

# From Modern to Paternalistic

How does your firm type affect your performance?

Written by:

**Paul Edwards**, AIM Senior Fellow, Warwick Business School

**Chin-Ju Tsai**, AIM Research Fellow, Warwick Business School

**Sukanya Sen Gupta**, AIM Research Fellow, Warwick Business School

**Monder Ram**, Leicester Business School, De Montfort University

**EPSRC**

Engineering and Physical Sciences  
Research Council

**E · S · R · C**  
ECONOMIC  
& SOCIAL  
RESEARCH  
COUNCIL

The Advanced Institute of Management Research (AIM) develops UK-based world-class management research. AIM seeks to identify ways to enhance the competitiveness of the UK economy and its infrastructure through research into management and organisational performance in both the private and public sectors.

Written by:

**Paul Edwards**, AIM Senior Fellow, Warwick Business School

**Chin-Ju Tsai**, AIM Research Fellow, Warwick Business School

**Sukanya Sen Gupta**, AIM Research Fellow, Warwick Business School

**Monder Ram**, Leicester Business School, De Montfort University

### AIM consists of:

- Over 200 AIM Fellows and Scholars – all leading academics in their fields...
- Working in cooperation with leading international academics and specialists as well as UK policymakers and business leaders...
- Undertaking a wide range of collaborative research projects on management...
- Disseminating ideas and shared learning through publications, reports, workshops and events...
- Fostering new ways of working more effectively with managers and policymakers...
- To enhance UK competitiveness and productivity.

### AIM's Objectives

**Our mission is to significantly increase the contribution of and future capacity for world class UK management research.**

Our more specific objectives are to:

- Conduct research that will identify actions to enhance the UK's international competitiveness
- Raise the quality and international standing of UK research on management
- Expand the size and capacity of the active UK research base on management
- Engage with practitioners and other users of research within and beyond the UK as co-producers of knowledge about management

contents	AIM – the UK's research initiative on management	2
	About AIM	3
	AIM research themes	4
	Executive review	5
	Introduction	6
	High performance work systems	7
	Towards a framework of understanding	10
	Types of small firm	12
	Examples of choice and change	15
	Conclusion	17

### **Current AIM research projects focus on:**

#### **UK productivity and performance for the 21st century.**

*How can UK policymakers evaluate and address concerns surrounding the UK's performance in relation to other countries?*

National productivity has been the concern of economists, government policymakers, and corporate decision-makers for some time. Further research by scholars from a range of disciplines is bringing new voices to the debates about how the productivity gap can be measured, and what the UK can do to improve the effectiveness of UK industry and its supporting public services.

#### **Sustaining innovation to achieve competitive advantage and high quality public services.**

*How can UK managers capture the benefits of innovation while meeting other demands of a competitive and social environment?*

Innovation is a key source of competitive advantage and public value through new strategies, products, services and organisational processes. The UK has outstanding exemplars of innovative private and public sector organisations and is investing significantly in its science and skills base to underpin future innovative capacity.



#### **Adapting promising practices to enhance performance across varied organisational contexts.**

*How can UK managers disseminate their experience whilst learning from others?*

Improved management practices are identified as important for enhancing productivity and performance. The main focus is on how evidence behind good or promising practices can be systematically assessed, creatively adapted, successfully implemented and knowledge diffused to other organisations that will benefit.

The concept of the High Performance Work System (HPWS) is a comparatively recent development in Human Resource Management (HRM). An HPWS is a work system comprising of various employment relations practices intended to create competitive advantage by integrating the firm's strategic objectives with the commitment, engagement and participation of employees. Practices covered under the HPWS umbrella might include employee empowerment through access to the decision making process, performance related rewards, commitment to quality standards, and flexible working practices.

In reality, however, HPW systems are just one way of linking employment relations (ER) practices and the performance of the firm. Their use as an organisation-wide system is not yet widespread. And they may well not be an appropriate way for small and medium enterprises (SMEs), which constitute over 95 per cent of businesses in the UK, to think about the relationship between employment relations and performance.

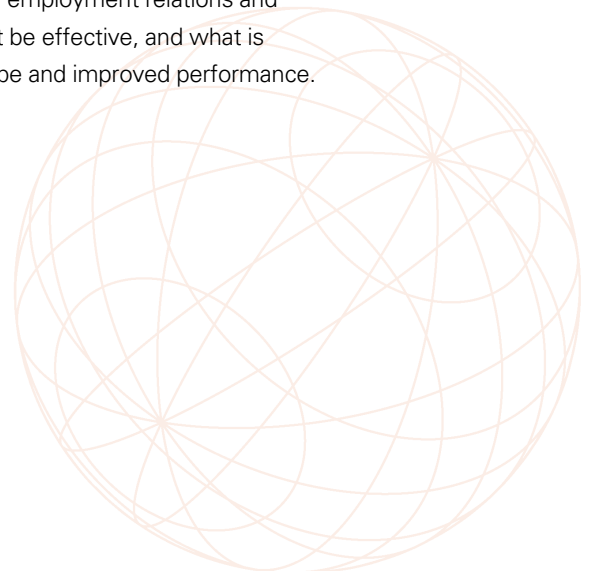
This briefing helps managers and owners in small firms, and, in particular, family firms, to understand and examine the relationship between employment relations and performance. It does so by looking at the social context firms operate in and the resources they have at their disposal, extracting some key factors that relate to ER and the firm's performance and constructing a framework that places firms into seven categories.

The categories are:

- the modern firm
- the niche firm
- the fraternal firm
- the classic atomistic firm
- the traditional family firm
- the sweatshop
- the paternalistic firm.

By understanding where their firm fits into this framework of firm types, managers will be able to better understand the relationship between employment relations and performance in their firms, what practices may or may not be effective, and what is required to make the transition towards a different firm type and improved performance.

**An HPWS is a work system comprising of various employment relations practices intended to create competitive advantage.**



### **Connecting human resource management and performance – a new approach**

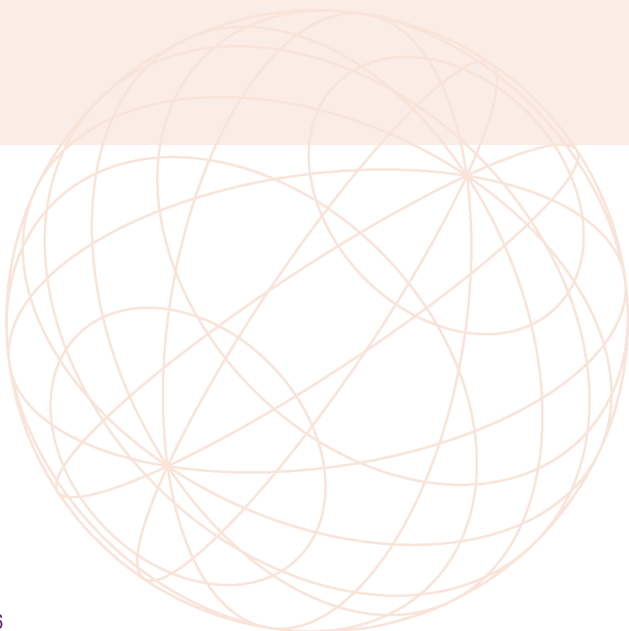
The relationship between human resource management (HRM) practices and the performance of firms has been widely debated, albeit with a focus on large firms. But, despite the huge amount written on the subject, there remains a central and fundamental problem: identifying mechanisms that link the two.

This briefing examines the relationship between HRM and performance but with a focus on small firms. It also adopts a new approach, drawing on the existing theory relating to two concepts; embeddedness and the resource based view of firms.

Embeddedness is to do with the way in which the behaviour of firms in markets is shaped by the social context in which they operate. For example, firms may behave in different ways depending upon the country they operate in – their national context. Equally, small firms often operate across different domains; on a wider scale these include global, national and regional economies, but also, on a smaller scale, smaller networks such as family and kinship networks.

The contexts that firms operate in shape their behaviour, both in negative and positive ways, providing constraints (e.g. expectations that a firm will be managed to suit family goals rather than purely economic ones) and resources (e.g. labour willing to work flexibly and often unpaid). Looking at firms in this way can help to identify and understand different types of firm, the different contexts that they operate in, and therefore better understand the links between HR policies and performance, and what actions might and might not prove effective.

The resource-based view of the firm identifies distinct sets of resources that small firms can deploy, once again with both positive and negative aspects. Combining the two, embeddedness/social context and the resource based view of firms, it is possible to develop a formal framework, apply the framework, and demonstrate the implications for firms with respect to achieving high performance through employment relations practices.



# high performance work systems

Some commentators believe that there is a package of ER practices that can generate high performance returns. This concept is labelled the High Performance Work System (HPWS) – a system of organisational practices that creates a greater level of employee engagement, commitment and competence.

## 1 Flaws in the HPWS model

Despite its theoretical popularity there are difficulties with the HPWS model, particularly around three issues: the take-up of new practices; the operation of high performance systems; and the theoretical basis of the model.

**(i) Take up:** Many organisations implement individual parts of the high performance model, but few use the whole package. One survey across ten European countries concluded that the HPWS model in its fully developed form probably existed in no more than two per cent of workplaces.

**(ii) Operations:** While many research studies report associations between the use of HPW practices and various performance outcomes, it remains unclear why the associations exist. There are problems with the research in this area. The components of the model differ in different cases: training appears key in some cases and reward systems in others, for example. Measurement of practices is often inconsistent between studies.

A persistent, unresolved issue is whether it is successful profitable firms that are more effective at human resource management; rather than the other way around – more effective HRM creating successful firms. Also, the general consensus is that HPW systems work by promoting employee trust and commitment, which in turn leads to improved motivation and flexibility. But some studies have failed to find these links. This may be because HPWS models depend on other conditions, such as a reasonable level of job security for workers, for example, for them to work.

It is possible that HPW systems work because of certain institutional underpinnings, and not because of the systems themselves. Firms looking to implement HPWS may not know which practices will work for them, or whether the practices work only when certain other underpinning conditions exist.

Many organisations implement individual parts of the high performance model, but few use the whole package.

**(iii) Theoretical basis:** A third issue is the theoretical basis of the HPWS model which tends to see causal processes as *unidirectional* and *universal*.

The unidirectional aspect sees performance as an outcome of the HPWS model rather than the other way around. Yet patterns of performance are surely likely to sustain sets of ER practices.

As for universality, there are two aspects. One is to do with 'best practice' and 'best fit'. Best practice models expect a given set of practices to have the same effects regardless of context, i.e. to have universal application. This concept has been displaced in popularity by the idea of best fit: what is suitable in one context may not work in another.

The second aspect of universality is that best fit models tend to assume that a given practice, in a given kind of context, has a certain effect. But simply introducing a practice may have no effects. Very similar firms often copy each other, but transplanting a practice does not guarantee results. It may work in one firm because of a complex set of relationships which are hard to reproduce elsewhere. If this is so, the search for general solutions is doomed to failure.

## **2 Relevance to small firms**

In the light of the issues described above, the status of the HPWS model is at best uncertain.

The HPWS model is best seen as a checklist of a set of practices to do with traditional 'good management', which embraces information sharing, worker discretion and employment security. It is a framework or stimulus rather than a ready-made solution, and its core aspects apply only under certain, relatively unusual, conditions.

It may well be that the relevant influences are complex and shifting, and we need to stand back and consider the competencies shaping particular types of firm. This is particularly true of small firms which are less likely than other firms to employ 'high performance' practices and to be embedded in family and other networks that influence their behaviour.

## **3 Institutional perspective**

Another way of looking at the link between ER practices and the performance of firms is to consider the institutional perspective. How are particular causal influences embedded in a much larger institutional context? How is behaviour shaped by institutional factors? In particular how is it shaped by particular contexts?

A good illustration of the way in which behaviour in small firms is shaped by institutional contexts is the organisation of work.

One study of Asian-owned clothing firms found a division of labour in one firm that was technically irrational with parts of garments moved around the factory in a haphazard and disorganised way. The reason for this was due to the bonds of friendship between workers that overrode technical rationality.

But it was not just that the 'social' simply constrained the 'rational', there were also benefits; notably the flexibility with which workers moved between tasks, in this social arrangement. Nor was it clear that managers would have preferred a more rational system, for this might have meant that they needed to devote more management time to the organisation of the work flow. The system was a product of its social context, and was not necessarily inefficient. The example shows how a particular kind of embeddedness can explain results that are at first sight inexplicable.

#### **Research focus: Family-owned firms in low-entry-barrier and low-wage sectors**

Our research focuses on one particular type of small firm. A first defining feature is family ownership, which is common in the SME sector. One study of 200 micro-businesses found that 40 per cent were family businesses in the sense that they formally involved family members as co-owners or employees.

A second feature is that firms studied operate in a sector in which there are low barriers to the entry of competitors, or a particular niche is open to invasion from large firms, or both. Facing competitive conditions is also very common. A rough indicator of competitive conditions comes from a survey of firms employing up to 50 people, which placed nine per cent of its sample in low value-added manufacturing, a further nine per cent in hotels and catering, and ten per cent in construction. These sectors generally face highly competitive conditions. It is reasonable to assume that half of the firms in other sectors such as distribution also face such conditions, meaning that over 40 percent of all small firms operate in intensely competitive circumstances.

A third feature is that the firms are non-knowledge-intensive firms. Typical examples include restaurants and hotels, hairdressers, contract cleaners, and food and clothing manufacturers. Such firms often find themselves in low-wage labour markets.

The up-rating of the National Minimum Wage in October 2001, for example, affected 11 per cent of jobs in firms with fewer than ten employees, as against five per cent of all jobs. The proportion would be much higher in the specific sectors listed above.

Adopting this new approach to looking at the relationship between employment relations and performance, influences on behaviour within the firms can be ordered into two types: structural influences and those related to the choices and processes of the firm.

## 1 Structural factors

Structural factors include:

- Elements of the surrounding institutional context such as legal requirements. This also includes the degree of embeddedness in industrial or local networks, because such networks are part of the context in which a firm operates.
- Features of the economic context of the firm. This includes two elements: the buying and selling of products – including conventional product market indicators such as the number of competitors and the price elasticity of demand, as well as patterns of relations with customers and suppliers; and the supply of resources to enable buying and selling to take place – including labour market issues such as access to labour, access to capital and other resources.
- Resources within the firm, including human and social capital, survivability capital (such as pooled personal and other resources that help firms to survive and that may be less available in large firms), and governance structures.

## 2 Factors relating to choices and processes

Factors relating to choices and processes include:

- Strategic choice: conscious actions taken by a firm in the light of the resources it possesses, such as a decision to move into a new product niche.
- Routines and taken-for-granted assumptions and the personal preferences of key managers and owners; informal organisational effects.

## 3 The variables: structural and choice/process related

This briefing places the above factors into an explanatory model that identifies some core ideal types of firm. It identifies variation in each of the factors and then discusses some of the key combinations that emerge.

Each of the structural variables can be represented as follows:

**Product market:** highly *competitive*, or under a degree of *control* by the firm. Competitive conditions mean that firms have little control of prices; the more that a firm operates in a distinct niche, the more will it be able to exert some influence over the market.

**Labour market:** the firm recruits *openly* for labour of a given kind, or it fishes in a *restricted* pool defined by ethnicity or other factors. The further a firm is towards the latter condition, the more elements of particularism will creep in – a focus on the interests of a particular group – with recruitment turning on friendship or family ties rather than rational economic decision making.

**Resources:** human and social capital is either a *positive* aid in responding to market pressures or a *negative* constraint on flexibility. (In fact, resources may have both features at the same time, but are distinguished for simplicity's sake).

Although it is impossible to reduce action to a few types, the following possibilities are suggested:

**Strategic choice:** the firm has a clear *strategy* as to its business direction, or it is passive and largely *reactive* to events. Note that a firm may make a conscious choice to shift downmarket, as well as the more commonly discussed effort to strengthen its market position.

**Rules and routines:** these are either *universalistic* and formalised, or *particularistic*, unwritten and informal. The more a firm is towards the latter category, the more it will allow privileges to some workers, based on kinship or length of service, that it does not permit to others.

**Management style:** the employment relations literature has identified types of management style. We use the labels of *authoritarian* or *democratic* approaches. The former is based on the power of the manager and it can entail the arbitrary use of sanctions. The 'democratic' label is used here to index the degree to which there is a discussion and the flow of opinions up as well as down the hierarchy.

With two categories in each of the six dimensions, there are, in principle, 64 possible combinations. The number of possibilities can be reduced, however. First, some combinations may be analytically impossible. A firm where family interests are dominant will not make strategic choices based on rational models of economic maximising. Moreover, there may be a hierarchy of effects: some high-level effects rule out all lower-order combinations, so that a whole set of combinations is impossible. For example, being in highly competitive product markets may tend to constrain labour market choices and the types of strategy that can be adopted.

Second, combinations may be unlikely in practice and thus excluded. However, rather than arguing over how many combinations can be excluded in order to produce a manageable set of types, this briefing simply demonstrates that various combinations generate ideal types that shed light on firms in practice.

A firm where family interests are dominant will not make strategic choices based on rational models of economic maximising.

## types of small firm

Table 1 illustrates some of the main patterns, together with examples and explanations of the different contexts that they are embedded in. Note that the examples are 'ideal' types. For example, research on powerless groups suggests that pure sweatshops, meaning cases where managerial control is unrelenting and where workers are totally cowed, do not exist in such stark terms in reality.

**Table 1: Illustrative forms of organisation and embeddedness**

	Prod. mkt	Lab. mkt	Resources	Choice	Rules	Style	Example
<b>1</b>	Control	Open	+	Strategic	Univ.	Democ.	<b>The modern firm.</b> Embeddedness is within the logics of the market economy.
<b>2</b>	Control	Restricted	-	Reactive	Partic.	Auth. or democ.	<b>A closed niche.</b> Product market conditions give stability, but firm remains embedded in strong but restricted labour market and family ties.
<b>3</b>	Control	Restricted	+	Reactive	Partic.	Democ.	<b>The fraternal firm.</b> Strong embeddedness in local and occupational networks.
<b>4</b>	Comp.	Open	+	Reactive	Univ.	Auth. or democ.	<b>The classic atomistic firm.</b> Very weak embeddedness.
<b>5</b>	Comp.	Open	-	Reactive	Partic.	Auth. or democ.	<b>The traditional family firm.</b> There is a moderate degree of embeddedness in family and kin networks.
<b>6</b>	Comp.	Restricted	-	Reactive	Partic.	Auth.	<b>The classic sweatshop.</b> Strong but highly localised embeddedness.
<b>7</b>	Comp.	Restricted	+	Reactive	Partic.	Democ.	<b>Paternalism.</b> Embeddedness similar to sweatshops, but ties with workers based on mutual obligations, and hence there is a complementary element of network support.

**The modern firm:** Looking at the examples in Table 1, the first is perhaps the most extreme case, where the firm has entered the 'mainstream'. It is driven by a strategy in the context of its market circumstances, and resources are *positive* because the distinct features of the small firm, such as its human and social capital, are deployed in the pursuit of the strategy. This is a classic case of the strength of weak ties. There has been much debate in Britain on the 'break out' of small firms from narrow niches, often defined by ethnicity, into the mainstream. This category captures the idea.

**A closed niche:** This firm also has some product market control, but it has not used this to enter the mainstream, and it remains caught; embedded in limited networks in terms of the sources of labour supply. Family and other resources are more likely to impose constraints than in the first example. Embeddedness takes the form of family links, connections within certain labour markets, and so on. It is possible for there to be both authoritarian and democratic variations on this type, depending on the personal preferences and histories of individual owners.

**Fraternal firm:** The fraternal firm has an established niche (for example in the building trade), workers are hired through word-of-mouth means, family resources help to sustain the business, and workers are treated as the equals of managers. This captures the essence of the fraternal firm. Note that 'democracy' here does not imply formal participation rights. The firm is the property of the owner-manager, and workers who question the brotherly and harmonious image may be forced out. 'Democracy' means that workers' preferences are treated seriously and that workers are not treated as mere factors of production.

**Atomistic firm:** In this firm type, product and labour markets approximate to free market conditions, and there is therefore no space for strategic choice or rules that diverge from market principles. Because the firm is assumed to respond directly to market signals, the issue of institutional embeddedness does not arise.

**Family firm:** In the traditional family firm the negative aspects of family control are relatively strong, which militates against a strategic approach. Rules are necessarily particularistic, shaped by personal and family relations. It is possible to run such a firm in either a democratic or authoritarian manner.



There is a degree of labour market openness because the firm is set up as a family operation but without being exclusively or restrictively so. A small firm in the retail sector, for example, might be founded as a family operation but advertises openly for staff.



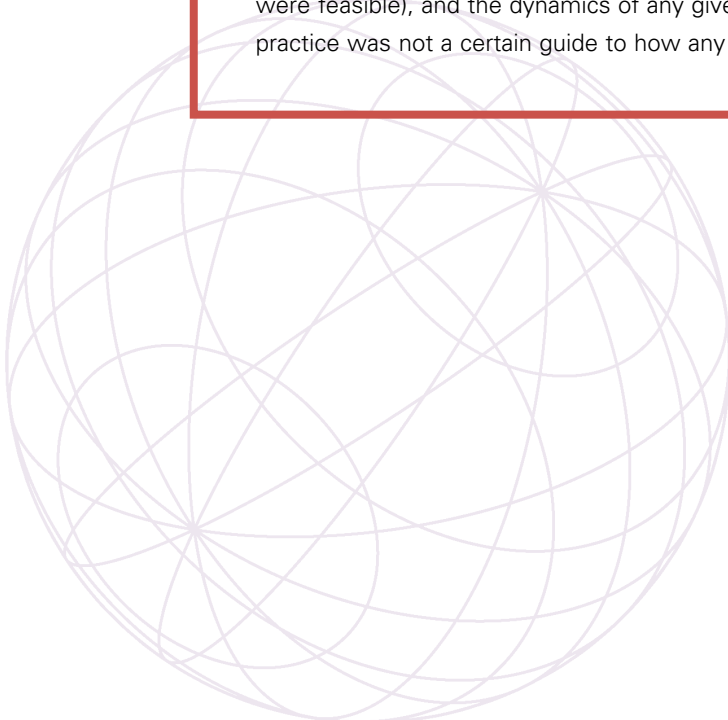
**Sweatshop:** In the classic sweatshop, workers are largely powerless and are subject to arbitrary managerial authority. Some firms, for example those employing illegal workers, come close to this model.

**Paternalistic firm:** Finally there is the paternalistic firm (see below). The term is used here to indicate that group of practices in which there is a degree of responsiveness to employee concerns even though the external environment is harsh. It is not the only type of paternalism that may exist. Many family-owned firms are likely to contain paternal elements, in the sense of caring for employees where pure market logics might dictate otherwise but also of seeing the owner as the authority figure that must not be challenged.

#### **Between autocracy and democracy: Paternalism**

Authoritarian and democratic styles are not the only possibilities. The idea of negotiated paternalism has been introduced in the academic literature on the subject to deal with what otherwise seemed to be an empirical anomaly: Asian family-owned firms in highly competitive markets that were neither straight sweatshops nor havens of paternalism in the sense of harmonious owner-led relationships. They were not sweatshops because employees were able to bargain around the terms of their labour and because managers accordingly had to use consent as well as coercion.

Their paternalism was qualified by the presence of autocratic elements and by the fact that it was practiced in relation to some employees but not others. Day-to-day relations could swing between paternal practices, autocracy, and negotiated consent, depending on who was involved and the particular economic context of the firm, so that high demand for certain products gave bargaining power to the workers whose skills were needed to meet this demand. Here we have a clear example of action that was shaped in part by external conditions, in part by the logic of action itself (previously established expectations as to the types of action that were feasible), and the dynamics of any given piece of action (so that previous practice was not a certain guide to how any new bargain would work out).



## examples of choice and change

While a theoretical framework is interesting, the question remains, how does it relate to the real world? The following two cases show concrete examples of how strategic choice, as well as 'choice' through drift and unplanned actions, can affect the firm's context and thus performance.

### 1 Family firm to modern firm

The case of 'PatCo', a producer of ethnic foods, employing 34 workers, illustrates a shift from the 'family' to the 'modern' categories, a shift made possible by opportunities in the product market, and made real by the determined drive of the owner-manager, "we're driven by his personal ambition" said one manager.

PatCo's original market was local food outlets and grocery stores, but it moved into supplying large supermarket chains, with such success that this comprised about 85 percent of its business. Resulting changes in the running of the firm included the hiring of specialists in personnel, production and finance.

In some respects the firm had chosen to become dependent on its large customers, which required the use of Electronic Data Interchange, specified when deliveries were to be made, and exerted strong pressures on prices ("price increases are a no no" – senior manager). Yet this position was preferable to the previous 'isolated' one, in permitting significant growth, investment in new technology, and improved margins. True, the supermarkets had demanding standards, but they did not squeeze firms like PatCo dry. The firm had some control over its product market.

Changes in the management of employees went along with the new market position. The new production system was highly disciplined, "We output control all our production staff... we have data sheets of everything that we produce in every department." the owner said. Closed circuit television was used on the shop floor so that managers knew straight away when one of the machines was not working. This in turn had consequences for relations with employees. Selection of workers altered: in the past people who were 'not quite right' were employed, but the firm was now more exacting in its selection. As the production manager explained, the firm had operated as a classic family firm, with work schedules being fitted around the hours that employees wished to work. Now the culture had changed from 'being very laid back to just laid back'. In one incident, the CCTV system was used as evidence in a disciplinary case: a van driver was suspected of falsifying time sheets, and the system showed that he had indeed arrived later than he claimed. Significantly, a 'modern' approach was pursued in that he was taken through a formal disciplinary procedure and dismissed, rather than simply warned as might have happened under a more traditional regime.

Closed circuit television was used on the shop floor so that managers knew straight away when one of the machines was not working.

By the end of the 1990s the growth of imports from North Africa and East Europe meant market conditions had tightened further.

PatCo became more formally regulated, but retained features of the family firm. Pay setting remained at the discretion of the owner. And, though meetings to discuss production issues were instituted, these did not involve any sharing of information on the financial performance of the firm or a representative role for employees. Finally, mutual obligations of a personal kind remained strong. For example, a worker who had joined over seven years previously had now worked up to being a project manager. He had seen much more highly paid jobs elsewhere, but in the past the firm 'stuck by me [and] I will stick by them'.

## 2 Traditional firm to sweatshop or closure

'SweatCo' was a clothing firm employing ten workers. Like many firms in the sector, it was finding market conditions very difficult. Again like many others, it had survived during the 1990s by producing cheap goods in response to immediate demands for short production runs. Few firms in the sector have direct relations of dependence with large clothing chains. Instead, most production is handled by agents or wholesalers. Producers were dominated by large firms but also to a degree isolated by this structuring of the market.

By the end of the 1990s the growth of imports from North Africa and East Europe meant market conditions had tightened further. Part of the relocation of production involved the shipping of parts of garments to East Europe for final assembly. At the same time, UK exports fell. These developments squeezed the niche within which UK firms had managed to secure a precarious existence. An additional pressure was the arrival in 1999 of the National Minimum Wage, described by one firm as the 'last straw'.

The response at SweatCo was to retreat into its established relationships. This could be termed strategic in that there was a conscious choice, with a clear end in view – survival. The firm began to focus on counterfeit products which it sold through market traders. It also relied more heavily on homeworkers, many of whom were related to the owners. Intensive utilisation of informal networks was needed to continue to survive.

EndCo failed to survive. It had relied heavily on a large garment manufacturer for most of its business. When this firm failed, EndCo was in a difficult position. It limped along for some time, helped in part by SweatCo, whose owner was a close friend of the owner of EndCo. SweatCo sent it some of its orders for counterfeit goods, but this was a temporary lifeline and EndCo soon closed, with the loss of 15 jobs.

These responses were strongly shaped by market conditions but not determined by them. Evidence on 18 clothing firms categorised responses as follows. Three firms followed the SweatCo pattern of moving into grey markets, while two closed. The largest group (eight firms) 'retrenched' by focusing on core operations and cutting costs to the bone. In effect, they remained traditional but intensified their reliance on this pattern. The remaining five firms each found a niche that allowed them to move up-market in the direction of the modern type or rationalised their use of labour and intensified the control of work.

## Implications for understanding the performance of small firms

What does all this mean for firms and the way they look at business performance? The issue here is not what performance outcomes might be expected from different types of firms, but rather how firms think about what constitutes performance and how far they are oriented to a high productivity path.

Here 'performance' means long-term development, based on making improved use of resources and leading to rising levels of productivity. The HPWS model, mentioned previously, is seen as one way of contributing to performance in this sense.

There are two kinds of performance effects in firms. The first embraces deliberately chosen policies, for example the introduction of a performance management system as part of an effort to move towards high value-added niches. The second may come about as a result of external 'shocks', which might be shifts in the product market or new legislative requirements. These are distinguished below, where the ways in which firms of different types may see performance are also highlighted, together with some of the likely issues the firms will face.

**1 The modern firm:** Of the types discussed above this firm is the most likely to be able to use ideas associated with high performance. It has the strategic orientation to make use of the relevant techniques, and its market context suggests that it may be able to benefit from them. Its actions are likely to reflect choice rather than shocks.

There may, however, be issues to address if a HPWS approach is pursued. One concerns the size of the resources available. A firm moving down the HPWS route may find that it lacks the management skills to implement these systems successfully. Personnel specialists are very rare among small independent business.

It may also find that different types of skills and connections are needed, with a growing emphasis being needed on formal procedures that may clash with existing informal relationships. The history of the firm may also be significant. Where the emphasis has always been on modern business practice, matters may proceed smoothly. But, where there is a shift of style, it may be more difficult to achieve consent to a new approach. The meanings given to management style may be important here. Though a 'democratic' style is a feature of this type of firm, it can have different aspects. A HPWS tends to call for explicit attention to the structure of participation and involvement in a firm. This may not be consistent with a more informal style.

**2 A closed niche:** In the closed niche firm receptiveness to HPWS ideas may be an issue. A continuing puzzle is the low take-up of practices that are claimed to be profitable for the firm and also, on some accounts, beneficial for workers. Part of the answer is that such firms may well be doubtful about solutions coming from outside. Such scepticism could reflect closed minds, but it may well also have a rational strand, in that the solutions are not tailored to the firms' own needs.

...'performance'  
means  
long-term  
development,  
based on  
making  
improved use  
of resources  
and leading  
to rising levels  
of productivity.

Unless there is some specific challenge to the profitability of the niche, a HPWS model may have no purchase here. Indeed, it might well be counterproductive if it sparks resistance to change among family members or employees or both. Change here may well come as a result of a shock, such as a change in market conditions, rather than strategic choice. Such shocks may well stimulate a change of approach.

External shocks can lead to constructive shifts in behaviour. In clothing manufacture, for example, worsening conditions in existing markets led some firms to move into new areas such as the supply of fabrics for healthcare. This can be described in the standard resource-based language, of a firm using its core skills to change its product market location. Yet these shifts are not immanent in the resources themselves, and choice and action are paramount. What is crucial is the amount of control of the product market, and hence the ability of the firm to continue to shape its own destiny.

**3 The fraternal firm:** The fraternal firm has many similarities with the closed niche. It may find that it is less constrained in changing its policy by resources, and indeed it is the positive rather than the negative character of its resources that distinguishes it from the closed niche firm.

There is, moreover, a degree of control of the product market, so that strategic choice may be feasible. Yet the culture of equals that underlies fraternalism may make it hard to press through a modernisation strategy. Such a culture may also, however, permit a shared approach to learning that could stimulate improved performance.

**4 The classic atomistic firm:** With the atomistic firm facing strong competition, the HPWS may mean little. There are two rather different explanations for this. Economic theory would see the firm as responding directly to market signals, so that any aspects of work re-organisation will already have been absorbed. The explanation from empirical research on small firms would stress the firm's reliance on low wages and its isolation from sources of advice. In addition, the HPWS emphasis on commitment and learning is unlikely to fit the limited uses of skills and abilities that characterise firms of this kind.

**5 Traditional family firm:** The traditional family firm has many aspects of internal management in common with the fraternal firm and the closed niche firm. Rules are particularistic and so it may be hard to deploy a HPWS approach. In addition, competitive product markets are a further, and probably more important, constraint as the conditions supporting the approach are likely to be absent. However, to the extent that the firm can achieve some control over its product market circumstances, it may have some means to address its long-term performance. In addition, we have specified a moderate degree of embeddedness in family networks. To the extent that these are not wholly constraining, there will be some opportunity to address performance issues.

**6 The sweatshop:** Tight constraint is even more strongly the case with example six, the sweatshop. Here, attention will focus on short-term survival, and the firm's authoritarian style will militate against a high performance model.

**7 The paternalistic firm:** Finally, by contrast, the paternalistic firm may be less constrained. It is true that it is in competitive product markets and that labour market choices are restricted. But there is a sense of mutual obligations between managers and workers, and there is a democratic, if highly personal and informal, management style. There may, therefore, be some openness to addressing performance issues.

The firm types outlined in this briefing provide an important reference point for managers and owners of small firms, particularly family firms.

Why? Because by understanding where their firm lies in the framework and where other firms lie, as well as the characteristics that define the various types of firm, managers and owners may be able to better understand the relationship between employment relations and performance and manage that relationship for the benefit of the firm.



## **AIM – The UK's research initiative on management**

If you are interested in working with AIM Research, require further information or to access the following:

- Full UK programme of AIM workshops, conferences and event listings
- Fellows' profiles and full research project details
- AIM quarterly Newsletter and press releases
- Research papers and AIM publications available as downloads
- Information for the media

*please visit AIM's website* **[www.aimresearch.org](http://www.aimresearch.org)**



Advanced Institute of  
Management Research

### **For all enquiries please contact:**

Advanced Institute of Management Research (AIM)

6-16 Huntsworth Mews

London NW1 6DD

Tel: +44 (0)870 734 3000

Fax: +44 (0)870 734 3001

Email: [aim@london.edu](mailto:aim@london.edu)

Web: [www.aimresearch.org](http://www.aimresearch.org)

The Advanced Institute of Management Research (AIM) was founded in October 2002. It is a multi council initiative of the UK's Economic and Social Research Council (ESRC) and Engineering and Physical Sciences Research Council (EPSRC) – with activities at over 30 institutions in the UK and overseas, and offices at London Business School.

ISBN 0-9553577-5-6