

# THE BUSINESS REPERCUSSIONS OF KNOWLEDGE

## SHORTAGES FOR MICRO-FIRM OWNER-MANAGERS

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*Micro-firms are dominant in every economy. However, the literature has rarely focused on this subgroup of the small- and medium-sized enterprise (SME) sector. The aim of this study was to investigate which knowledge shortages (KS) prevent independently owned micro-firms' owner-managers from successfully developing their businesses. For this study, all included firms were operating in a sparsely populated area (SPA) in Northern Finland, which is a region that lags behind the rest of the country in terms of economic growth and innovative capacity.*

*This longitudinal case study details a real-life experiment in which micro-business owner-managers participated in face-to-face networking events, which were facilitated by scholars. The method for gathering empirical data was a questionnaire, which was distributed after each network event.*

*We firstly determined 33 KS sub-categories from 128 knowledge-related issues. These sub-categories were then linked with 11 critical success factors (CSFs), which are used for implementing knowledge management (KM).*

*The results revealed that micro-business owner-managers' KS cause difficulties in both long-term strategic planning and employing workers.*

*Keywords: micro-firm, knowledge management, sparsely populated area*

### **Introduction**

Because entrepreneurship plays an important role in the economies of most countries, small- and medium-sized enterprises (SMEs) form the backbone of the economy in the European Union (EU), including providing most new jobs. SMEs are often associated with a high rate of national economic growth (see, for example, Beck et al., 2005; Reynolds, 1997; Robson and Bennett, 2000). In addition, in 2014, SMEs in the EU employed 88.8 million people, which was 66.9% of all private-sector jobs, and they generated 58% of all private-sector added value (Muller et al., 2015). However, a large SME base does not directly stimulate economic growth and should thus be considered only one characteristic of a successful national economy.

Micro-firms (less than 10 employees) are significant considering that they represent 92.7% of all enterprises in the 28 countries that comprise the EU. However, one finding in the literature was that micro-firms are often not well distinguished from larger enterprises (Falk et al., 2014).

Opportunity is a central concept within the entrepreneurship field (Short et al., 2010). Developing a profitable business requires entrepreneurs to actively identify and adopt new business-related know-how. The challenge lies in how to inspire micro-firm owner-managers—who often have hectic schedules—to place greater focus on increasing their own information base. This study investigated the business-critical knowledge needs of micro-firm owner-managers of businesses in sparsely populated areas (SPAs) in Northern Finland.

The foundation of organizational competitiveness in the contemporary economy has shifted from physical and tangible resources to knowledge (Yew and Aspinwall, 2005). The challenge of implementing knowledge that is caused by the disparity between academic theory and management practice (Huff, 2000; Van De Ven, 2007) has been an

increasingly popular topic of discussion within the academic community for many years (e.g., Beyer and Trice, 1982; Duncan, 1974; Starkey and Madan, 2001).

Hence, although micro-firms account for a large majority of the SME category, they remain comparatively under-researched (Gherhes et al., 2016). There is an urgent need to generate fact-based knowledge about micro-firms to remove barriers to knowledge, which are preventing growth, to enhance new business avenues. This study aimed to provide a sustainable regional business landscape to both support micro-firms and to boost business opportunities by capturing knowledge.

RQ: What types of knowledge shortages (KS) do micro-firm owner-managers encounter most often?

## ***Literature review***

The entrepreneurship literature has focused on the importance of entrepreneurial networks, which have been proven to be essential to both start-ups and the growth of a new firm (Dodd and Anderson, 2007).

SMEs are often associated with high economic growth in different countries (Beck et al., 2005; Ciemleja and Lace, 2011; Robson and Bennett, 2000). Thus, SMEs have a significant impact on employment (Ayyagari et al., 2007). While Gibrat's Law states that firm growth is random, most current researchers have disproved this law (e.g., Lotti, Santarelli, and Vivarelli, 2009).

Robust evidence suggests that firm performance and growth are supported when organizations successfully perform key processes, including continuous improvement, market orientation, internationalization, market development, alliance and joint venture formation and management, mergers and acquisitions processes, and general functional and strategic management (Koryak et al., 2015).

To be successful, business development requires cooperation among several different stakeholders. Public advisory services (PASs) are an element of the local innovation environment (Kolehmainen, 2006). One challenge is that small businesses are often either unable or unwilling to pay for private advisory services (Cumming, 2015). Samujh (2011) argues that micro-business owner-managers often do not engage with external support agencies. However, this segment of operators needs support, particularly of the emotional variety, to move from mere survival mode to success (Samujh, 2011). The ability to access external expertise is crucial to the development of small firms (Viljamaa, 2011).

The significant nature of knowledge, competitiveness, globalization, and the overall availability of information technology drives micro-entrepreneurs to use different networks. In general, networks are better adapted to knowledge-rich environments because of their higher information processing capacities in comparison to traditional mechanisms of governance (Achrol and Kotler, 1999; Jarillo, 1988). Jokela et al. (2015) argue that, in micro-sized companies, innovations provide a challenge to the regional innovation system, especially regarding how to reach innovators at the early stages of the innovation process.

## ***Methods***

We employed an inductive research design to examine the KS of micro-entrepreneurs who are operating in the SPAs of Northern Finland. This longitudinal case study details the experiences of a real-life experiment in which micro-business owner-managers participated in face-to-face networking events, which were facilitated by scholars and PASs.

The research data were collected after monthly network events. Each event had a specific business-related theme, which was agreed on beforehand by event host entrepreneur. Depending on the selected theme, external experts were also invited to give a keynote speech at each event. The method employed for gathering empirical data was a questionnaire, which was distributed after each network event.

During the research period 2015 - 2016 the altogether 69 networking events were held and 588 micro-business owner-managers participated in the events. The questionnaire

surveys were completed with the period 09.11.2015 - 17.01.2017. The inquiry was answered, altogether 224 times and in 128 of them the entrepreneur's lack of the information was brought out.

We used Yew and Aspinwall's (2005) 11 critical success factors (CSFs) to analyze survey using knowledge management (KM) framework in the micro-firm sector. CSFs are Management leadership and support, Culture, Strategy and purpose, Resources, Processes and activities, Training and education, Human resource management, Information technology, Motivational aid, Organizational infrastructure, and Measurement.

## **Results**

The network consisted of 122 micro-business owner-managers who were operating in three sub-regions: Oulu South, Raahe, and Oulu Northeast in the Northern Ostrobothnia Province in Finland.

A lack of business relates knowledge is reality among entrepreneurs. We received totally 128 business-related cause of anxiety from the questionnaires. They were analyzed into 33 KS themes. As a result, KS themes mapped to CSFs using to factors signify ranking: 1. Management leadership and support #3 KS-themes, Culture #3 KS- themes, Strategy and purpose #6 KS-themes, Resources #3 KS-themes, Processes and activities #3 KS-themes, Training and education #3 KS-themes, Human resource management #4 KS-themes, Information technology #3 KS-themes, Motivational aid #0 KS-themes, Organizational infrastructure #3 KS-themes, and Measurement #2 KS-themes.

The micro-business owner-managers felt that they primarily had KS issues related to *strategy and purpose* (6 KS-themes), followed by *human resource management* (4 KS-themes). The results indicate that entrepreneurs have difficulties with long-term strategic planning. Likewise, the *human resource management* category indicates that growth of employee numbers is a challenging task for entrepreneurs. KS categories that were related to *management leadership support* and *resources* clearly indicate that entrepreneurs intend to focus on growth. KS issues related to *culture, process and activities, training and education, and information technology* indicate that entrepreneurs are also focusing on the development of a company's capabilities. Moreover, KS related to *measurement and motivation aid* were not indicated as significant KS issues.

## **Discussion and Conclusions**

Micro-firms' have a substantial effect on the national economy (Muller et al., 2015); notably they are numerically dominant in every country's economy. Even though micro-firms account for a large majority of SMEs, they remain comparatively under-researched (Gherhes et al., 2016).

SMEs, especially micro-businesses, are heavily dependent on their regional business context because proximity plays a key role in innovation, particularly the spread and acquisition of tacit knowledge (OECD, 2011).

Per Samujh (2011), micro-businesses need support from community-based networks. Most micro-firms employ only a few people, and self-employment is common. Hence, micro-firms need to stress knowledge sharing, innovation, and networking to a much greater extent than large companies do. Moreover, there are challenges associated with micro-business owners' abilities of time management. Hence, these networks could reduce micro-business owners' sense of isolation while providing an opportunity to share their experiences, especially regarding common problem areas (Samujh, 2011).

Micro-business owner-managers played an important role in selecting topical themes for networking events. One main idea was to identify topics that could benefit a larger group of the participating micro-business owner-managers. Thus, networking events, where entrepreneurs meet one another, provide a stage that makes it possible to discuss relevant KS related to business development and growth.

This study contributes to the literature on micro-entrepreneurs' social interactions and use of networks for KM to boost the profitability of their businesses. Per Steyaert and Landström (2011), entrepreneurship scholars should strive to conduct research in the field by studying in places where physical business decisions are made and tangible business practices occur.

## ***Acknowledgements***

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