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Promoting Diversity Among SMEs Using A

Dynamic Interdependence Approach

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Abstract

This paper explores the question of whether there is an ethical business case for Small and Medium Sized Enterprises (SMEs) employing a more diverse workforce with Regan and Stanley (2003: p.v) arguing that employers should look beyond their legal obligations in respect of disadvantaged groups. What attitudes do SME employers have to such proposals, what are their current practices and how can they be supported to meet skills shortages through employing a more diverse workforce? The primary data was derived from focus group sessions with local SMEs and interviews with the procurement managers of large employers in Southampton. Examples of good practice in the employment policies of SMEs and business benefits are discussed in relation to the literature on inclusion strategies for disadvantaged groups. The feasibility of using supply chains to encourage employment diversity in SMEs is evaluated. In concluding this paper reflects on how Southampton's labour market intelligence capability and the capacity of local organisations to deliver effective support services to businesses and to individuals could be built. Finally, the paper initiates discussion on the feasibility of addressing low economic activity and participation rates among disadvantaged individuals and communities.

Keywords: Disability, Disadvantaged, Discrimination, Employment

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Introduction

The changes envisaged in the obligations of Small and Medium Size Enterprises (SMEs) to comply with anti-discrimination legislation and the Government's wish to break down the barriers that impede employment of those who come from disadvantaged groups, present particular challenges for SMEs. The literature identifies some of the issues involved and suggests that customer supplier relationships may have a role to play in enhancing the likelihood of employment for otherwise disadvantaged individuals. In practice, the promotion of equality appears to have rested primarily on one strategy: that is, getting employers to realise that advancing equality in their employment practices is in the best interests of their business and viewed by Dickens (1999) as: "the so called business case for equality".

The researchers' interest, is in the development of models that can be used to initiate policies, strategies, and promote within the SME community a willingness to achieve equal opportunities in recruitment and employment practices for disadvantaged people, within organisations that are currently neither prepared nor predisposed to take positive action (Dickens, 1999).

Methodology

After an initial literature review of both national and local experiences, a number of SMEs from the business supply and the health and social care sectors were identified and invited to take part in one of three focus groups planned for the Southampton study. The literature was used together with the findings from a

previous survey, *Diversity in the Workplace: the views of SMEs in the Southampton and Portsmouth areas*, (2002), to frame focus group discussions with SMEs in the Business Support Industries and Social Care sectors.

The results from the focus groups were then used to provide questions for semi-structured interviews with the procurement managers of key large employers within the city of Southampton, Hampshire, United Kingdom. Various methods of engagement were discussed in addition to attitudes and perceived business benefits.

From the focus group discussions four Southampton SMEs emerged that have adopted good diversity practice. The findings from the focus groups taking part in the Southampton study were developed into case studies by carrying out further enquiries using structured interviews with business owners.

The results from the focus groups were used to provide questions for semi-structured interviews with the procurement managers of key large employers within the city of Southampton who enjoy a range of public perceptions as to their employment policies. B&Q were chosen as a company, which is generally perceived to have good ethical policies and practices. Ford was chosen as a company which has ethical policies in place and a low turnover of employees, it was important to establish how far the policies penetrated their supply chain. British American Tobacco (BAT) was chosen as little is known locally about their ethical stance and yet they are, at the time of writing, a large local employer. This was to establish the feasibility of using supply chains to develop diversity within SMEs in the Southampton area.

The Externalities of Inequality

There has been a growing awareness, in the European and United Kingdom Governments of the need to address some of the problems encountered by members of disadvantaged groups when attempting to enter the labour market. Within the United Kingdom a legal framework has been developed which is underpinned by a desire to eliminate discrimination within the workplace for disadvantaged social groups. Governments argue that the promotion of equality, through anti-discrimination legislation is desirable, and anticipate that this approach will lead to a society that is just, cohesive and harmonious.

Using what is known about the dynamics of recruitment from within the disabled community is pertinent to the discussion of the promotion of employment diversity as it is estimated that there are well over one million disabled people in the UK who would like to work but do not do so. Although many disabled people do work, the rate of unemployment within this social group remains at over 50% (see Table 1. below).

Table 1. Employment Rates, For All Working Age Adults

		1997	1998	1999	2000	2001	2002
Lone Parents	Total	45.5	46.7	48.3	51.4	51.5	53.3
Ethnic Minorities	Male	65.1	64.3	64.9	66.1	66.1*	66.2*
	Female	47.7	48.2	47.5	48.9	48.8*	50.0*
	Total	56.5	56.4	56.2	57.6	57.4*	58.3*
Disabled Individuals	Male	nb	45.0	47.5	49.0	49.1	49.2
	Female	nb	41.0	43.9	43.5	44.5	45.7
	Total	nb	43.1	45.8	46.4	47.0	47.6
Over 50's	Male	67.2	67.8	68.5	68.6	70.2	69.8
	Female	60.7	62.2	62.8	64.0	64.9	65.3
	Total	64.5	65.4	66.1	66.7	67.9	67.9
All Working-age	Male	77.5	78.1	78.4	79.1	79.3	78.9
	Female	67.2	67.6	68.3	68.9	69.3	69.5
	Total	72.6	73.1	73.6	74.3	74.6	74.4

Source: United Kingdom National Action Plan on Social Exclusion 2003-2005: The Annex (2003)

*A discontinuity in the series occurred after 2001, when a change of definition for ethnic minorities was introduced.

(nb: there is no data available for 1997).

With the importance of the role that employment is thought to have in reducing poverty and social exclusion for disadvantaged groups this has meant that they are being denied all the benefits that work provides.

Table 2. Employment Rates for Non-Disabled and Disabled Individuals

	Non-Disabled Individuals	Disabled Individuals
Total	29,401,000	7,021,000
In Employment	23,623,000	3,483,000
ILO Unemployed	1,0471,000	288,000
Economically Inactive	4,731,000	3,250,000
Economically inactive and who would like work	1,128,000	918,000

Shaw Trust (2006)

In an Institute for Social and Economic Research (ISER, 2005/6) report it was noted that some 2.7 million individuals were claiming incapacity benefit which is three times the number of claimants as in the 1970s.

In January 2006 a green paper was published by the Department of Work and Pensions outlining the UK government's policy on a number of welfare issues. One of the areas covered in the green paper was how the government intended to achieve their stated aim of reducing the number of individuals who claim incapacity benefit by one million.

It is envisaged in the green paper that individuals who are already entitled to and those wishing to claim incapacity benefit in the future, will have to undergo an assessment process that is stricter than those currently applied. It is argued here that degree of disability severity scores (see table 3 below) will be used to decide who will continue to receive benefits, without being subject to physical, mental tests or both and work related programmes designed to improve employability which will, in all probability, prove expensive to provide. In July 2006 the *Welfare Reform Bill (2006, 2008)*, designed to modify the rules relating to the entitlement of disability and other unemployment benefits, was introduced into the House of Commons in order for it to go through its parliamentary stages before coming into force.

Merely by concentrating resources on those individuals who have a disability severity scores in the 1-2 range and who account for 34% of people within that population, and making the assumption that there are 2.7 million claimants of state benefits within that group, then the total number who might find themselves being thought employable would be approximately 918,000 (see Table 2, above). By coincidence this figure correlates with the number of disabled individuals who were found to be economically inactive and who would like to work (Shaw Trust, 2006). This figure is also close to the government’s own target for getting one million people off incapacity related benefits.

Table 3. Degree of Disability

Degree of Disability Severity Scores (1 Lowest-10 Highest)	% Households
1-2	34%
3-6	45%
7-10	21%

Grundy *et al* (2006).

The presence of inequality in a society has many negative externalities which impact on individuals, businesses and on society at large. The importance of inequalities as possible causes of social conflict has been taken up by Richard Wilkinson (1996). Wilkinson concluded, after looking at a number of different examples of healthy egalitarian societies, that an important characteristic that they all seem to share is their social cohesion. They all have a strong community life, instead of social life stopping at the front door; public space remains a social space. Importantly free market individualism is restrained by a strong sense of social morality and people are more likely to be involved in their communities. These societies have more of what has been termed ‘social

capital' which lubricates the workings of the whole society, whilst fewer signs of anti-social aggression are apparent and the society appears more caring. Inequality therefore, impacts on society at large but is directly experienced by those individuals most excluded. One way of reducing exclusion is to increase work-force participation, thereby enabling the excluded to enter and/or re-enter the mainstream of society through the medium of work. Work itself, is not always an easy path or necessarily a passport out of poverty it is however, undeniably an important determinant of reducing inequality and for the small business it is of fundamental importance to find and retain the right staff.

The Importance of Diversity to SMEs

Flexibility

The small businessperson has many problems to deal with in the current intensely competitive climate, not the least being the recruitment and retention of staff with the right skills and who are also adaptive to change. Flexibility has been given more and more priority throughout the last two decades as a strategy to combat the challenges and changes facing businesses in a post-industrial economy.

Mass production has given way to flexible specialisation and monopolistic economies of scale to dynamically interdependent supply chains: within this scenario the SME bears the brunt of dynamic change and must become flexible and adaptive.

The arrival of flexible work patterns has been something of a mixed blessing for sections of the disadvantaged communities. Whereas rates of labour market participation and paid-employment for disabled people have in general increased in recent years, the type of employment obtained has often been

flexible in nature often characterised by, for example low skills, part-time or short-term contracts and as such are often precarious and low-paid (Barnes *et al*, 1999).

In many cases, and certainly in the official discourse, flexible work patterns offer mutual benefits for the employer and employee. In reality, however, many non-standard jobs pay lower wages and offer fewer benefits so that labour markets have become increasingly polarised between the highly paid core workers with valued skills and those flexible, lower paid, less skilled workers retained for their numeric flexibility. (McDowell, 2001). This lower end of the labour market is often characterised by precariousness, where the de-regulated employment relations are not covered by labour law, at present and hence carry increased risk and uncertainty for the workers.

Part of the general perception when employing disabled workers is that they will be particularly inflexible and require expensive accommodation. There is an inherent contradiction here between the Government's message of paid work as 'liberation' (Hyde, 2000) and the practicalities of employers who are hesitant to take on anyone they perceive as adding to costs or being unable to cope within a hectic work environment. For employers, providing accessibility in the workplace is associated with the need for making physical changes to the infrastructure to enhance access (Bivand, 2002).

This restricted perception of disability affected the responses given in the focus groups. As Bivand (2002) noted: "...organisations were prepared to take additional actions to assist disabled people, but had little idea that this might actually be required of them."

Many employers taking part in the Southampton study were found to have made adjustments to the job or carried out modifications to the working environment in order to accommodate disabled employees with some not

realising that they had done so. However, when prompted by a list of modifications that help to accommodate the needs of individuals from disadvantaged groups, including changes such as flexible working patterns, flexible hours, and special leave for reasons connected with their disability, the number of employers who said they had made these adjustments rose. This would suggest that some employers had employment practices already in place that benefited their disabled employees, although they had not viewed them as being linked to the employment of disadvantaged individuals.

The Southampton Study, concerning the issue of assistance with employing people from disadvantaged groups, found that employers agreed that there was a lot of information available although in reality it was seen as difficult to access: “You end up going around in big circles for several hours because you can’t get to the specific point you want”. Employers wanted a: “quick digest that’s specific to me” but felt this was not available without having to: “pay a lot for it”.

It was clear from the conversations that many SMEs had limited understanding of the issues around diversity and in particular about disability. Making the effort was seen as: “hassle...and you feel you can’t justify the time or the effort”.

Skills Shortages

Additional employment flexibility has historically come from drawing on ‘a reserve army of labour’ the working classes, women, and more recently the disabled and older workers. Osborne (1988) commented, when unemployment levels were low and the USA economy was strong, that this resulted in many organisations experiencing problems in the recruitment and retention of staff.

As a consequence of this employers recruited from within socially excluded groups that were previously overlooked.

With a strong and stable economy (Wolf, 2004) that is based upon higher consumer spending, growth in exports and investments (Williams, 2002)) unemployment levels in the UK have fallen. With suitable labour resources becoming more difficult to access, it would seem that disadvantaged individuals might now have better opportunities to gain employment as it becomes increasingly necessary for employers to find recruits from within alternative social groupings in order to remain competitive.

The reaction of SMEs in the Southampton study, was to target solutions to skills shortages with perceived minimal recruitment and training costs. Hence older workers were viewed positively as a source of labour although some assumed that they would lack modern skills such as those required for IT or the ability to adapt, and even might be unattractive to younger small business owners: Eastern European, Indian and African sources of labour were identified as solutions before any consideration of disadvantaged groups.

One company taking part in the Southampton study, positively discriminated in favour of older people because it 'needed a stable workforce' recognising that people who have been 'made redundant and ...over 45 and ... finding it difficult to find a job...reward us with loyalty' (Social Enterprise).

Another employer taking part in one of the focus groups recognised, that as a result of employing foreign language speakers they have seen an increase in foreign clients 'he speaks Egyptian...and now we notice we get more Egyptian clients, we had Italian speaking, we get more Italian clients' (Corporate Accommodation Provider). In practice though, the majority targeted specific groups that they felt met their specific business needs quickly. Such groups

included older women for part time work, young people for pressurised jobs and those with experience and training.

The above might therefore be applied to disadvantaged groups. As argued by Bivand (2002): “...when employers experience difficulty in recruiting, they are more willing to employ disabled people and to make changes to their business practices to enable them to recruit and retain staff with disabilities”.

In the focus groups there was an overwhelming sense that skills shortages were the biggest problem for SMEs, as their members kept returning to the issue. On the other hand only a few countenanced linking increasing diversity in their business as a strategy designed to fill gaps or to offer new business opportunities.

The importance of recruiting and retaining the staff that have the appropriate skills is of fundamental importance to SMEs. This is particularly true now as we progress further into the age of ‘the knowledge-based economy’ (Abramowitz and David, 1996). Here, knowledge in its various forms, tacit, codifiable, scientific is crucial in the underpinning of economic competitiveness. Furthermore, tacit knowledge which cannot be codified and is hence hard to transfer, is often dependent on the context in which it is developed, this development being facilitated by common cultures and language and most importantly for our discussion, common values (Pinch et al, 2003).

Tacit knowledge transfer has become especially important in the globalised economy where competitiveness is increasingly dependent on technological superiority. Tacit knowledge however, is particularly difficult to transfer, requiring an understanding that goes beyond intellectual capability into an understanding forged by common practices, trust and shared values (Pinch et al, 2003). Collaboration between enterprises may therefore serve to promote

knowledge transfers as part of a shared value system this in turn might also serve as a case for the promotion of more diverse employment strategies.

A Business Case?

With a requirement for all employers to comply with their legal obligations in respect of disabled people, the function of the employer is crucial in any discussion about disadvantaged individuals and employment. It could be advantageous, as argued by Regan and Stanley (2003), for employers to go even further. However, to justify and promote this idea it is necessary for employers to be willing to accept that an 'ethical business case' can be made for any proposals regarding changes in their recruitment practices.

Employers need to accept the argument that the interests of their business can be affected by the perceptions that internal and external stakeholders hold in response to social issues. These concerns can include the policies and practices that are adopted by employers in recruiting and retaining individuals who come from those groups that are perceived by stakeholders, as being socially disadvantaged.

In promoting 'the ethical business case', its effect on the 'bottom line' must not be overlooked. An emphasis on how a business treats its current and potential employees may influence, positively or negatively, the customers' and other stakeholders' perceptions of the business in relation to its social responsibilities (Stanley and Regan, 2003).

The over-riding factor, according to the focus groups taking part in the Southampton study, for a lack of positive action in employing a more diverse workforce was cost. The importance of diversity for SMEs is therefore an area where practical difficulties and preconceptions over-ride the possibilities of

real and mutual benefits. Macro-economic evidence demonstrates that diversity of employment increases as the labour pool contracts, indicating that the disadvantaged are part of the peripheral 'reserve army of labour'.

In order to increase the chances of the disadvantaged to gain employment it is therefore necessary to move them from the periphery into the core of labour; this requires a change in the perceptions held by employers.

Employers have a fundamental preconception that the costs of employing a more diverse workforce outweigh the benefits, possibly incurring high modification and training costs and the possibilities of costly litigation. The benefits of employing a more diverse workforce are by contrast largely overlooked even though these include: better retention rates, the filling of skills shortages gaps, reaching wider markets, enhancing of corporate image, facilitation of knowledge sharing and a more loyal workforce. SMEs are aware of a business case for diversity but remain unconvinced of the advantages; this could be promoted through the promotion of ethical value awareness between the members of a collaborative supply chain and interdependent dynamics as a mutual benefit for the small and the large business.

Promoting Diversity through Dynamic Interdependence

As Dickens (1999) emphasised, there is a paramount need to develop business models that could be used to encourage diverse employment practices within the wider SME community; particularly amongst those who are currently neither prepared nor predisposed to the taking of positive action in this respect.

There are few, if any, examples within academic literature of employing specific strategies that apply the principles of 'self-interest' to encourage employers to put in place policies and practices that are designed to enhance

the chances of those individuals who come from those disadvantaged social groups that anti-discrimination legislation is designed to help.

Nevertheless, even if there is no direct evidence available from academic sources, concepts based upon strategies employed in 'total quality management' (Carter *et al*, 2000) and in economic geography (Doel & Hubbard, 2002) can act as a theoretical base from which appropriate models could be developed.

Practices have been introduced by businesses, and Government and non-Government organisations (NGOs) within their supply chains, that have been designed to build a culture of 'total quality management' (TQM) within those organisations which fall within their sphere of influence. For instance, a dominant customer can help shape the employment practices of suppliers (Kinnie *et al*, 1999). This can occur directly by impacting upon human resource policies and practices.

Three of the largest private sector employers in Southampton reflect this practice with regard to their supply chains and employment practices. Originally this was particularly prompted by a desire to not be associated with international suppliers who might for example exploit child labour, but principles have been extended to support employment diversity in the UK. These employers see this as a natural extension of their approach to other matters of quality such as Health and Safety requirements.

It has been argued by Kinnie *et al* (1999) that: "SMEs are embedded in a complex supply chain being dependent on a few relatively important customers and, less often, suppliers." This argument highlights the potential for dominant customers to positively influence the actions of suppliers where their recruitment policies and practices are concerned. The development of such ethical supply chains will require the active support of all the stakeholders in

the chain who have an interest in effecting social improvements. This will in turn be dependent on whether employers can be persuaded that the interests of their businesses may be affected detrimentally by a negative perception by stakeholders on such social issues.

The dominant employers/stakeholders in a supply chains have the potential to exert considerable influence over suppliers through the tender process and will and do, demand compliance with product and environmental standards. The employers applied the same contractual requirements, which include employment practices, to all suppliers large and small. There is also an increasing tendency to have restricted lists of preferred suppliers; clearly this is an incentive towards compliance with all aspects of the contract in order to retain a place on the list.

All three of the case study companies, taking part in the Southampton study, used a tender process to purchase goods and services from a preferred supplier list. However, these varied substantially with one having a short list of five, which changed frequently to keep pressure on the suppliers, to another who had up to 6,000 suppliers. The third company tended to stay with the same suppliers once they had been selected.

All three companies expected their suppliers to comply with the criteria expressed within their company policies. However, this again was achieved in different ways. One company used their selection process to assess the supplier company and described the only issue with regard to SMEs as 'whether they could provide what is needed.... backup to support a large organisation'. 'Rule of thumb I was given a long time ago was that a supplier should only allow 10% of its resource to be allocated to one client so that it is not reliant on one company's survival'.

Another company, taking part in the Southampton study, specified good health and safety performance and expected their suppliers to hold an ISO9000 and ISO 14001 certificates in addition to their compliance with local employment laws. The third company expect total transparency down the supply chain under their own standard, 'Quality, Environmental Ethics and Safety (QEEST)'.

With regard to monitoring the performance of their own suppliers one company writes the standards expected into the contract and enforces them under the same contract. Another company do not monitor the suppliers themselves but try to educate businesses to have performance monitoring processes. The third company do not see this as part of their remit. 'If it came to light that a supplier was in breach of good business practice the company would pull away, for example if they were abusing child labour. However, if they were refusing to employ disabled people I would not expect us to pull away, we don't see ourselves as judges, there are Government bodies to do this' (Park *et al*,2005).

As far as the business case for adopting this approach is concerned, again one of the companies, taking part in the Southampton study, was behind the other two interviewed as far as the recognition that there was a business case to be made. A second company wanted to attract skilled people and especially BMEs as well as other disadvantaged people. They considered that 'if you employ the same people you get the same solutions...many SMEs do not see this'.

The third company was very positive with regard to the business case and perceived the advantages of more loyal suppliers / better products with no issues around quality (Park *et al*, 2005).

With regard to the involvement of SMEs through the supply chain and additional support that may be given by the major companies, one company saw this as part of what they do and entrenched into their practices. The advantages to such an approach they saw as 'opens up bigger employment pool, different people with different ideas'. 'You have no control over who applies so if your recruitment processes do not include then you narrow the pool'.

They were also aware of the cultural differences in different areas of the UK and would expect the recruitment record to reflect the local community.

One advantage of maintaining a good relationship between a supplier and a large company is that SMEs are afforded some protection from demands placed upon them in an otherwise uncertain business environment. Maignan, Hillebrand and McAlister (2002) demonstrate how socially responsible buying is practised, increasingly by large corporations. Suppliers contracting with them will be aware that a large part of their business is dependent on good relationships being maintained between themselves and their customers, which will include compliance with social responsibility requirements.

The continuation of a good relationship will provide 'some stability' and hope of 'repeat business' in the future although: 'Large corporations tend not to give SMEs secure long-term contracts- so the SME also benefits from a substantial reduction in the cost of sales...'. Only those ideas that have commercial viability will survive over the long term with 'fads' tending to fail (Watson, 2001).

Therefore, to implement any strategy that is intended to influence the dominant partner in a supply chain relationship in order to drive a change in its suppliers' recruitment policies, there is a need to identify those areas where mutual self-interest will be served. Here the concepts of the dynamic interdependence between large and small firms may prove useful:

The interrelationship of large and small firms



(Adapted from Bannock and Albach, 1991).

For very large corporations it is self-evident that there is a necessary to achieve economies of scale in production, research and marketing, moreover these advantages have been increasing as improved communications, deregulated capital and globalisation have favoured the trans-national corporations. Conversely the managerial restraints on size in the face of this global competition have encouraged large firms to out-source activities to smaller firms which can utilise economies of specialisation.

Out-sourcing includes subcontracting projects to smaller firms but also the buying-in of providers of all types of goods and services. It is widely accepted that SMEs have an important role to play in maintaining competition (through the growth of new entrants, (Porter, 1990) and in the exploitation of new innovations that may later be commercialised by larger firms. Large firms also innovate directly, of course, and both forms of innovation lead to an increase in economic progress (Schumpeter, 1943).

Many recent studies have underlined the importance of small firm activity as the engines of innovative activity in certain industries (Audretsch, 2001). They have been particularly effective in capitalising on the spill over effects from university research (Lawton-Smith *et al*, 1999), using key knowledge workers (Pinch and Henry, 1999) and as the recipients of out-sourcing activity by TNCs (Vale, 2004). Through dynamic interdependence, small and large firms can prolong the Product Life Cycle of a product with small firms being innovatively active at the introductory and declining stages, and large firms being more innovative at the growth and maturity stages (Audretsch, 2001).

Innovation is often created through interactive relationships, taking place at different stages of the value chain as demonstrated by Saxenian (1994) whose study showed how superior innovative performance resulted from a culture of greater interdependence and exchange in the Silicon Valley region Ideas for innovation can come from both customers and suppliers in a value chain; customers often provide ideas for product modifications whilst suppliers may provide the impetus for innovation through new components or processes.

The interaction in either case requires good relationships, often not market related but interactive, durable, trust relations of the type initiated by networks and long-term value chains where common goals and common ethical considerations have been developed (Todtling, 1998).

Large and small firms therefore, often operate within a field of 'dynamic interdependence' (Bannock and Albach, 1991) and thereby benefit from each other's progress. Large firms by the nature of both their activities and preferential access to capital markets are more capital-intensive than SMEs, which they continually tend to displace in some industrial sectors. This usually leads to faster growth in labour productivity and higher incomes.

As incomes rise and the economy becomes more complex, demand increases for the smaller-scale and more labour-intensive goods and services provided by

SMEs, thus ensuring their survival and accounting for their contribution to economic growth in advanced economies. SMEs also play a complementary role to large firms by providing training and other specialised services.

Relations based on trust and developed through un-traded interdependencies enable mutual benefits to accrue, but in addition are becoming imperative in a changing economic order which emphasises the importance of knowledge-sharing for competitive advantage. In a paradoxical way, globalisation increasingly strengthens the need for interdependencies at the firm and territorial level, according to Velz (1996).

In the influential work of Paul Krugman (1995) for example, the traditional idea of global competition is replaced by a concept known as ‘strategic economic complementarity’ where regional success is derived through un-traded interdependencies between firms at the local level. As Hudson (1999) points out: “The relations between companies and institutions are based on trust, co-operation and the sharing of knowledge for mutual benefits”.

Moreover trust through mutual co-operative endeavour enables knowledge itself to be disseminated. Trust is an essential characteristic of a favourable learning environment gained through the use of shared languages, cultures and practices which enable identity formation and cultivate a willingness to share and co-operate (Karlsson and Johansson, 2005). The development of dynamic interdependence therefore, has many roles to play with mutual benefits for all concerned, to enable trust relations and learning to develop, common practices need to be implemented within a framework of mutual support; these could and should include ethical provisions such as the use of diversity in employment.

Conclusion

Creating true equality in the workplace and fulfilling the potential to work of every working-age citizen has never been more crucial. The negative externalities of inequality rebound on rich and poor alike as western society becomes more and more polarised in the face of global competitive forces. For the UK the number of incapacity benefit claimants has trebled since the 1970s. The UK government has pledged to reduce these claimant numbers by 1 million people using a combination of improved employability together with stricter assessment methods based on degrees of disability.

Using a more diverse workforce can be demonstrated to produce many benefits for the small business. Increasing diversity in employment can help to provide both numeric and functional flexibility a necessary challenge for the SME coping with dynamic economic changes. Paradoxically the perception among SMEs is that diversity in employment will create the need for costly adaptations and hence lead to reduced profits. The benefits are rarely perceived in the form of flexible working patterns, loyal staff, reduced staff turnover and the availability of highly skilled personnel.

The overriding theme, from the focus groups was that they were far more drawn to discussing skills shortages in general than diversity in employment. This persisted despite the invitation and the increasing use of prompts during sessions. In all the focus groups it was very hard to facilitate discussion on alternative strategies to meet skills shortages and in most cases diversity was clearly not at the forefront of their thinking.

In practice the large private sector companies taking part in the study, had sympathy for the position of the SMEs: 'What is needed is a simple, single clear pamphlet on the business case for diversity'. The paradox is that those with the most advanced approaches to employment diversity, a minority, are subject to

the most scrutiny whilst SMEs, the largest part of the economy, do not have the resources or the inclination. Indeed there is speculation that regulatory authorities realise that the small business sector would not survive such scrutiny and are accordingly left alone. This re-emphasises the perspective that there is a role to play for more large companies to use their relative power in the marketplace and within interdependent networks to the mutual benefit of themselves, SMEs and the community at large.

In addition to the potential for filling key skills shortages, the employment of a more diverse workforce can bring other advantages. These include marketing opportunities such as the access to previously closed target markets through the employment of key staff from particular ethnic groups. The case studies also demonstrated how diversity in employment can provide access to increased innovation through fresh ideas and new ways of approaching business activities.

Small and large businesses need to recognise the mutual benefits arising from dynamic interdependence beyond the traded relationship of contractual obligations. In a knowledge-based economy the sharing of knowledge takes place more effectively within a relationship based on trust and common practices.

These non-traded interdependencies are an increasingly important source of competitive advantage. Furthermore, mutual advantages are gained from innovation activities and also from the lengthening of the product life-cycle as small and large firms work together to find innovative solutions to market problems.

A crucial factor for success in the current knowledge-based economy is the access to and exchange of knowledge, often embedded in the practices of local communities. For this knowledge to be shared and disseminated requires trust

and a degree of openness, often developed through networks and supply chains where common cultures are sustained. As the case studies revealed, large companies can and do take a lead in the development of ethical supply chains and common working cultures. These produce mutual benefits for large and for small businesses through trust and open relations which allow knowledge to freely flow. Diversity is becoming one aspect of ethical business but is often seen as less important than other ethical or environmental programmes.

Given the number of unemployed disabled people in the UK and the government's latest policy initiatives to reduce incapacity claimants, it is crucial that the issue of employment diversity is given the same priority in the establishment of ethical business practices as other areas.

This initial stage of the research has identified the challenges in realising the notion that SMEs can be a major contributor to increasing diversity in employment in the short term. Further, to realise this ambition as part of a city's employment strategy will require significant cultural change within the SME sector. This is the same challenge that large public and private sector organisations have found difficult enough. However, where the focus group research found pockets of enthusiasm and success it was clear that smaller organisations could be encouraged to embrace diversity as part of a business strategy.

A business environment where this can flourish is perhaps more likely to be developed through a combination of mutually beneficial business partnerships and commercial incentives than through regulation.

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