Exploring the Influence of Communication on Innovation and Readiness for Change in Small Business

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This exploratory study investigates organizational communication, innovation and readiness for change in relation to micro and small business success. It provides insights into how successful small business owners choose different communication channels to innovate and create new ideas in a workplace that is ready for change. The study was conducted on ten small businesses based in Melbourne. An internal analysis of the small business workplace through semi-structured interview and questionnaire was conducted. The findings show that organizational communication plays a vital role in the success of small business and touches on all aspects of small business management and its members and sets the scene for a climate of innovation and change, particularly in the first stages of business development.

This study investigates the role of organizational communication within the small business environment in order to establish how it impacted on innovation and change in a sample of ten successful small businesses that have been trading between 2-5-years. The ten 'successful' sample businesses were chosen on the basis that their turnover and customer base had grown over the last 12 months.

There are a number of different small business definitions. The Australian Bureau of Statistics (ABS) makes use of employment levels as a criterion for the designation of small business status (ABS 1998). In contrast, the Australian Taxation Office (ABS 2001) uses business size in accordance with total annual income. The different classifications have their own benefits and limitations, but within Government and research circles, the ABS definition is most widely used and chosen for this study. Small business was defined therefore as employing fewer than twenty full-time or equivalent fractional staff. Based on work by Churchill and Lewis's (1983) 'Five stages of small business growth' - start-up, success, maturity, stability, and rejuvenation or death phase - the small businesses participating in this study could be further defined as businesses that are in the first two stages of development. This means that the structure of the organization is simple; the owner-manager personally supervises all activities in the workplace (Robbins et al. 1998, Gerber 1995). Communication does not travel in a formal way or from the top down, but takes place horizontally (Fayol 1949) and is about the quality of personal relationships (Shockley-Zalabak 1999).

Small business forms collectively the biggest business group in Australia (English 1995). In June 2001 there were an estimated 1,597,200 businesses in operation (ABS 2001). Even though over half of these businesses are very small, in total, they represent 96% of private enterprises and provide jobs to over half of the private sector workforce (English 1995). Subsequently, the contribution small business makes to the Australian economy, the employment market and to the Australian way of life is substantial. The Australian market economy is driven by price and competition (English 1995) and functions like a pool with an inflow and outflow of businesses that continually come and go (Bickerdyke, Lattimore and Madge 2000). This turnover of firms is a
natural phenomenon and has some positive effects (Bickerdyke, Lattimore and Madge, 2000). One is, that today's successful small businesses must foster innovation, communication and be ready for change; otherwise they will be surpassed by the competition and experience difficulty in maintaining financial sustainability.

Overview of the Literature

Innovation

Innovation research originates in the work of Schumpeter (Scherer, 1983) and embraces the basic principle that technological innovation drives economic growth. However, recent research views innovation as more complex involving the creation and implementation of new products, services, processes, relationships and methods of organization (Stein and Pinchot, 1998) and as being a dimension of organizational climate (McMurray, 2003). The importance of communication in relation to innovation is substantiated in many R&D studies.

Innovation within the workplace is viewed as a psychological concept that may be conceptualized and measured as a process experienced at the organizational, climate, individual, and team levels of an organization (McMurray and Dorai, 2003). Furthermore, innovation, within an organization, is perceived as a multidimensional concept for it may affect either a product, or process, or an amalgamation of these (Volery, 2003).

Communication and Innovation

Organizational theory and technological change theory form the basis for organizational innovativeness (Dalglish and Newton, 2002). Small businesses that are growing successfully are innovating, changing and evolving continuously through innovation processes that are essentially communication activities (Lievens, Moenaert and S'Jegers 1999, p. 24). Their owners require the ability to think on their feet and communicate change in a meaningful way. Communication is not just about knowing what to say, but why certain points need to be addressed (Pearce 2001). Not spending enough time to communicate vision to staff members has not only a negative effect on their capacity for innovativeness but also business growth (Mazzarol, 2002) and hence success (Robbins et al., 1998; Klein, 1996). Innovative thinking in the workplace, together with a readiness for change and communicating this to staff members, form the characteristics of a successfully growing business (Mazzarol, 2002).

Organizational communication is defined as both similar to and different from other types of communication (Shockley-Zalabak, 1999) and occurs within a multifaceted open system. It is influenced by both the external and internal environment (Goldhaber 1975). Communication is more than the daily interactions of individuals within organizations: 'it is the very process through which organizations are created and in turn create and shape events' (Shockley-Zalabak 1999, p. 28) and move beyond survival (Timm and Stead, 1996) to wealth creation and in some cases re-invention.

Communication Channels

Interpersonal communication and collective understanding influence levels of innovation. There are a number of different communication channels available to an organization when it comes to innovation and readiness for change: face to face interaction, formal or informal group meetings in the workplace, social gatherings outside the workplace, networking, the writing of letters and emails, the use of (mobile) phone, fax, teleconferencing or even television, radio, magazines and outdoor media (Jablin et al., 1987, Robbins et al., 1996; Shockley-Zalabak, 1999; and Timm and Stead, 1996). Choosing the right channel at the right time is not only of importance for the building of relationships with staff and setting of the scene to innovation and change in the workplace, but also of importance for the building of a customer base.

Various studies have been conducted on how communication channels are used in formal networks and complex organizations (Katz and Kahn, 1966; Harshman and Harshman, 1999), however few studies address informal and personal communication channels in the small business environment in relation to
innovation. Even though most researchers agree that the increasing emphasis on the development of faster and newer technical channels for information transfer will change the way organizations function for the better (Shockley-Zalabak, 1999; Huang, 1999; Van Akkeren and Cavaye, 2000), not all small businesses have readily taken up technology such as the Internet and customised websites (Van Akkeren and Cavaye, 1999). There are a number of constraints in the uptake of technology in growing businesses, such as trust, type of business and the personality of the entrepreneur (Evans and Volery, 2000). This study suggests that small business owners need to rely on a number of different channels to innovate and be ready for change - not just technology - and asserts that knowing which channels to use and when, contributes to innovation, readiness for change and the early success of a small business.

**Readiness for Change**

External challenges and opportunities form the triggers for change and may determine the success or failure of the business as a whole (Adcock et al., 1998). Approximately 85,000 businesses that may have started in 2002, failed to do so (Hindle and Rushworth, 2002) due to a number of factors including the events of September 11 in the United States, a narrow Australian innovation policy that lacks the development in R&D, and a decline in entrepreneurial confidence in Australia. In view of these findings, one may assume that these factors would also have an impact on existing small businesses in their strategies to remain both sustainable and to operate successfully in a changing environment. Organizational change may address either structural change which embraces an organization’s functional parts, cost cutting which focuses on the elimination of nonessential activities, process change which deals with how processes are conducted or finally, cultural change which addresses the human aspect of relationships between management and its employees (Beer, 2003). Communication is viewed as a key variable in the successful development of culture change leading to innovative outcomes (Williams and McMurray, 2003). Structural change, process change and in particular cultural change were noticed to be of significant importance during the first two stages of small business development. First, where the owner ‘starts-up’ and runs the business with few people, supervising all activities, specifically the building of communicative linkages with the environment; and second, where the business - now successful - can build more sophisticated communication systems.

**Interpersonal Relationships**

Small business environments are places of personal and informal relationships where the distance between manager and staff is small if not non-existent. There are no departments, no multi-level management and virtually no route for a ‘grapevine’ to travel. Communication simply travels predominantly horizontally (Fayol, 1949) and informally (Goldhaber 1975, Jablin et al., 1987), where communicating about how to innovate and grow the business is much more about the quality of individual relationships (Fineman, 1993) and where communication skills impact on the ability to exhibit innovative behaviour (Williams and McMurray, 2003).

Also psychodynamics play an important role in the small business environment, because all individuals endeavour to make meaning for themselves. In a multi-cultural society such as Australia, most workplaces consist of culturally diverse workforces bringing with them a unique collection of different values, attitudes and beliefs. In this way, culture provides the context for the creation of meaning for organizational members (McMurray, 2003). An employee’s intra-personal and inter-personal relationships with peers, and in particular, with the business owner is one of the most important primary communication experiences in the small business workplace (Shockley-Zalabak, 1999). 'Interpersonal communication is the essence of organization, because it creates structures that affect what gets said and done and by whom' (Weick, 1987, p. 97).
In this study, the premise is that both Maslow's (1954) model of hierarchy of needs theory and Herzberg's (1968) motivation through internal and external satisfiers theory play a role in trust, communication, innovation and change; people need to feel safe and socially accepted as well as challenged in order to generate creative ideas and innovative solutions. 'The difference between high-performing teams and exceptional teams is the quality of the relationship - how well people like and trust each other' (Pearce, 2001, p. 8). Specifically during stages of rapid growth, in small groups, trust and sharing of information go hand in hand (Tyson 2000, p. 87). Interpersonal relationships based on supportive and positive workplace cultures and simple language forms an important part of relationships building with both staff and customers in small business settings (Burnett, 2003). These relationships are based on information about new products, different services, timing, quality and cost. The better a staff member is informed and the more comfortable that staff member feels in the workplace, the more positive the relationship with the external environment (Godsy 1996). In the 21st Century, customer relationships will form the basis for business growth (Zellner, 2000) and sustainability.

The following two research questions formed the basis for this study:

Q1: What type of communication do small business owners utilize to enhance a positive workplace climate?

Q2: What type of communication channels do small business owners apply to enhance innovation and readiness for change?

Figure 1 shows the setting of the study based on Goldhaber's (1975) conceptual framework in which the small business is influenced by the external environment as well as internal environment. Once the literature review identified the research questions and defined the interrelationship between innovation, communication and a positive climate in the workplace, the study's conceptual framework was consequently adapted to guide the case study's primary data collection.

**Figure 1: Communication, Innovation and Change**

![Diagram](image-url)
Methodology

To gain an understanding of the application of communication channels in relation to innovation and readiness for change in small businesses, semi-structured, 45-60 minute, interviews were conducted at the workplace of each of the small business owners using a questionnaire containing open and pre-coded questions.

The topic, communication in relation to change and innovation, was first introduced in a semi-structured conversation, discussing the term 'communication', how the owners saw themselves as communicators, how information was shared in the workplace and how this enhanced the positive climate in the workplace. A second discussion addressed innovation and change by asking each respondent in what ways they were innovative in their business, in what ways the employees contributed to innovative solutions and how the owners as well as staff members responded to change.

Questionnaire Development

The questionnaire consisted of a number of themes. Demographics consisted of age of the business, location, industry, number and gender of employees including owner(s). In the area of communication channels, the questions consisted of three pre-coded variables measuring the number and variety of communication channels, processes and systems and external communication. The theme of communication in the workplace, consisted of four pre-coded variables measuring communication frequency, sharing of information, communication topics discussed between owners and staff and levels of communication success. Small business innovation was measured through an open-ended question that measured how the business owner had been innovative in the workplace. Innovation was also discussed through a question regarding the contribution of employees, measuring the extent to which employees had contributed to innovation in the workplace. Changes that had taken place were discussed through open-ended questions measuring the owner's responsiveness to change. In order to define whether the business was growing, a pre-coded question measured the financial success of the firms participating in the study.

Sample

The focus was on selecting businesses that shared similar characteristics. The selected small businesses had in common that they had been trading between three to five years. Ten small businesses were selected as well as an equal number of male and female business owners (five of each). Ownership consisted of four sole traders and six partnerships of which three were husband and wife. None of the participants partnered with siblings. To provide diversity in the study, the businesses were selected from different municipalities and a variety of industries: the, retail, manufacturing, IT, business services, and personal services.

The internal data and qualitative hand written field notes from the interviews were transcribed to computer, printed, and then theme category analysed. Data from the questionnaire was categorised by area of investigation: demographics, use of communication channels, internal communication in the workplace, external communication, innovation and change. Each area consisted of a number of coded variables. They were transcribed to computer in the form of Excel (Microsoft Office, '98) data sheets. The quantitative data was subjected to descriptive statistical analysis where all Likert-type scaled questions were given weight from positive to negative. The higher the score, the better the communication. Once all questions were processed, coded and weighted, averages and correlations were identified, theme category analysed in graphs to uncover patterns related to the study’s key concepts.

Analysis and Findings

External and Internal Environment

To analyse external environment data, a PEST analysis was conducted to show the impact of Political, Economical, Social and Technological factors on a small organization. It distinguished between
different aspects of the business environment and emphasised specific relationships with small business as triggers for communication and change. Open questions such as the question on the influence of the external environment on the small business and small business innovation and change supported other themes such as culture and trust in the workplace. Table 1 shows the results on the external and internal environment.

**Table 1: External and Internal Environment Findings**

<table>
<thead>
<tr>
<th>Respondent No.</th>
<th>Influence of external environment</th>
<th>Climate in workplace</th>
<th>Communication channel utilized</th>
<th>Innovative ideas applied</th>
<th>Result of change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Retail</td>
<td>Social trends Demographics Economy</td>
<td>Active open and exposed workplace</td>
<td>Networking One to one mentoring staff meetings</td>
<td>Customised services New product line Change in layout</td>
<td>Positive word of mouth Turnover improved</td>
</tr>
<tr>
<td>2 Tourism</td>
<td>Economy Social milieu Technology</td>
<td>Mobile business</td>
<td>Networking Email Internet</td>
<td>New products Overseas products modified</td>
<td>Discovered a new market Turnover doubled</td>
</tr>
<tr>
<td>3 Personal services</td>
<td>Social trends Economy</td>
<td>Supportive</td>
<td>Networking Direct Customer feedback Staff meetings Email</td>
<td>New service for new target market</td>
<td>Turnover improved looking for bigger premises</td>
</tr>
<tr>
<td>4 Health industry</td>
<td>Policies on health</td>
<td>Relaxed</td>
<td>Networking Education Overseas travel Internet</td>
<td>New medical treatments Expansion of locations</td>
<td>New in two locations</td>
</tr>
<tr>
<td>5 Personal services</td>
<td>Social trends Demographics</td>
<td>Positive Busy</td>
<td>Direct customer feedback Socialising with staff</td>
<td>Two new services New hairstyles New ordering process</td>
<td>Different market More turnover Staff expansion</td>
</tr>
<tr>
<td>6 Business services</td>
<td>Policies on insurance Economy Social environment Technology</td>
<td>Relaxed</td>
<td>Advisory board Internet Education Brainstorming with staff Networking</td>
<td>Writing a book Interactive website with memberships Exchanging services with alliances overseas</td>
<td>New educational degree New contracts More staff Turnover improved</td>
</tr>
<tr>
<td>7 Tourism</td>
<td>Technology Global communication Economy</td>
<td>Supportive Active</td>
<td>Travel overseas Socialise with staff and customers Internet</td>
<td>Introduced Global service</td>
<td>Overseas customers Improved turnover</td>
</tr>
<tr>
<td>8 IT</td>
<td>IT Policies Economy Technology</td>
<td>Supportive</td>
<td>Website Internet Networking Staff meetings</td>
<td>Diversified New services Franchise ideas Virtual shopping</td>
<td>Turnover doubled</td>
</tr>
<tr>
<td>9 Manufacturing</td>
<td>Economy Technology</td>
<td>Very active, internal communication sometimes difficult</td>
<td>Networking Internet</td>
<td>Computerised manufacturing New CAD designs</td>
<td>Can take on more work Improved turnover</td>
</tr>
<tr>
<td>10 Information Technology</td>
<td>Government World economies Technology</td>
<td>Positive, but sometimes communication problems</td>
<td>Internet Networking Socialising with staff Education</td>
<td>Introduction of New Technologies</td>
<td>Improved turnover</td>
</tr>
</tbody>
</table>

**Research Question 1**

Testing research Q1: ‘What type of communication do successful small business owners utilize to enhance a positive working climate’, data centred on communication between people in the workplace. The focus was on human aspects of communication, sharing of information and organizational climate.
Table 2: Internal/External Communication and Climate

<table>
<thead>
<tr>
<th>Communication type</th>
<th>Internal comm. %</th>
<th>Internal comm. channels</th>
<th>External comm. %</th>
<th>External comm. channels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Informal meetings</td>
<td>80%</td>
<td>Phone (mobile)</td>
<td>40%</td>
<td>Phone (mobile)</td>
</tr>
<tr>
<td>Formal meetings</td>
<td>20%</td>
<td>Email/memos</td>
<td>20%</td>
<td>Email</td>
</tr>
<tr>
<td>After-hours discussions</td>
<td>70%</td>
<td>Face-to-Face</td>
<td>100%</td>
<td>Face-to-face Networking</td>
</tr>
<tr>
<td>Social gatherings</td>
<td>50%</td>
<td>Phone conferencing</td>
<td>20%</td>
<td>Education</td>
</tr>
</tbody>
</table>

Analysis showed that all participants used informal, personal and active communication internally and externally to enhance a positive climate in the small business workplace. Informal meetings scored four times higher than formal meetings and many of the owners communicated with staff after hours and during social gatherings. Communication with the external environment showed a similar picture. Whereas email was used by half of the owners, face-to-face networking scored highly. This shows the importance of interpersonal internal/external relationships and confirms theories of Shockley-Zalabak, (1999) and Maslow (1954).

Findings on communication topics, shown in table 3, reveal that creative ideas and innovative solutions in the small business workplace were actively shared between peers and business owners. This finding supports Williams and McMurray (2003) that communication can be viewed as a key variable in the successful development of culture change leading to innovative outcomes.

Table 3: Communication Topics

<table>
<thead>
<tr>
<th>Communication Topic</th>
<th>Ideas shared owner/staff</th>
<th>Communication Topic</th>
<th>Ideas shared owner/staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business vision</td>
<td>50%</td>
<td>Innovation (new products/services, improvements new processes)</td>
<td>80%</td>
</tr>
<tr>
<td>Growth Strategies</td>
<td>70%</td>
<td>Changes to business</td>
<td>80%</td>
</tr>
<tr>
<td>Customer Service</td>
<td>60%</td>
<td>Financials</td>
<td>70%</td>
</tr>
<tr>
<td>Day to day tasks</td>
<td>80%</td>
<td>Personal issues</td>
<td>80%</td>
</tr>
</tbody>
</table>

Business vision was discussed with staff in half of the workplaces. Growth strategies and customer service, innovation, and day-to-day tasks or long-term changes were discussed with staff by nearly all participants. However, business financials and personal issues were communicated equally. This points to a high level of openness and trust and a peer supportive environment. Trust appeared to be developed through the building of a positive climate in the workplace and personal relationships by the small business owner and the sharing and satisfying of social needs as Maslow's (1954) model indicated. Questions on language had similar connotations. The question: 'How would you describe the overall language used in your workplace?' was met with a positive, supportive, relaxed attitude by ninety percent of respondents.
Research Question 2

Testing research Q2: What type of communication channels do successful small business owners apply to enhance innovation and readiness for change as part of their vision, data centred on communication channels used by each owner to trigger innovation and change.

Table 4 shows a wide variety of communication channels used by the respondents when it came to developing innovative workplaces. These findings were in line with Shockley-Zalabak (1999), Timm and Stead (1996) and Burnett (2003) and also substantiate the view of McMurray (2003) that innovation is a dimension of organizational climate.

<table>
<thead>
<tr>
<th>Internal communication channels</th>
<th>%</th>
<th>External communication channels</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phone (mobile)</td>
<td>40%</td>
<td>Phone (mobile)</td>
<td>50%</td>
</tr>
<tr>
<td>Email/memos</td>
<td>20%</td>
<td>Email</td>
<td>50%</td>
</tr>
<tr>
<td>Face-to-Face</td>
<td>100%</td>
<td>Face-to-face Networking</td>
<td>80%</td>
</tr>
<tr>
<td>Phone conferencing</td>
<td>20%</td>
<td>Education</td>
<td>30%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Internet</td>
<td>70%</td>
</tr>
</tbody>
</table>

Whereas the technical channels seemed to form the structure and backbone of the organization, it was found that small business owners, when addressing innovation and change, chose direct face-to-face communication. When innovation laden messages were linked to communication frequency, data showed that in places where frequent innovation and change occurred (respondents four, eight, nine and ten) the business owner communicated more than five times a day with staff members. This finding corresponds with views of Mazzarol (2002) and Shockley-Zalabak (1999).

Another finding was that external networking had lead to innovation and/or change (Evans and Volery, 2000). Networks varied from one-to-one counselling sessions with a small business mentor to overseas travelling visiting tradeshows and conferences. One respondent had specifically created an advisory board consisting of friends, subcontractors and other business professionals to brainstorm new ideas and new growth strategies for the business. Seventy percent of respondents found that the Internet had triggered innovative ideas and change, but they also found that staff meetings could lead to innovation and change, be it during informal meetings in the workplace or via socialising outside work hours.

The contribution to employee innovativeness the workplace scored low with only 20% of the business owners believing that their employees had each personally contributed enough to make a difference. Those 20% that did were owners of the technology-based case studies (eight and ten). The other 80% believed them to be the visionary and communicative driving force behind their business. This illustrates that where innovative ideas occur through the process of group interaction and interpersonal relationships, they are then applied by the owner as actual innovation and actual change.

Conclusion

The relationship between communication, innovation and change plays a vital role in the growth and success of small business. The study answered both research questions in uncovering that firstly, a positive and supportive internal business environment was created through the forming of personal relationships using open and direct communication; and secondly, that innovation was triggered by a variety of communication channels and interpersonal relationships.
Interpersonal relationships in the workplace, technology, and external networking were found to be equally important. Direct and frequent one-to-one communication, touches on all aspects of the management of the organization, specifically that of innovation and readiness for change in the early stages of organizational development.

Communication is central to the establishment of a business vision, and it establishes and maintains a climate in which innovation and change is fostered and new innovative products and services can be implemented. Communication about innovation and continuous change and growth cultivates the potential for wealth creation.

This research could be further enhanced by examining the different interpersonal relationships that exist between the various partners in a small business and their creative contribution to innovation.

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