

If we take Person/Firm Confusion (B25) seriously, we must accept that small firms are important contemporary forms of self-expression. From this perspective, small firms should be studied by humanists, as well as by economists, sociologists and psychologists. It is of course beyond the scope of this study to outline a humanistic treatment of small firms. However, the generation of categories undertaken indicates some areas of interest. Of special interest in this respect is the tension between Spontaneity (C1) and Systematic Planning (C2). This tension illustrates the personal character of small firm management.

Other writers in this field have also noticed this tension or dilemma. Beckérus & Roos talks about the "two-dimensional enterprising" distinguishing between economic explanations and psychological,

¹⁰Berglund & Heiken, 1984:20.

¹¹Naturally, the confusion between person and firm is sometimes pronounced also in larger companies. For instance, the memoirs of Refaat El-Sayed could have been written by many small firm managers, the difference being that the amount of money involved would have been considerably less. Parts of his book show an almost word for word correspondence with the interview transcripts from Case Two. El-Sayed's story strikes the reader as a description of a situation in which person and firm are totally mixed (El-Sayed & Hamilton, 1989).

philosophical and humanistic ones.¹² Also well known is the contrast between the Entrepreneur and the Administrator as two basically different managerial types. The Entrepreneur is driven by opportunities perceived, while the Administrator is driven by resources currently controlled.¹³ An empirically grounded typology along the same lines divided between "continued entrepreneurship and its absence."¹⁴ West Churchman wrote a book called "The Systems Approach and its Enemies."¹⁵ It is an interesting attempt to clarify and explain the limits of the systems approach - or Systematic Planning (C2). His treatment of these matters can help us understand how the personal character of small firms gives rise to the tension between Spontaneity (C1) and Systematic Planning (C2). After a long career developing the analytical systems approach to management problems, he outlines in this book a critique of those who use reason as their only problem-solving tool. He argues that reality contains phenomena - whether we like it or not - whose basic characteristic is uniqueness. He identifies four different classes of these phenomena and calls them Religion, Aesthetics, Morality and Politics. Religion claims the uniqueness of each individual. Aesthetics claims the uniqueness of each experience. Morality claims the uniqueness of each situation and each choice. Politics (understood as "making polis," e.g. pressure-groups) claims the uniqueness or exceptional character of a specific issue. These phenomena defy any attempts to apply general rules whether legal rules, scientific laws or rules of thumb. Since they oppose the comprehensive ambitions of the rational planner - who tries to maximize the performance of the system as a whole - they are "the Enemies" of the system's approach. To solve this problem, Churchman proposes that the "ideal planner" should "become" the enemy, or take the view point of the enemy, and from that view point scrutinize the systems approach. I would suggest that this is what many small firm managers do. For the researcher, this might suggest an aesthetic or moral analysis in order to reach a deeper understanding of small firms.

To suggest a humanistic approach to small firms is to oppose certain rationalistic tendencies of the cognitive approach to organizations. By this I mean that a too exclusive concentration on cognitive interpretive schemata and cognitive processes might increase the risk of missing

¹²Beckérus & Roos, 1985:156-157.

¹³Stevenson & Sahlman (1987) presented in Christensen, 1989:22-24.

¹⁴Davidsson, 1989:211.

¹⁵Churchman, 1978.

important characteristics of small firms. I have suggested three types of such non-cognitive factors, spontaneous, intuitive evaluations ("This is no fun - I will not continue"), moral statements ("This is right - I have to do it") and coincidences ("We met at a party yesterday, now we are partners"). Categories like "I must have fun," are significant. The attitude expressed in such a statement is not the result of any cognitive processing of information. It is not analytical. It is simply a spontaneous and immediate evaluation of a situation; an evaluation which is sometimes decisive. Moral statements are additional examples of this kind. I would also argue that "coincidences" are another non-cognitive factor which should be central in any theory of small firm management. Coincidences might be more or less deliberately created, but still they are surprising and decisive in the small firm context. They cannot be appreciated or cognitively processed in advance, but still they have a major impact on the small firm. As long as no real organizational choice takes place, one could question whether interpretive schemata have any influence on organization design.¹⁶

An additional finding from this study, related to the question of individual satisfaction, is that the small firm can be described as a bureaucracy *in spe*. This might sound a bit contradictory but is nevertheless a crucial idea coming out of this study. What I have called Professionalism (B1) was defined as "...access to frictionless internal administrative routines, a clear and firm outward profile, and most important of all, a quick and accurate response to customers requests." This is the overall goal in the firm, a goal which occasionally becomes more important than the business concept itself.

To elaborate this basic category, I returned to Case One and specifically asked for the meaning of what I have called; Want of professionalism (A1). From the answer, it was clear that professionalism was connected with Weberian bureaucratic ideals. These include clear division of responsibilities, rules to guide customer treatment, written agreements, fixed administrative routines, etc. The way customers were to be treated should be planned in advance and should follow well-established written agreements. Arbitrary treatment was condemned because it only caused confusion. To be professional meant that the firm was considered "serious," etc.¹⁷

¹⁶ Downey & Brief, 1986:169.

¹⁷ A similar idea was also present in Case Two.

I found it interesting that the owner/manager specifically mentioned the importance of formalized routines in connection with labor turn over. The size of this firm (90 empl.) meant that the staff changed now and then. This was not allowed to affect the operations of the firm. Therefore, it had become an important task for the owner/manager to develop the firm into a Selfsustained Organization (A33). We might recognize this as Weber's idea that an organization is essentially a specific order that

...continues to exist, in spite of the fact that the specific individuals whose action is oriented to the order in question, may have been completely changed.¹⁸

This study has generated several categories that describe bureaucratization in small firms. For instance, this would include Information-Flow Routinization (B3), Task Routinization (B4), Emergence Of Hierarchy (B5), Legitimation Of Structure (B6) and Clarifying (B9). This tendency to build bureaucratic structures seems to be independent of size.

Take for instance the A-category, Selfsustained Organization (A33), that was developed based on data from Case Two. This category described the wish to develop a firm that could make a public appearance on its own. At first sight, this bore a striking contrast with the Person/Firm Confusion (B10), and the contrast could be viewed as a cognitive dilemma. On the other hand, we could explain this if we refer to Beckérus & Roos's finding that the small firm manager will delegate responsibilities - i.e. withdraw from the scene - if, and only if, this delegation allows him to extend his identity and expand his exposure on the market.¹⁹ A solution to the dilemma is, therefore, to create an organization as an image of oneself.

The dilemmas between Spontaneity (C1) and Systematic Planning (C2), and between Person/Firm Confusion (B25) and Selfsustained Organization (A33) are, of course, ever present. What is suggested here, is that they present a recurrent cognitive dilemma present within each small firm manager. It could be hypothesized that a special aspect of running a small firm is that both these logics, or rationales are strengthened or highlighted in the small firm context. The

¹⁸Weber, 1968:49.

¹⁹Beckérus & Roos, 1985:81.

owner/manager's identification with his firm creates in him an image of a man in charge of his own destiny, (autonomy is one of the most important reasons for setting up an independent business). Social competence, intuition and creative capacity must be fully developed and utilized. At the same time, the fact that this self-identity not only carries an abstract idealistic form but also manifests itself in concrete decisions and acts, means that the manager must face a highly structured environment, where bookkeeping, financial planning, production planning, unions, governmental authorities, banks, accountants etc. all demand a systematic planning approach to his or her business.²⁰ Through this meeting between two different cultures, these dilemmas reach a peak for the owner/manager in the small firm. The small firm is therefore not only an economic or an organizational phenomenon, but also a *person* creating a great performance.²¹

The raison d'être of small firms

Can the frequency and importance of small firms in the economy be explained by their possession of economic small scale advantages, or are they just the pool of variation from which natural selection "picks the winners"? Based on the experiences from this study, and from the discussion above, I would argue that some economic advantages might be present in small firms, i.e. low coordination costs, internal consistency in its values and a high sensitivity and flexibility in its operations. However, since diseconomies of smallness are frequent as well, and combine with the "synthetic" properties of small firms underlined by this study, I would not grant small firms with pronounced economic and competitive advantages. Instead, I suggest that small firms can be treated as a special form of personal self-expression, and in that function, they are highly efficient since operating a small firm demands that the owner/manager make use of a wide repertoire of intellectual and emotional competencies.

Small firms are frequent and important, not only because they are economically competitive (they might be in some situations) but also because they offer a possibility of self-expression.

²⁰The fact that the environment of small firms is becoming more and more structured has been observed by Benvenuti (1989) in his research on small farm firms. He has called this phenomenon TATE (Technical Administrative Task Environment) and describes it as a quasi-network of independent actors. These actors (e. g. banks, suppliers and consultants) may act independently of each other, but the combined effect of their actions is for the individual small firm considerably decreased autonomy.

²¹Zweers, 1988:14.

Does increased firm size pose a threat for small firms?

We might recall that growth was chosen for two reasons to be part of the research design of this study, . First, it implies a significant change process for the small firm. Growth could therefore reveal the "restraining and driving forces" behind organizing in small firms.²² Second, growth implies a critical test of smallness, so that small scale characteristics might be uncovered.

Restraining forces

Which are the restraining, or conservative forces behind organizing in small growing firms? Growth in the small firm means that new events will occur, events in need of interpretation and sensemaking. Growth also implies that new employees must be socialized; i.e. the shared interpretive schemata must be reproduced.

In other words, an important restraining, or conservative force in the small growing firm is the need for Sensemaking (C3). Sensemaking as a growth-deterrent and conservative force can be illustrated in several ways:

- New customers produce an increased pressure to adapt both products and procedures to customer demands. This is, unfortunately, a good intention which, if it is realized, might prove itself counter-productive because the firm cannot cope with the increased need for information processing. It might lead to confusion in the firm and therefore to decreased Professionalism (B1). We recognize this mechanism as the problem of accomodation discussed above.

- One of the small firm's main advantages is that it can profit from shared interpretive schemata. This is, however, also the reason why recruiting new employees is such a difficult and sensitive issue. One hypothesis might be that this is one factor causing the relatively higher labor turn over in small firms compared with large companies. Employees that do not internalize the interpretive schemata in the firm, may have to leave.

²²Lewin, 1952, see also Chapter Three.

- To explain the small firm as a personal organization (Person/Firm Confusion, B25) also implies a strong need for centralized control. However, growth means that less of the activities in the firm will relate back to the manager. Information will reach him only indirectly. At the same time, growth implies that decisions and acts become increasingly important. More and more money, and the well-fare of more and more people is at stake. The consequences of a wrong action might be fatal. From this, it is easy to understand that growth could be interpreted by the manager as a threat. It comes as no surprise that fear of losing control is found to be one the most important growth-deterrents.²³

Driving forces

As "driving" factors, i.e. factors that cause changes in the organizing structures of small firms, we might use some of the "central cause categories" developed in Chapter Four. The first driving force was already present in the discussion above. Since Sensemaking (C3) is a restraining force, Confusion (C5) is, of course, according to the same logic, one of the main driving forces. One obvious solution to confusion in the firm is to have larger resources, for instance, more employees, a higher credit limit, a larger inventory, etc. Thus, growth does often promise larger resources with which confusion might be reduced. Confusion (C5) is also a driving force since it triggers a need for organizational improvements not necessarily connected to growth

The category Selfsustained Organization (A33) refers to the building of bureaucratic structures which can function "automatically." Organizing in the small firm is often an attempt to realize this type of structure. We might recall that the owner/manager in Case Two described his firm's future growth as the birth of a "real" company. A real company is self-sustained, works professionally and does not engage in any black market transactions.

A further driving force behind organizing in small firms, is a kind of restlessness in both owner/managers studied. This sub-process was called Curiosity (B30) above, and resulted in new business opportunities, often un-planned. In general, impetus to organizational change in small firms often comes from chance encounters, or coincidences.

²³Davidsson, 1989.

Growth dilemmas

When presenting this study's initial framework in Chapter Two, a number of potential growth dilemmas were suggested and formulated as pointed hypotheses. These hypotheses grew out of a survey of the received view of organizing. They were attempts to formulate what traditional organization theory implied for growing small firms. Some of these hypotheses will be discussed below in the light of this study. However, the cases analyzed here did not address all of these hypotheses, and, naturally, a study of only two cases must limit itself to a critical reflexion rather than definitive answers. Nevertheless, the relevance of these initial hypothesis can be investigated, and, in some cases, they may be further developed using the results from the above discussion.

Division of labor

One hypothesis was that the management tasks of the firm will increase and prevent the manager from performing his or her original commercial role. Four alternative solutions were hypothesized. I could, in the longitudinal direct observation of Case Two, observe that this dilemma was not only present but pronounced. All four of the proposed solutions were tried and implemented. First, the owner/manager engaged in efforts to transfer or reproduce his special competence to his employees through extensive training and education, and through a constant search for competent potential employees. Second, he isolated and concentrated on certain critical steps in the workflow where his knowledge and competence were crucial. Third, he made some attempts to reproduce his own competence in form of standardized products or services. However, these three alternative solutions did not solve the basic dilemma, and instead he refrained from growth at the end of this investigation. This was the fourth solution. Thus, these four solutions function as a relevant descriptive typology of owner/manager growth strategies, in this regard.

Coordination

One of the hypotheses predicted a substitution of mutual adjustment and direct supervision for standardized workroles. This prediction was less correct. On one hand, Case One, with its 90 employees, had much more standardized workroles than the smaller Case Two. On the other hand, the longitudinal study of the growth process in Case Two made two things clear. First, communication was routinized before workroles.

Second, although workroles and communication were routinized, the importance of mutual adjustment based on shared interpretive schemata did not decrease - the same was true in Case One. These two coordinating devices, routinized workroles and spontaneous coordination developed in parallel.

The managers of both Case One and Case Two stressed the need for better communication between organization members. Both firms implemented formal communication systems to solve this problem before they made attempts to standardize and pre-plan worktasks. This was especially pronounced in Case Two. To understand this deviation from Galbraith's and Thompson's predictions, we must return to the person/firm confusion mentioned above and broaden its intention to also include the staff employed.

Management of the small firm is not only an information problem in a quantitative sense. Admittedly, the firm is partly a production system or an information system as well, and as such it follows the logic inherent in the models of Galbraith and Thompson. However, the small firm has vaguely defined workroles, which means that each employee must be prepared to help in all sorts of work situations. Moreover, the small firm is also, to a very large extent, a social setting made up of interacting persons. These people may be independent or have a serial dependence if we describe them in terms of their formal positions in the firm. As individuals, however, they are mutually dependent on each other. They have vaguely defined worktasks, but they are also socially involved with each other: as friends, in teacher/pupil relationships, in power/dependence relationships, etc. These latter aspects of the firm indicate the need for close daily contacts, standardized if necessary, rather than well-defined worktasks leading to a more isolated and pre-planned work situation.

Both types of routine-making violate the individual's sense of interacting or being involved in a genuine community. Routinization of work roles makes the interaction between individuals artificial, but apparently less so than routinization of communication. To put it in a more provocative way, routinized communication is preferred over isolation.

Motivation

It was suggested that growth would break up the Person/Firm Confusion (B25) and that monetary rewards would be increasingly important. Interestingly enough, the interviewed staff in the relatively large Case One, gave several examples of a continuing person/firm confusion. It was my impression, however, that the owner/manager in this firm did distinguish between the firm as a self-sustained unit, and her own person to a much higher degree than the owner/manager in Case Two. The fact that the chairman of the board in Case One was a hired professional consultant, and that he was given a relatively large amount of autonomy supported this impression. The owner/manager in Case Two would never have allowed anything similar. Of course, this might only reflect differences in personality. However, during the growth process studied in Case Two, it was notable how the time spent on discussing figures during the interviews, increased over the years. I interpreted this as the beginning of a psychological separation between person and firm.

In both Case One and Case Two's growth process, I saw signs of a cracking value community, illustrated for instance, in the sub-process Detaching (B11). It is not possible to determine if the proper explanation should be growth or heavy workload. The hypothesis, that the value community between manager and employees will deteriorate during growth, and that this might pose a threat to motivation, is still open.

Generally, it has been difficult to use the term "motivation" in discussing these firms. Instead, one of the results of this study has been a questioning of the relevance of "motivation" as a separate category in an organizational theory of small firms. Self-respect, sensemaking and survival are more appropriate terms.

Institutionalization

The final growth dilemma concerned institutionalization. I suggested that small firms have to adapt to their environment, and especially to surrounding peculiarities. In this sense the small firm might be institutionalized faster and more accurately than large companies. After conducting this piece of research I would like to qualify this statement. First, successful institutionalization of small firms cannot be described as accommodation to common values in the firm's environment, and a development of a "distinctive competence." These two processes are not

cooperating in the small firm. Rather, for the small firm, they are two opposing processes. Environmental adaptation opposes the development of distinctive competence, because the small firm's "environment," including its network, changes through Coincidences (A15), and Curiosity (B30). To survive with a distinctive competence presupposes a relatively stable environment, or an ability to integrate new opportunities into its present structure.

Second, the category Double Standards (B27) implies that the small firm owner/manager might have to adopt a new system of norms as he turns from a state of confusion between person(firm, to a situation in which he is the manager of a "real" firm. This change in norm system can be described as "an accomodation to an external value community." Depending on how frequent black, grey or "informal" transactions have been in the history of the firm, institutionalization will be a problematic process for the small growing firm.

Genuine and calculative relations

Does growth pose a threat? Since the low coordination costs and the flexibility of small firms are closely related to its size, one must conclude that growth might reduce these advantages and, in that sense, pose a threat. It is less obvious that increased firm size prevents self-expression.

The reduction of economic small firm advantages caused by growth, must, if the firm wants to survive, be met with economies-of-scale. For the growing small firm this implies routinization of workroles and communication, standardization of products and services and increased capitalization, often involving new minority owners. One general description of these measures, is that they tend to change the nature of the relationships in the firm, and between the owner/manager and external actors. What used to be "genuine relations," or "ideational relations" might gradually be turned into "calculative relations."²⁴ This process implies a fundamental shift in underlying moral systems, especially pronounced in the relations between the owner/manager and his or her employees.

A request from the owner/manager to work overtime, may no longer

²⁴For a description and discussion of these concepts see Sjöstrand, 1987:29-32, and Sjöstrand, 1989:59.

be interpreted by the employees as a call for help from a friend (who helps you when you are in trouble), but as an opportunity to earn more money. The high tempo, enthusiasm and variety that might have released a lot of energy among the employees, might be re-interpreted and they may want to be financially compensated for efforts they consider being "above normal standards." Trust and dialogue between individuals, are replaced by more or less formal negotiations between de-personalized "parties."

If these tendencies in growing small firms are allowed to dominate the owner/manager will no longer "experience himself as a totality within a productive environment."²⁵ Rather, he or she will be engaged in making profits.

One can argue that the introduction of more calculating relations stops the exploitation of employees' enthusiasm and loyalty.²⁶ However, it seems as if it also stops the "self-exploitation" of the owner/manager.

At the end of my presence at Case Two these issues were raised by the employees. They "demanded their rights" and the owner/manager replied by demanding the same thing, i.e. his right to "harvest" the fruits of his toils. After some discussion these people realized the mutual advantages of having a less calculating relationship, but the price to be paid was, as it turned out, that some people left the firm and its growth came to a halt.

Business concepts in large and small firms

The difference between genuine and calculative relations can be illustrated by confronting two opposing perceptions of business concepts. As an organizational phenomenon, the small firm is, like any other organization, what Weber called the probability of order:

...it exists so far as there is a probability that certain persons will act in such a way as to carry out the order governing the organization...²⁷

²⁵Beckérus & Roos, 1985:148, also cited in Chapter Two.

²⁶Granqvist & Sjögren, 1979:78-81.

²⁷Weber, 1968:49.

One type of governing order is the firm's business concept.

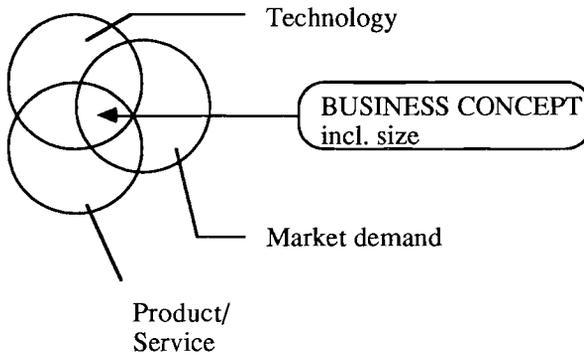


Figure 5.1 The business concept, as made up of a market demand, a product/service and technology.

A market demand could be called a *problem*, and the *solution* to this problem is a suitable product or service. *Technology* is an idea of how to implement the solution - including the design of the organization. The business concept gives focus to the activities, and answers the What, Why and How questions. In that sense, it is the "order governing the organization," and thus, it is also a major interpretive schema. But more important, even though it may not be formalized, the business concept defines the firm. The small firm is, therefore, a (temporary) manifestation of a business concept where smallness is part of the technology/solution.

According to Beckérus & Roos, small firm owner/managers perceive their business concepts in terms of market, product and *ownership*.²⁸ Normann (writing about large companies) describes the business concept as a harmonious fit between a market segment, product and *organization*.²⁹ They agree on the cognitive nature of business concepts, and recognize a strong (widespread and accepted) business concept as a necessary condition for success.

There is, however, an interesting difference in their definition of success, a difference which I would relate to differences in the quality of relations. While Normann explains the business concept as a de-

²⁸Beckérus & Roos, 1985:40-54.

²⁹Normann, 1975: 43-44.

personalized "system of dominance" - a formula which will make the (large) firm the sole inhabitant in a market niche - Beckérus & Roos argue that the market is perceived by the (small firm) manager, as an open arena where he or she can expose his or her personality in the form of a product (or service). The owner/manager needs other competing actors on this arena in order to measure performance. This strong identification with the firm, which is exactly what I have called Person/Firm Confusion (B25), explains, according to Beckérus & Roos, both the lack of hostility in small firm managers' relations to competitors, and also why ownership becomes so central in their business concepts.

The complementarity of large and small firms

I have argued that the small firm can only partly be analyzed as an economic phenomenon, if "economic phenomenon" means an organizational unit, designed and managed with the aim of producing products or services as efficiently as possible.

As an economic phenomenon, the small firm has certain potential small scale advantages. The one that is most pronounced in this study has to do with sensitivity and flexibility. We might return to the short scene in the first chapter, where the owner/manager of a small firm met with representatives from a financing agency.³⁰ This meeting can now be used as the starting point for a discussion about the differences between spontaneous and intentional organizing, and whether these two types of processes can cohabitate in the same organization.

This episode was in fact a meeting between two distinct rationalities, or "interpretive schemata." The concrete, and very emotional world of the small business manager, met the comparatively abstract and analytical world of finance. In this specific situation the two parties illustrated the tension between the two types of organizing processes, Spontaneity (C1) and Systematic Planning (C2). The two parties were different but of course highly dependent on each other and therefore full of good will, trying to reach and understand each other. Still, they ran into great communication problems.

³⁰An earlier version of the following discussion was first presented at the "EIASM Workshop on Recent Research on Entrepreneurship in Europe", Brussels May 14-15, 1987. It has also been published as a Research Paper from EFI (Brytning, 1987).

The small firm owner/manager had not formulated a strategic plan or project specifying in which form his business concept should be fully exploited or commercialized. Instead, he ran his business successfully using intuitive feelings and visions. His strategy was an Emerging Strategy (B24). This strategic opening showed itself to be creative and has led to several profitable deals and businesses. If he had followed a systematic plan, this would have contradicted all that, so far, had been successful behavior in this firm.

My hypothesis is that spontaneous organizing processes in small independent firms might make these firms able to profit from local circumstances and peculiarities, to a much higher degree than firms within the influence of Systematic Planning (C2). On the other hand, small firms may overlook external, or environmental aspects of their decisions. West Churchman coined the concept of "environmental fallacy" in order to describe the problem of a too narrow decision making perspective. By this he means the mistake of leaving out from the analysis external consequences of a decision taken within a specific sub-system:

"...in the broader perspective of the systems approach no problem can be solved simply on its own basis. Every problem has an "environment" to which it is inextricably united"³¹

A solution to a problem within a specific system might create other unforeseen problems later and/or problems outside that system - within other systems. A well-known environmental fallacy is when individual units show successful yet sub-optimizing behavior considering the goals of the organization as a whole. Instead of environmental fallacy, we could also use the term myopia. Small firms that act spontaneously on information of local peculiarities, may do this successfully, but may also develop myopia.

One way of avoiding myopia is through hierarchy; to delegate decisions upwards to a central unit overlooking relevant local units or subsystems. It could be a head-office supervising several business units, but also a bank overlooking parts of an industry, or a governmental authority with responsibility for several sectors of the economy. These central units often function as financial centers with the task of allocating financial resources in an optimal way. These centrally placed actors need highly

³¹Churchman, 1978

synthesized and standardized information in order to evaluate and compare different alternative projects, synthesized to avoid overload, and standardized in order to make comparisons between possible projects. Systematic Planning (C2) is thus a logic which has formed the formal routines on this level. These formal routines are also followed - at least symbolically as the episode with the colorful entrepreneur shows.

Practice, as faced by the locally involved, owner/manager seeking funds, is extremely complex. he or she might have a vision of a new business or project, a vision that includes not only the practical details, but also his or her own personal attachment to the vision; the complicated puzzle of open and hidden sub-problems, opportunities, coincidences, ambitions, fascination, personal tactics etc. This complexity and uncertainty is not transmitted to the centrally placed actors. It is reduced through a standardization of information, e.g. by introducing a standardized application form. What was a unique and complex situation for the owner/manager in Case Two, was turned into one of several hundred of more or less standardized applications for the financing agency. However, without full knowledge of the project, including its details, the financing agency may very well make less optimal choices between different projects. We might say that these centrally placed actors run the risk of falling into superficiality.

There is a constant tug-of-war between myopia and superficiality in the resource allocation processes of society. From an economic point-of-view, these two concepts represent different types of errors in these resource allocating processes. For each type of error, however, there is a guardian. On one side we find, for example, banks, financial institutions, corporate head offices, and other centrally placed actors protecting the industrial society from myopia. This defence is carried out with the help of Systematic Planning (C2). On the other side, we find the small independent firms and other local actors who are protecting us from Superficiality by putting Spontaneity (C1) into their behavior. Their potential capacity to ward off superficiality is one of their most important small scale advantages from a societal point of view.

In some presumably rare instances, the small firm manager has to meet the bank and apply for credits. These meetings tend to take place on the terms set up by the bank who controls the scarce resources. The small firm manager will conform to these terms by formulating a "project" or a "business plan." This plan will be explicit, quantitative and detailed, but

on a superficial level. It is the need for successful communication with the financial environment, i.e. the need for financial resources, and not the need for a strategic decision that provides the reason for formulating a strategy. Thus, strategy is a communicative device for the small firm.³²

If the local actor had enough internally generated resources at his or her disposal, he or she would act on information distinctly different from that which the bank demands!

With the words of Etzioni:

...non-rational choice is natural; rational decision-making is artificial...it costs.³³

Instead, emotions, value judgements and coincidences, i.e. Spontaneity (C1) would have a considerable effect on his or her behavior.

A pointed hypothesis might be that superficiality will dominate if there is a shortage of capital in the economy compared to the supply of good investment proposals. In economic terms, this means that society might lose wealth if profitable projects never get sufficiently large resources because they are not, or cannot be, described as "systematic plans," or because local actors have to pay (for example, through higher interest rates) for superficial or overly generalistic judgements made by centrally placed actors.

Small firms and large companies, can be explained as two complementary social phenomena. Small firms can deal with complexity, and with the unique character of single events, people and decisions because they are influenced by spontaneous organizing processes, because they are so many, and because their birth and death rates are so high. Large companies might retain order, productivity and long term considerations, because they have overview and stability.

From the experiences gathered in this research project, I would hypothesize that the economic small firm advantages presented could be

³²Some empirical support for this statement can be found e.g. in Jankowicz & Hisrich (1987:50-52). The authors argue that "objective constraints on the decision making process" should be introduced, a total contradiction to the view suggested here.

³³Etzioni, 1988:151.

reproduced in larger companies, through different forms of decentralization, autonomous work groups, "small companies within companies," "little factories within the large factory," etc. I would even hypothesize that these measures might improve what is sometimes called "entrepreneurial behavior," among first-line managers, and middle managers. The deeper qualities of small firms presented here, is much more difficult to reproduce within larger hierarchies. From the discussion above, it should also be evident that some of these small firm characteristics are irrelevant or even malfunctional from the perspective of productivity and growth in large companies.

Chapter Six

Methodological reflections

Summary

The version of the grounded theory approach adopted in this study is an attempt to formalize and document an inductive research project. The ambition has been to combine creative conceptual work with a rigorous method. Inductive explorative research of this kind runs the risk of failing in two ways.

First, the conceptual categories and theories developed might simply be a restatement of the researcher's initial understanding of the research phenomenon, thus making empirical work redundant. It is argued that this risk is less pronounced in this study because each step of the inductive process has been documented, and because some of the techniques used work independently of the researcher's person.

Second, the strong emphasis on an empirical foundation of the categories developed tends to overlook prior theoretical knowledge. It is argued that a close connection to available theories is also important within the grounded theory approach. Theoretical concepts are ever present during the analysis, consciously or un-consciously. By documenting each step of the analysis, some control is gained over the way in which previous theoretical knowledge has influenced the analysis. The danger of "empiricism" is often exaggerated.

Finally, it is argued that direct observation of longitudinal cases is a prosperous method when analyzing small firms.

Chapter Six Methodological reflections

To develop and criticize a rigorous version of the grounded theory approach was an important part of this study. Behind this methodological interest was a dissatisfaction with the way theory generation methods were used and described. Quite often they are not described at all. The theorist simply argues for his ideas and relies on logic and attractive style in this argumentation. Sometimes vague descriptions occur, indicating a highly intuitive process whereby empirical data "ripens" into theoretical insight.

This lack of methodological description has two implications: first, it makes it difficult to see how the specific method has contributed or influenced the theory in question: second, it is difficult for followers to learn from the experiences of researchers or to improve the methods used. To attempt to solve these weaknesses, I have had the ambition of explicitly describing the method used in this study. This was done in Chapter Three. I have found it worthwhile also to include some personal experiences from working with this method.

The grounded theory approach

I will structure the discussion around two main points of critique raised against the grounded theory approach. The first critical point was mentioned in Chapter Three: How are conceptual categories actually generated from empirical data? Glaser & Strauss, in their classic presentation of this method, offered very vague descriptions. If this step cannot be described, how can we know whether the grounded theory approach does not simply reproduce our prejudices? The second point of critique has been raised by Derek Layder and concerns the limits of empiricism.¹

¹Layder, 1982

The problem of reification

As to the first point of critique, I have argued that by clearly formulating this study's initial framework, the reader receives a point of reference. This makes it possible for the reader to check whether the method used in the research project has degenerated into a reification of the author's pet theories, or, whether the method has the potential for forcing the researcher to arrive at new insights. A clear description of the problem and an open presentation of the initial theoretical framework, thus enables a critical examination of the study. Apart from these two features, I combined two methods of analysis which allowed influence from any preconceptions of mine ("Unrestricted search" and "Framework guided search"), with two methods which did not presuppose any theoretical preconceptions and which were more "objective" or mechanical ("Cause-map sub-cluster identification" and "Centrality based search"). The two latter methods were a further guarantee that the results would not be a re-statement of any prejudices of mine.

Barney Glaser has published his own version of the grounded theory approach.² It might be of interest to compare what would be his way of working with this study, since they differ somewhat. Glaser's conception of the grounded theory approach allows for an extreme openness at the beginning of the study:

The analyst...can go anywhere and talk and listen to anyone and read anything with virtually no problem in mind and little training in a perspective, provided he is capable of conceptualization. He can do this because relevant problems and processes quickly emerge...³

According to Glaser's methodology, coding of data begins immediately after the first visit, talk or interview. Also, in the coding stage openness perseveres. The same data should be coded into as many categories as possible. At the same time that coding takes place ideas emerge. These ideas should be written down immediately. Coding and memo-writing will continually give rise to new questions. These questions become the basis for "theoretical sampling," which is a crucial concept. Glaser's conception means that each interview or visit is selected because it might

²Glaser, 1978

³Glaser, 1978:44

elaborate a category in the emerging list of coded categories. This means that the focal empirical phenomenon is not identified in advance, but is allowed to emerge gradually during the research project.

Glaser not only treats interview protocols as data, but also "what is not obviously stated."⁴ After being exposed to many impressions, and after coding these impressions and interview protocols, as data, into a large number of categories - a coding which Glaser calls "open coding" - the researcher is encouraged to select one "core variable." This variable becomes the focus of the project, a guide for further empirical work and governs continued coding, now called "theoretical coding." The focus during theoretical coding is to relate all categories to this core variable and to specify this core variable's dimensions. The selection of a core variable actually defines the limits of the research project, both empirically and theoretically. After this empirical phase, the researcher, through integration of ideas, approaches the literature and relates his emerging theory to the literature .

Glaser envisions that this design, especially the openness in the beginning, supports theoretical sensitivity, i.e. that the analyst is sensitive both to the data and to the theoretical linkages of these data. Glaser seems to agree with the idea that theory is actually "discovered," meaning that theory is lying "out there" waiting to be discovered by the student theoretically innocent enough:

Indeed, the analyst with this complete openness is often more receptive to the emergent than others with a few pre-ideas and perspectives. He has less ideational baggage to give up or correct. The emergence of concepts never fails, as it cannot, since social organization of life is always in process of resolving relevant problems for the participants in an action scene. And this social organization always provides a partial framework of "local" concepts to be used by participants in designating the principal structural processual and interactional features on the action under study.⁵

By abstaining from pre-selecting a "core variable," Glaser does not make a clear distinction between real life, and the metaphors we use to

⁴Glaser, 1978:56

⁵Glaser, 1978:44-45

understand it, thus his methodology suffers from the weaknesses inherent in a realist ontology. From a moderate realist's viewpoint, we conceive and describe reality from a limited number of aspects. We cannot grasp all aspects simultaneously. We will grant small firms different properties depending on which aspect we choose to investigate. For instance, an investigation of small firms as organizational processes will differ from an investigation of the same small firms as structures of authority and responsibility.

This study's "aspect," or "core variable," was set at the outset: "organizing processes in small firms." An analysis *à la* Glaser, would not have defined that core variable until later on in the research process. With this study's data, Glaser might have ended up with a theory about sensemaking in the small firm, as if sensemaking were a separate organizational process, instead of a theory about organizing in small firms *as a form of, under the aspect of, or, understood as* sensemaking. At least, he would face the risk of confusing the two types of theories because he does not separate the reality from its different aspects.

In my view, "social organization of life" is complex enough to allow a number of interpretations. The concepts we have will determine what sense we can make out of life. To a certain degree, I agree with Glaser that the type of openness he advocates might support novelty in these sensemaking attempts. This should ward off the problem of reification. The problem though, is that the outside reader must know which is the researcher's core variable of focus from the start. Otherwise, the reader can never know if the results, the list of concepts and the corresponding theory, will show any traces of the methodology used. The reader is left out of the interpretive process and has to rely on what the author says. One can argue that this does not matter as long as the theory conveys some new and revealing insights. That is the same as saying, with Popper, that the idea of a cumulative methodological experience in the field of theory generation is not interesting or, even worse, impossible to realize.⁶

My view in this study has been that generation of theory might benefit from the same systematic and cumulative ambition that guides the testing of theory. From that point of view, the analyst should make his point of departure as clear as possible, and describe his way from data

⁶Popper, 1934, in Miller, 1983:134-135

to theory in as detailed a way as possible. In this way, we might start to accumulate methodological experiences in the field of theory generation.

Having said this, some self-criticism seems appropriate. Although this book contains a clear statement of my initial understanding of organization in the small growing firm, it is not clear whether this statement captures my initial "interpretive schema" in full. The framework is written in a highly academic language, for obvious reasons. However, outside that academic conception of small firms, exists less clear or even sub-conscious conceptions. No doubt, these deeper conceptions have had some influence on my interpretation of data, and thus on my concepts and on the theoretical discussion. (We have for example seen that "organizing" is never questioned as a relevant category in this study). Moreover, I was not a "true believer" in the received view of organization, and refused the "fundamentalist" standpoint in favor of a more agnostic position. I was familiar with the alternative framework, saw it as a complement, not as another paradigm. This theoretical attitude or stand must have had an influence on the coding and analysis of data, but is hidden. Generally speaking, this means that parts of the process through which theory is generated, are still invisible for the reader, and moreover, that we can never know how large an impact these invisible conceptions have had. This is an inevitable aspect of the grounded theory approach.

The problem with empiricism

Derek Layder points out the problems of the empiricist bias among grounded theorists. According to him, the grounded theory approach:

...tends to reduce social reality to its phenomenal forms, and thus social *structure* becomes nothing other than various kinds of interactional manifestation. This is basically because of a fear of 'reifying' social reality by the use of such objective terms as structure, system etc., as referring to supra-individual, relatively impersonal properties of social reality.⁷

Layder argues that knowledge is not limited to our sensory perceptions of the world. Instead, knowledge is the outcome of an interplay

⁷Layder, 1982:114

between theoretical knowledge and empirical field research. This also means that the language used by sociologists, or by organizational theorists, has no necessary connection with lay language or common sense. An orientation that is too empirical might therefore limit the usefulness of the research results.

In my view, this is a fair point of critique, and is connected to the question of differing levels of analysis. For instance, in my study, there is a difference between internal and external processes in the firm. The category Coincidences (A15) is justified mainly as a category describing a special feature of the internal sensemaking process. What is perceived as a coincidence in a specific firm might, however, be a highly planned act of some external actor. In that sense Coincidences (A15) might just mark the border between phenomenological scientific knowledge and contextual scientific knowledge. Similarly, what is described as an adaptation process on one level of analysis, might be better described as a selection process on another.⁸

The problem of empiricism is an ever present one when working in the grounded theory tradition. However, my impression is that this is a point of critique that is more theoretical than directed to specific studies. Glaser, for instance, wards off this point of critique by introducing "theoretical coding":

Coding for conceptual ideas is a sure way to free analysts from the empirical bond of the data - which is so easy to get lost in - while at the same time conceptually accounting for the processes within the data in a theoretically sensitive way. The code gives the researcher a condensed, abstract view with scope of the data that includes otherwise seemingly disparate phenomenon. This conceptual scope transcends the empirical arguments often surrounding disparate data on the same level.⁹

In many ways, this citation from Glaser also summarizes my experience of analyzing empirical data on an increasingly abstract level. It is relatively unproblematic to find concepts that not only cover direct empirical data but also to convey contextual or structural features. It is more difficult to know on what level a specific category actually belongs.

⁸Burgelman, 1987

⁹Glaser, 1978:55

In the beginning of the coding stage in this particular study, I also coded something called "type of category." Three types were coded: *cognitive*, *descriptive* and *normative* categories. This typology defined whether the category covered an individual's subjective interpretation, described an act or an event "objectively," or described formal structures in the firm.¹⁰ This type of coding was relatively soon abandoned because I found out that almost all categories were coded as subjective interpretations made by individuals, i.e. as cognitive categories. This is hardly surprising in a study based on interviews with individuals. I suspect that a similar problem would have occurred if categories were coded as covering, say; *single events*, *empirical patterns*, and *structural attributes*, i.e. reflecting differences between phenomenological and contextual categories.

Take, for instance the category Have Fun (A28). This category certainly covers specific events, it is definitely an empirical pattern in the small firms studied, and it is used as one important category in order to understand organization in small growing firms. The same thing can be said about other A, B and C-categories. The "level" of the category does not seem to be determined either by the category's labels, nor by the underlying data. Instead, the level of the category is implied by the context in which it is used.

To sum up this discussion, the grounded theory approach has severe limitations if it is only *grounded*. At some stage the analysis of data must also include *theory*, i.e. leave the empirical level and allow theoretical reflection and speculation to influence the emerging theory. In this book, this step is taken, most clearly in Chapter Five, where I go beyond the empirical limitations of a purely grounded theory.

Once again, this theoretical reflection is partly invisible for both the analyst and for the reader of the report. It is no wonder that the grounded theory approach will be criticized as being either too empirical or involving too much armchair reasoning.

¹⁰Löwstedt, 1989:205

Retrospective case-studies versus direct observation

It has been a revealing experience to include, in the same project, both a retrospective case-study and a directly observed longitudinal case. The latter form of case-study is preferable for several reasons.

Conducting a longitudinal direct observation soon makes it obvious that people tend to reconstruct events and reasonings to a very large extent. That is not to say they lie, deliberately or undeliberately. Rather, the importance of meetings, arguments, motives etc. is difficult to remember correctly, the importance is not constant from one day to another. At the time of the interview, the world in the small firm is not the same as it was yesterday, or two months ago. Small firm managers are people who believe in what they are doing. Doubts and regrets take up very little space in their thoughts. A business deal might have once been described as a major breakthrough for the firm. Two months later, the whole thing is marginalized and almost forgotten. In some instances, I had to show the interviewee my printouts to convince him that he actually had made a radically different evaluation of a situation a few months earlier. I often had the feeling that a student making a retrospective study of Case Two, would have gotten a very different picture of the firm.

Naturally this suspicion somewhat affects my own confidence in data from the retrospective study conducted in Case One. However, the categories generated from Case One fit the data from Case Two surprisingly well, indicating that the descriptions I received contained some general features of the organization process in small firms.

It is often argued that longitudinal direct observations consume more resources than retrospective cases. This is true only to some extent. Direct observation is, of necessity, a very extensive undertaking which means that parallel cases or tasks can be undertaken. The collection of empirical data takes relatively little time in comparison with the time it takes to read the literature in the field, doing analysis work and writing the report. Considering that many research projects run for three or more years any way, it should be possible to have many more longitudinal direct observations within organization research.

Growth processes as critical tests

By studying growth in small firms, it was hoped that small scale characteristics would be uncovered. In retrospect, this research design was not as rewarding as I hoped. Growth in small firms is still an interesting phenomenon to study for its own sake. As part of the research design it had minor importance. My impression instead is that clear conceptions of large scale characteristics permeate most of our organization theories. In that sense, large scale characteristics as a comparative perspective, are always present during the coding and analysis of data from small firms. Even if small stable firms were to be studied, any researcher coming from a business school or with a background in economics, could not avoid making comparisons between characteristics of small and large firms. This is a typical case where reification might be a serious problem. The analyst, trained to analyze firms within that frame of reference, might only too readily notice tendencies of "corporate management" in the small firm.

A further difficulty is that size is a highly subjective concept. One category Sufficient Size (A11), describes this. I have asked several small firm owner/managers what a "sufficient size" might mean, and the answers range from 7 employees to 120 employees. The owner/manager in Case Two reacted just as much to the future *prospect* of increased size, as to the actual size of his firm. He anticipated growth, and adjusted his management accordingly.

Finally, it should be mentioned that the number of employees does not always suffice to define firm size and firm growth. At times, turn over is a more decisive figure than the number of employees.

Generalization - future research

The next step in the development of the thoughts presented in this book, would be to clarify their domain. This means that the definition of smallness in Chapter One will be only one in a typology of definitions of smallness. Instead of investigating organizing in small independent firms, as was done in this study, the thoughts presented in Chapter Five, could be confronted with data from longitudinal direct observation of organizing in e.g. the headquarters of large corporations, and also with data from organizing in small less autonomous subsidiaries within large

corporations. Of special interest would be to investigate organizing in small non-commercial organizations. The basic idea would be to search for maximum variety in the research objects. Such studies might help to clarify the emergent theory and make clearer which properties have exclusive significance for organizing in the small independent firm, and which components have a more general significance for organizing processes.

Acknowledgements

When I first became interested in a research career, I went to see one of the professors at the Stockholm School of Economics. I asked him what it meant to be a researcher. He told me that being a researcher is like being an entrepreneur; you must be obsessed by a question - Why...? You need to sell that obsession to skeptical people and turn them into a personal network of interest and support, and you must raise money on the financial market in order to finance your enterprise i.e. convince the funding agencies that you and your obsession is the proper place to put their money. Finally, you must do all this alone.

How true he was - and how wrong! It is true that the writing of a doctoral thesis is a lonely labor with many similarities to the entrepreneurial process this professor described. However, he underestimated the spontaneous organizing processes that present themselves to the PhD *in spe*. Could he have foreseen the amount of "Hitchhiking" (profitable use of others' resources) employed in this project?

The members of my advisory committee, professors Dick Ramström, Sven-Erik Sjöstrand and Bengt Stymne, have allowed me to use their time on several occasions, reading and discussing drafts of this book. Their detailed comments, suggestions for improvements and general support, as well as their resistance and critique have definitely contributed to this thesis. Prof. Bengt Stymne has also been the director of The Programme for Studies of Man and Organization (PMO) at The Stockholm School of Economics.

The PMO-group has been my intellectual home for the last nine years and has provided the stage for many stimulating seminars and informal discussions. All members and visiting scholars in this group should be thanked. I am especially grateful for the friendship and cooperation I have enjoyed within "the gang of four" consisting of Sven Danielsson, Dr. Jan Löwstedt, Dr. Åke Philips, and myself. The present director of the PMO-group, Prof. Torbjörn Stjernberg has been kind enough to read and comment on the full manuscript. He has also been a good friend and a constant source of advice and support over these years.

A number of people, at various stages of this project, have provided comments on my thoughts and on my drafts. Special thanks to Docent Bo Hellgren and Prof. Bengt Johannisson. Chris Steyaert, at the Katholieke Universiteit Leuven, provided invaluable comments and advice on methodology and have inspired me through his carefulness and kindness. Albert Zweers, former director of the MEMO-foundation, now at the Technische Universiteit Delft, is a person I admire for his experience, sincerity and never ending defence of humanism. I am grateful to him for discussing entrepreneurship and human life values with me. By naming one of his articles on entrepreneurship *In Search of Balance*, he set me on the right track! I would also like to thank Rainer Carls SJ for being such a splendid philosopher and pedagogue.

Many thanks are also due to all members of the companies I have visited during this study. Special thanks to the owner/manager in Case One and Case Two and their employees. Without their willingness to cooperate I would have failed. The owner/manager and staff of Case Two put up with me for more than three turbulent years - thank you.

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It goes without saying that even though these people have given me brilliant advice, I wouldn't be a researcher with an entrepreneurial bend if I hadn't stubbornly insisted on making my own mistakes - they should not be blamed.

I had the ambition, as always, to put Eva, Sebastian, Maja and Andreas at the top of this list of gratitude. Still they have been pushed aside once again. How can I ever compensate them?

Finally, I dedicate this book to the memory of a man who never stopped asking why.

Boda By, January, 1991.

Tomas Brytting

Appendix A

Category: _____

Identity

Grounded in the following data:

Datasource:

--

--

Relation to other categories:

Identity	Category	Relation

Appendix B - excerpt from coded interview in Case One

...Ungefär 1978 upplevde NN att företaget inte fungerade tillräckligt professionellt. Genom ökad professionalism skulle Fall Ett kunna bli mycket mer drivande och framgångsrikt. 1979 tar NN över försäljningsarbetet, dvs ansvaret för samordning av försäljningen inom de olika marknadsområdena. Som försäljningschef hade tidigare en av säljarna fungerat. Frågor och problem kring samordning inom försäljningen, och mellan försäljning och produktion fortlevde emellertid i företaget. NN upplevde att försäljningschefskapet "flöt".

1982 får Fall Ett en ny styrelseordförande genom rekommendation från företagets revisor. Han tillförde marknadsföringskompetens till företaget. Han bedriver styrelsearbetet genom egen konsultverksamhet.

Hösten 1982 bildas en grupp som ser över företaget. (Denna grupp övergår senare till en form av ledningsgrupp med månadsvisa träffar). Man genomförde bland annat en marknadsundersökning.

Våren 1983 genomförs något av en brainstorm inom ledningsgruppen. Man diskuterar Fall Ets marknadsposition, produkter och affärsidé. Materialet sammanställdes och systematiserades sedan av styrelseordförande och NNs man. Resultatet blev en formaliserad affärsidé och en handlingsplan inför framtiden. Dessutom genomfördes en omorganisation som av NN uppfattas som snarast en formalisering av en organisation som redan fanns och fungerade. Hon framhåller emellertid den psykologiska betydelsen av att de tidigare försäljningsansvariga nu blev resultatansvariga för varsitt affärsområde; AFFO-område. Med resultatansvar menas att varje AFFO gör upp en egen budget vid årets början samt bär och ansvarar för de egna kostnaderna inkl. reklam etc. Man köper inte internt från fabriken utan produktionskostnaderna tas ut i form av en kalkylerad standardkostnad.

Senare tillskapades en produktchefposition med inköps- och produktutvecklingsansvar. Tidigare skötte varje AFFO själv sina produktutvecklings-frågor. Dessa förändringar och aktiviteter tolkar NN som ett sätt för den nytilträdde styrelseordföranden att få fart på Fall Ett och sitt eget arbete där. "Han tog till yttre handlingar, men i mycket var det en formalisering av det gamla".

Den senaste förändringen i företaget innebär att man inrättat sk. marknadsassistenter till varje AFFO. Dessa personer skall förutom att ta hand om ordermottagning och orderhantering, även syssla med mer direkt säljriktade arbetsuppgifter. Förändringen initierades av en av dessa assistenter som ville bli resande säljare...

Appendix C

A-categories from Case One:

Want Of Professionalism (A1)	Enthusiasm (A14)
Vague Work Tasks (A2)	Coincidences (A15)
High Degree Of Independence (A3)	Set Priorities Together (A16)
Connecting Link (A4)	Own Buffer/Let Others Set Priorities (A17)
Receive Responsibility (A5)	Planned Actions (A18)
Take Responsibility (A6)	External Demands (A19)
Lack Of Communication (A7)	Use Of Released Resources (A20)
Formalization (A8)	Create An Overview (A21)
Natural Organization (A9)	New Task Sub-Clusters (A22)
Conditional Freedom (A10)	Internal Flexibility (A23)
Sufficient Size (A11)	Adaptation To Customers (A24)
Think Alike (A12)	Service To Customers (A25)
Conscious Strategy (A13)	

A-categories from Case Two:

Generate Coincidences (A26)	Networking (A34)
Personal Organization (A27)	"Choose" Opportunity (A35)
Have Fun (A28)	Recruiting (A36)
To Deviate (A29)	Motivating (A37)
Withdrawal (A30)	Liquid Capital (A38)
Each Man A Cost (A31)	Secret Dealings (A39)
Diversification (A32)	Free Rider (A40)
Selfsustained Organization (A33)	

Appendix D

B-Categories from Case One:

<u>Name of category</u>	<u>described on page:</u>
Professionalism (B1)	122-124
Spontaneous Coordination (B2)	124-125
Information-Flow Routinization (B3)	125-127
Task Routinization (B4)	125-127
Emergence Of Hierarchy (B5)	128-129
[Legitimation Of Structure (B6) (=B22)]	129-130
[Enactment (B7) (=B21)]	130
Segmentation (B8)	131
[Clarifying (B9) (=B3, B4)]	137-138
[Reacting (B10) (=B6)]	138-139
Detaching (B11)	139-140
[Independence (B12) (=B2)]	140
Goal-Setting (B13)	141-142
[Consensus (B14) (=B2)]	142
Uncertainty/Creativity (B15)	143
[Identification (B16) (=B2)]	144
[Being Fickle (B17) (=B22)]	145
[Adaptation (B18) (=B21)]	145-146
[Flexibility/Confusion (B19) (=B15)]	148
Sensemaking (B20)	149
[Enactment - Selection - Retention (B21) (=B22)]	150
Natural Organizing (B22)	151
[Spontaneous Coordination (B23) (=B2)]	151

B-Categories from Case Two:

<u>Name of category</u>	<u>described on page:</u>
Emerging Strategy (B24)	165
Person/Firm Confusion (B25)	166-168
[Spontaneity (B26) (=B24)]	169
Double Standards (B27)	170
[Reproduction (B28) (=B30)]	171
Hitchhiking (B29)	171-172
Curiosity (B30)	172-173

Appendix E

C-Categories from Case One:

Spontaneity (C1)
Systematic Planning (C2)
Sensemaking (C3)
Adaptation (C4)
Confusion (C5)

C-Categories from Case Two

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