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Greek Firms and EMU: Contrasting SMEs and Large-Sized Enterprises

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The primary aim of this study is to contrast and identify differences in the ways by which SMEs and large firms have attempted to change their management practices in order to cope with the formidable challenges associated with competing in the EMU. Using survey data collected from leading Greek firms shortly before Greece's recent accession to the EMU, the study is an attempt to begin empirical work in this area by focusing on changes in competitive strategy, structure and management processes. The results indicate that both SMEs and large firms have initiated changes in all three dimensions. It seems, however, that the degree and direction of these responses depends on size; SMEs appear less able and/or less willing to implement change, perhaps because of size-related disadvantages. © 2001 Published by Elsevier Science Ltd.

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Introduction

European firms, and particularly SMEs, face the double challenge of confronting both global competition and factors related to European integration (Wielemaker *et al.*, 2000). At the broadest level, it has become a truism to argue that technological revolution and the pace of globalization present major challenges to firms' ability to maintain their competitiveness. Within the European context, there now exists clear evidence that the Single Market (SM) programme has greatly accelerated the processes of integration and restructuring across virtually every sector of economic activity (Smallbones *et al.*, 1999). As many argue, the recent advent of the Economic Monetary Union (EMU) is potentially the most significant economic event in Europe in the last 50 years. The formation of the eurozone and the SM of almost 300 million consumers will inevitably sharpen competitive pressures throughout Europe. In short, today's European economic environment holds many opportunities as well as increased challenges. Innovation, flexibility, cost control, and more generally, organizational change, are widely prescribed to constitute the main managerial imperatives for organizations competing in the EMU era.

However, most of the research dealing with the impact of the SM concerns the implications for large firms (Smallbones *et al.*, 1999). For example, a recent study (Whittington *et al.*, 1999) that examined organizational change in Europe, focused on firms employing more than 500 employees. In contrast, even though there has been no shortage of research dealing exclusively with SMEs, this has been primarily (but not exclusively) of a qualitative nature and based on 'SME experts' opinion from different Member States (Smallbones *et al.*, 1999).

It is not entirely clear however, if, and to what extent, empirical findings drawn from, as well as recipes directed to large firms, apply to the particular case of European SMEs. The relative lack of systematic attention on this issue does not only ignore the idiosyncrasies of SMEs but also rests on a largely untested assumption, i.e. that SMEs are more or less equally well equipped and willing to undertake the same patterns of change as their large counterparts.

The primary aim of this study is to contrast and identify differences in the ways SMEs and large firms have attempted to change their management practices toward the objective of improving their competitiveness. Greece represents an interesting context for the purposes of our investigation, since it is an example of an economy in transition. Having made remarkable progress towards macroeconomic convergence during the last few years, Greece has recently entered the EMU and thus sets the example for a number of candidate economies (e.g. Eastern European countries like Hungary or Poland) that follow.

Despite, or perhaps precisely because of this success, the challenge now for Greek firms is to improve their competitiveness. Are Greek firms, and particularly SMEs, ready to cope with the formidable challenges associated with competing in the EMU? Using survey data, this study undertakes exploratory empirical work in this area by examining the following questions: What kind of changes in strategy, structure, and processes have Greek firms implemented? What are, in this respect, the differences between large firms and SMEs? Moreover, are these responses different from those generally prescribed for firms in advanced economies?

The remainder of the paper is organized as follows: the subsequent section briefly presents the theoretical background on the content of organizational change. The third section presents the data and methodology used. The fourth section presents the results. The paper concludes with a discussion of the findings.

Theoretical Background

The literature on the *content* dimensions of organizational change can be summarized under the headings of change in strategy, structure, and processes (see Whittington *et al*., 1999, for a similar categorization). These three dimensions collectively define the content of what has been referred to as new forms of organizing, for which flexibility, innovation, and knowledge creation are the fundamental objectives (see for example, Volberda, 1998; Brown and Eisenhardt, 1998).

Change in Strategy

Competitive strategy refers to the fundamental direction a firm pursues in its quest to adopt to market environment. It is reflected in the array of activities undertaken to create an attractive market position. This position can arise either from the selection of a cost base lower than the competition or the firm's ability to differentiate its offerings and command a premium price that exceeds the accumulation of the extra costs. Hence, the two primary types of competitive advantage: differentiation or low cost (Porter 1980, 1985).

Conventional wisdom prescribes that firms facing significant environmental change may improve their chances of survival and subsequent high performance by changing their strategy in ways that fit more appropriately with new environmental circumstances. Whereas some theorists (e.g. Porter, 1980; Miles and Snow, 1978) tended to assume that differentiation and low cost are alternative but equally viable strategy orientations across environmental contexts, others have suggested that the nature of market environment is a critical factor for strategy viability (e.g. Dess and Beard, 1984; Hambrick, 1983).

It has been argued that a *low cost* orientation is most appropriate in stable and predictable environments (Hambrick, 1983; Miller, 1988; Kim and Lim, 1988). This is because the continuous adjustments needed to cope with a discontinuous and unpredictable environment would likely threaten efforts at efficiency and cost control and would thus result in severe diseconomies for firms pursuing a low cost strategy (Miller, 1988). Whereas a low cost strategy relies heavily on the ability to improve the operational efficiencies in the firm's value chain, a differentiation strategy focuses on the customer and on providing products or services that are distinct from those offered by competitors. As early as in the late 1960s, Lawrence and Lorsch (1967) contended that consistent emphasis on customers' needs is of paramount importance when environmental uncertainty is high. In aiming towards uniqueness, *differentiation* – based on either a *quality image* or *innovation* – is generally assumed to be most appropriate in dynamic and uncertain environments in which, products, services, and practices change quickly (Hambrick, 1983; Miller, 1988; Kim and Lim, 1988).

Based on the above brief discussion, the following research question will be explored:

Research Question 1: Given the challenges associated with competing in the EMU, have Greek firms changed their competitive strategies, and if yes, in which direction? Further, is the pattern of changes different between SMEs and large firms?

Change in Organizational Structure

Organizational structure provides the context for strategic choices to be formulated. It also constitutes the vehicle by which these choices are effectively implemented (Grant, 1998). It has long been held in the management literature that firms resembling a mechanistic (as opposed to organic) structure are less equipped to deal with disruptive environmental change. This is because the combination of formalization, centralization, and tall vertical hierarchy that are characteristic of a mechanistic structure reduces the firm's capacity for innovation and flexibility (Burns and Stalker, 1961).

Formalization refers to the degree by which decision-