POINTS OF VIEW

A resource-based view of micro-firm management practice

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Abstract

Purpose – The purpose of this paper is to discuss a resource-based approach for exploring micro-firm management practice, as informed by the relevant literature. Specifically, the paper analyses available literature and catalogues micro-firm and managerial competence criteria in pursuit of managerial insights in this environment.

Design/methodology/approach – A comprehensive literature review precedes the conceptualisation of micro-firm management practice.

Findings – Literary findings suggest that, considering micro-firms' internal resource constraints, minimal environmental power, and owner-centred culture, it is vital for these organisations to embed their valuable resource in their core business strategy, to ensure survival in the longer term. Furthermore, there is an assumption that knowledge must be used optimally within the micro-firm by developing the analytical and critical skills of individuals, groups and the entire organisation so as to sustain and grow these firms' competitive advantage. Having identified and catalogued a range of factors that impact micro-firms, the authors propose a "resource taxonomy of micro-firm management practice", which establishes factor interaction and the interrelationships between each resource in this environment. The purpose of this taxonomy is to assist in the analysis of management practices in the micro-firm milieu.

Research limitations/implications – The authors go on to discuss taxonomy implications for micro-firm training policy and propose further exploration of micro-firm management practice and resource-based research in this environment.

Originality/value – Academic research, which focuses specifically on the micro-firm, has historically been rare, despite multiple calls to study these firms in their own right. By proffering a "resource taxonomy of micro-firm management practice", the authors seek to inform this neglected research area.

Keywords Resource management, Management activities, Small enterprises

Paper type Conceptual paper

Introduction

Despite multiple calls to study micro-firms in their own right (Devins *et al.*, 2005; Matlay, 1999; Roberts and Wood, 2001), academic research, which focuses specifically on the micro-firm, has historically been rare. From a resource perspective, calls for small firm research are also forthcoming, as articulated by Barney *et al.* (2001, p. 634):

> [. . .] much of the focus of [Resource-based View] RBV research has been on larger firms, yet smaller firms also face the need to acquire critical resources to create a sustainable competitive advantage.

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The research that has been done, while fragmented, has found that micro-firms are intrinsically different in their organisational characteristics and approach to business problems and that these differences render many of the theories derived from studies of larger businesses inappropriate when applied to micro-firms. Specifically, management processes within a micro-firm are unique and micro-firms' behavioural responses to issues that impact upon them differ fundamentally from those of larger firms (Kelliher and Henderson, 2006; Whaley, 2003), and should therefore be studied separately.

As a relatively new research genre, recent literature has explored specific aspects of the micro-firm, including underlying resource poverty (Phillipson *et al.*, 2004; Raley and Moxey, 2000), internal characteristics (Kelliher and Henderson, 2006), the competitive environment (Dutta and Evrard, 1999; Wyer, 1997), and their broad environmental influencers (Cook and Barry, 1995; Kuratko *et al.*, 1999). Considering the growing interest in micro-firm research, the authors contend that there is a value in reviewing micro-firm literature as a collective, in order to catalogue these criteria for the purposes of exploring micro-firm management practice. It is these criteria that are the focus of this paper, as the authors discuss a resource-based approach for exploring micro-firm management, before proposing a resource taxonomy of micro-firm management practice, which establishes factor interaction and the interrelationships between each resource in this environment. The purpose of this taxonomy is to assist in the analysis of management practices in the micro-firm milieu. The authors go on to discuss taxonomy implications for micro-firm policy and propose further exploration of micro-firm management practice and resource-based research in this environment.

Literature review

There is no universal definition of a micro-firm, with many writers offering various criteria including size, number of employees and financial turnover per annum (Devins *et al.*, 2005; Greenbank, 2000; Roberts and Wood, 2001). In spite of these various criteria, definitions are usually based on employment, particularly in the European context. The European Commission defines a micro-enterprise as one who employs no more than ten full-time employees (Sheikh *et al.*, 2002), and this definition is applied in the context of this paper. This definition is also taken as the baseline in terms of comparative literature, and where writers define "small firms" in the context of this definition, their findings are assumed to relate to the micro-firm milieu despite the small firm label.

Factors that impact micro-firm management practices

Considering the pre-defined business entity and recorded differential between this and other organisations, it is relevant to investigate the factors that impact micro-firm management practices. These are found to encapsulate the firm's business strategy, its organisational structure and the owner/manager's decision process, the underlying business culture (incorporating internal communications and the owner's pivotal role in a micro-firm), and finally, the organisation's relationship with its business environment:

The micro-firm business strategy. From a strategic perspective, micro enterprises tend to be more conservative than larger firms and are likely to change incrementally (Storey and Cressy, 1996) as a result. In fact, formal strategic planning is not common in small firms (Hall, 1995), a distinct disadvantage from Lyles *et al.*'s (1993) perspective. However, the view that micro-firms in particular do not plan at all may be a misnomer as there may still be clear mental frameworks of future plans regardless of whether they are formally written down (Kuratko *et al.*, 1999; Wyer, 1997). In fact, there is a prevalence of personal and subjective business objectives in micro-firms (Simpson, 2001), although the owner often holds these tacitly (Phillipson *et al.*, 2004) without explicitly communicating them to either the firm participants or the business stakeholders at large. As micro-firm competitive advantage is often built on localised and tacit knowledge that can respond quickly to market signals (Wickham, 2001), an intuitive strategic approach is understandable in this milieu. Specifically, flexible specialisation offers a unique advantage to these organisations and the owner/manager's direct contact with customers, suppliers and employees presents a distinct advantage in the informal strategic planning process described above.

Organisational structure and decision process. Mintzberg (1983) defines the simple or non-structure (in the context of organisational structure) as comprising of direct supervision as the prime coordinating mechanism with centralisation as the main design parameter, resulting in all major decisions emulating from the structure's centre. The merging of ownership and management in the micro-firm setting creates a one-person centred organisational structure (Dutta and Evrard, 1999; Palvia *et al.*, 1994; Simpson, 2001), which is flat or horizontal, with centralised authority, minimal internal management levels and a wide span of control. Therefore, the micro-firm is the epitome of a simple structure, wherein the owner and employees are found to be closer to their customers due to the lack of management layers (Brady and Voss, 1995). Furthermore, these organisations encourage team and cross-functional orientations (Down, 1999) due to their size and informal communication structure. Notably, this structure presents greater flexibility and is therefore faster to respond and adapt to change.

The micro-firm owner is usually responsible for all decision roles within the firm and has a pivotal role in the organisation (Palvia *et al.*, 1994). As a result, these firms are often less dependent on formal decision models (Rice and Hamilton, 1979), relying instead on the owner's intuition. Size is the prevailing influencer in this regard, as the smaller the firm, the more power resides at the centre. Unfortunately, there is a resultant pressure on the owner/manager to be an expert in all fields of management, and he or she is often conceived as the only one who can make management decisions as a result (Kelliher and Henderson, 2006). Ideally, it is the owner/manager who nurtures employee cooperation in the context of these paternalistic influences. However, the owner/manager's pivotal role in the organisational structure and culture can result in dominance of top-down communication, an issue that can impede the owner's business aspirations.

Micro-firm business culture. The micro-firm culture is, to a large extent, an extension of the owner's personality, as the owner plays a pivotal role in the organisation's focus and ultimate success. Specifically, in cases where there is no divorce of ownership and control, a micro-firm's culture is often reflected in the motivations, values, attitudes and abilities of the owner/manager (Greenbank, 2000). The micro-firm's culture lends itself to informal narrative modes of communication (Penn *et al.*, 1998), which have been found to be inherently collaborative (Matlay, 1999). Notably, there is less internal uncertainty in this environment as the owner is aware of conditions and sentiment through regular contact with workers (Storey and Cressy, 1996), creating a link between the micro-firms' small size and more effective communications. However, a potential drawback is the fact that organisational messages are heard in the context of employee's history as organisational members, and may therefore be impacted by previously experienced events within the organisational setting.

Micro-firm relationship with its business environment. Research suggests that micro-firms have framed relations with the outside environment (Dutta and Evrard, 1999), wherein these firms have limited competitive influence, operating from their position in a perfectly competitive market (Simpson, 2001; Storey and Cressy, 1996). As internal and external interaction is paramount due to the more limited ability of micro-firms to shape their external environment (Smallbone *et al.*, 1999; Kelliher, 2007), these firms combine internal and external perspectives to build an image of the individual firm from a competitive viewpoint on an ongoing basis. Unfortunately, this perspective can lead to micro-firm over-sensitivity to market changes (Whaley, 2003), and often results in a short-range management perspective on the part of the micro-firm. On a broader scale, government policy has an important impact on a micro-firm's ability to compete in the marketplace. Specifically, public policy has been found to have a negative effect on micro-firms (Cook and Barry, 1995; Kuratko *et al.*, 1999), as these firms have been found to lack influence at government level. Negative policies can include price, cost inequities, legislative compliance, regulatory liberalisation, competition restriction, paperwork burden, managerial restriction and mental burden (Bannock and Peacock, 1990; Kuratko *et al.*, 1999).

Based on the reviewed literature, modern external environments are sufficiently competitive such that, in order to survive, an organisation's rate of learning must be faster than the rate of change in their environment (Barney *et al.*, 2001; Hamel and Prahalad, 1994). Specifically, micro-firms feel heavy pressure from rapid changes in their environment as to customer demands, product life cycle and government regulation and legislation (Alstrup, 2000). Thus, while significant knowledge may already be present in the micro-firm, external impulses are sometimes needed in order to trigger off internal development, and stimulate a learning dynamic within the firm. Consequently, an external impulse brought about by a new industry standard or regulation, or by dominant customer and supplier demands may challenge the organisation's learning environment, at least in the short-term (Kelliher, 2007). However, when successfully incorporated into the micro-firm's strategy, structure and culture, these external impulses should result in the emergence of a more competitive micro-business in the longer-term.

Categorising the micro-firm

The authors have explored specific research aspects of the micro-firm, including micro-firms' internal characteristics, the micro-firm's competitive environment, and their broad environmental influencers. By investigating micro-firm characteristics, the authors offer a visual representation of strategy, structure, culture and competitive setting from the micro-firm perspective. Considering the reviewed literature, the micro-firm environment has numerous criteria that can benefit from being catalogued (Table I).

Research has found that these person-centred organisations depend on the owner/manager to make decisions, present organic strategic plans, which can easily adapt to pre-defined market dynamics and operate an organisation within the confines of a restricted pool of resource. A micro-firm's success is therefore largely dependent on the owner/manager's competence in successfully channelling these resources toward the development of organisational capabilities (a view supported by O'Dwyer and Ryan, 2000). Following categorisation of the micro-firm characteristics, the authors investigated the micro-firms' underlying resource constraints in pursuit of the paper's objective: "to establish a resource-based taxonomy of micro-firm management practice".

Micro-firm management practice – a resource-based view

Before addressing the micro-firm's resource criteria, it is of benefit to define resource and related terms in this context. Resources are those tangible and intangible assets linked to a firm in a semi-permanent way, while capabilities are a way of accomplishing different activities, depending on available resources (Grant, 1991). Separately, competencies are the integration of firm-specific assets into clusters spanning individuals and groups so that they enable distinctive abilities (Teece *et al.*, 1997). Thus, organisational performance is a consequence of firm-specific resources and capabilities enabled by management competencies, as internal resource availability places a fundamental limit on an organisation's plans, regardless of those resources obtainable on the open market (O'Regan and Ghobadian, 2004; Chandler and Hanks, 1994).

The resource-based view is of particular relevance in the micro-firm context, as it contends that long-term firm survival is contingent on a business' unique offerings, and the development of this uniqueness over time through nurturing the firm's core competencies. The crux of the resource-based view is that companies have a mixed bag of resources, so those that are valuable should be embedded in a set of functional policies and activities to maximise a business's potential success.

It is widely accepted that micro-firms face "resource poverty", which forces them to operate under severe time, financial and expertise constraints. Specifically, Phillipson *et al.* (2004) and Raley and Moxey (2000) both cite inadequate internal resource as a factor in the vulnerability of micro-firms and an inhibitor in their development, operation and exploitation of opportunities. This issue can often manifest itself as a form of "short-termism" whereby these organisations may focus on short-term goals to the detriment of long-term business objectives. Learning new capabilities can therefore be quite problematic in the micro-firm milieu, due to both employee capacity and the underlying need for efficiency scale and growth in this environment (Pil and Holweg, 2003). Thus, the resource perspective offers an opportunity to analyse micro-firm management practice from an internal and external perspective.

Key internal resource constraints

Owing to the limited number of staff in this environment, significant pressure is placed on micro-firm employees to keep up a frenetic pace of activity (Dutta and Evrard, 1999) while being capable of performing multiple functions, often in multiple functional areas,

Environmental influencers	Internal characteristics (micro-firm)	Owner/manager
Power relationship	Small size	Paternalistic management style
Diseconomies of scale	Niche strategy	Central control and authority
Externally enforced change	Incremental change	Key decision maker
Perfect competition	Prone to short-term perspective	Informal strategic planner
Negative regulatory impact	Non/simple-structure	Stakeholder proximity
	Resource poor	Owner-centred culture
	Informal communications	
	On-the-job learning	

Table I.
Micro-firm criteria catalogue

within the organisational context (Dutta and Evrard, 1999; Floren, 2003). In reality, it is unlikely that micro-firms will have the resources to employ specialists, tending instead to employ staff with generalist skill sets (Simpson, 2001). There can also be a lack of career path for specialists in this type of organisation, and these firms often experience marginal labour markets (Curran, 1988) as a result. Time or lack thereof, is a particular concern in the micro-firm environment, where the owner is likely to be responsible for all aspects of the business operation. This time constraint often manifests itself in owners who are primarily interested in immediately applicable performance (Freel, 1999) as they are mainly concerned with the day-to-day demands of running their own business (Storey and Cressy, 1996), often to the detriment of long-term planning. Finally, the micro-firm has restricted access to funds (Freel, 1999), and is often reliant on personal sources of finance as a result. Unfortunately, limited financial access may restrict larger investments that require a longer payback period, creating a growth barrier in these organisational settings.

External resource perspective

There is an obligation on the part of micro-firms to ensure knowledge is used optimally within the firm by developing the analytical and critical skills of individuals, groups and the entire organisation so as to sustain and grow the firm's competitive advantage. This focus is primarily rooted in the resource-based theory of organisational competitiveness, suggesting that the micro-firm's underlying unique competitive advantage is centred on their capacity to learn (Barney *et al.*, 2001; Ruiz-Mercader *et al.*, 2006). Unfortunately, micro-firm resource poverty can lead to information deficits that hamper the propensity of micro-firms to be aware of, and respond to, environmental opportunities and threats (North *et al.*, 2001, as cited in Phillipson *et al.*, 2004), which in turn may restrict growth in these organisations. This issue can result in diseconomies of scale when competing in the marketplace, creating a cycle of decay on the part of the individual micro-firm.

Developing managerial competence

In addition to a firm's accessibility to resources, Chandler and Hanks (1994) argue that business performance is also a function of managerial competence. This view is supported by O'Dwyer and Ryan (2000), Down (1999), Kelliher and Henderson (2006) and Greenbank (2000) in the micro-firm context. These writers acknowledge that the micro-firm owner's experiences, skills and competencies are key influencers upon business survival and development, and each describes the owner/manager as a central resource of a business, providing resources that they have acquired through education and experience. Owner/manager attributes and capabilities can therefore impact positively or negatively upon business performance, as catalogued in Table II.

The owner/manager's attributes can drive motivation, positively impact communication and ultimately support an adaptive organisation. However, these findings are tempered with the reality that such people may also suffer from a short-term perspective, and promote centralised authority to the detriment of individual empowerment within the firm, potentially constricting future business success. Finally, the noted managerial competencies relate primarily to soft skills, wherein human development and learning potential are key criteria in the development of organisational capabilities in this environment.

Owner/manager attribute	Strength/ effective	Weakness/ineffective	Managerial competencies
Strong willed	Drive and motivation	Openness to suggestions and less absorptive capacity	Learning and improving
Paternalistic managerial style	Close communication	Short-termism	Leadership and direction
Intuitive	Tacit knowledge	Ideas are not tested	Idea and opportunity generation
Lack of reflection	Organisational learning	Incomplete learning transfer/ process	Development of human resources
Informal planner	Adaptive	Employees lacking objectives, responsibility and vision of the future	Identification of short and longer term learning needs

Table II.
Micro-firm managerial competence catalogue

Resource taxonomy of micro-firm management practice

While cataloguing was a valuable means of identification of micro-firm criteria and managerial competence (Tables I and II), the problem of effectively cataloguing and retrieving unstructured information is eternal (Palmer and Frappaolo, 2004). Therefore, taxonomy offers conceptual organisational structure when applied to business content and managerial competence (Figure 1). The taxonomy construction and classification seeks to identify micro-firm criteria in the context of component interrelationships, facilitated by owner/manager competence. Thus, the taxonomy aids in the identification of sub-topics to focus on in the first instance, offering insight into the micro-firm's resource-based management practices.

The proposed taxonomy seeks to establish the resource criteria and inter-relationships in micro-firm management practice. It is therefore important to look at the micro-firm's overriding strategy in the context of resource availability, internal capabilities and organisational competencies. The micro-firm strategy must operate in a resource-based framework, and each contributing factor, specifically the micro-firm's strategy, structure, culture and leadership should facilitate the pursuit of an optimum competitive stance in this environment. Thus, considering the micro-firm resource constraints, it is vital for these organisations to embed their valuable resource in their core business strategy, to ensure survival in the longer term. Notably, micro-firms in their individual capacity lack power in the marketplace and are likely to be beholden to the dominant partner's requirements as a result. This suggests that external influencers rather than core internal capability requirements dictate strategic worth. However, the benefits of dynamic management competency development, which might lead to improved management practice and business performance in the micro-firm, have not previously been looked at in any detail. This is the underlying purpose of this paper.

In Figure 1, the authors identify key micro-firm management competencies, which are relationship management when interacting with the firm's business environment, opportunity (resource) management at organisational level, the owner/manager's leadership and communication skills within the firm, and the promotion of individual learning underlying human resource development (HRD). By focusing on developing management competence within this taxonomy, the owner/manager may focus on those activities that contribute to the firm's development and success in the long run.

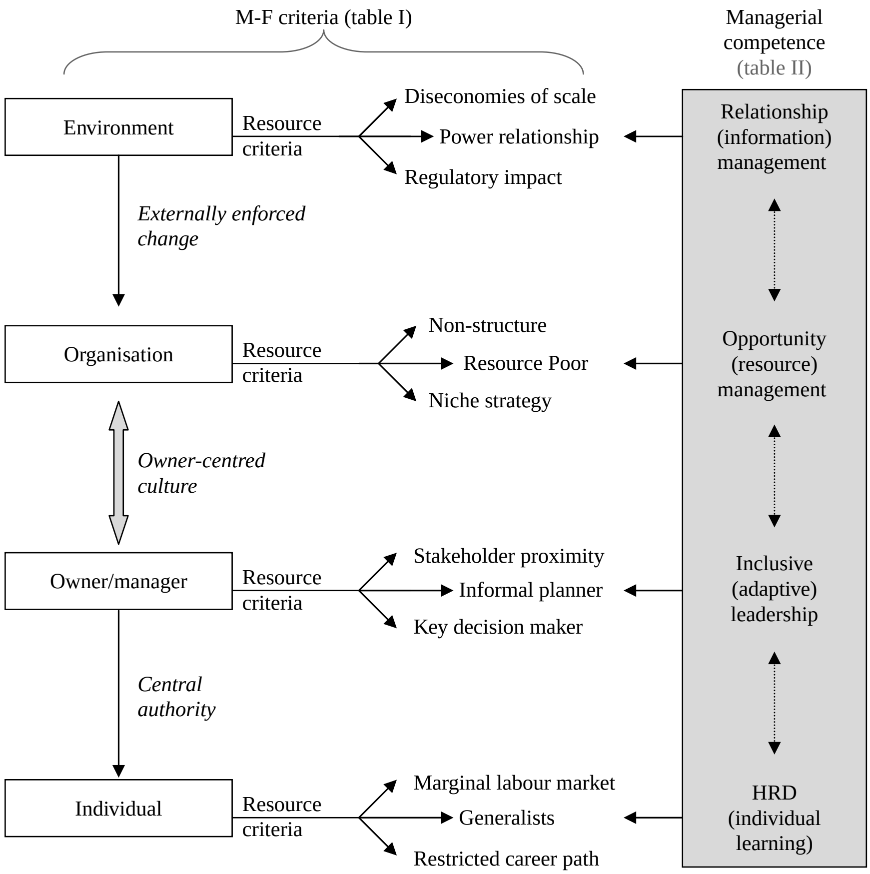

Figure 1.
Resource taxonomy of micro-firm management practice

Specifically, considering the resource constraints mentioned earlier, the micro-firm owner/manger may be able to tap into valuable resources within a learning network environment by developing relationships, which could result in the development of dynamic internal management competencies. Within the organisation, an inclusive/adaptive leadership approach coupled with a primary focus on HRD should help hone employees' specialist skills, and provide a wider career path for these individuals, ultimately contributing to organisational productivity. Notably, promoting internal communication and individual learning has been found to facilitate organisational learning over time in the micro-firm milieu, creating the potential for perpetual improvement in context. At an organisational level, resource-based opportunity management should help channel limited resource and individual learning into "value" strategies, strengthening capabilities despite resource constraints, and ultimately impacting competitive advantage. As the taxonomy is an inter-relational representation of the micro-firm management practice, each action results in reaction, creating a synergy of worth over time.

Policy implications

The proposed resource-based taxonomy of micro-firm management practice offers policy insight in relation to the business environment and individual and organisational learning.

The business environment

The resource perspective indicates that there should be apportioned responsibility by size in relation to regulation (Martin, 2007). This approach has already been implemented in Australia's HR policy (Southley, 2007). Furthermore, as small and micro-firms often face a power imbalance in interaction with dominant trading partners (Kelliher, 2007), the resource perspective proffers micro-firm cooperative lobbying to challenge competitive policy in pursuit of a more balanced business environment.

Organisational and individual learning

To date, criticism has been levied on small and micro-firm training programmes (Greenbank, 2000), government initiatives (Matlay, 1999) and educational institutions (Taylor and Thorpe, 2004) for failing to address the learning and resource needs of these organisations. From a learning perspective, researchers appear unified in the belief that generic training solutions originally designed for larger organisations fail to address the needs of the micro-firm (Greenbank, 2000; Devins *et al.*, 2005; Down, 1999, among others). The authors' therefore contend that learning initiatives ought to focus on analytical and intuitive skill development on the part of the owner/manager, and the development of staff through individualised learning programmes (Figure 1). Considering less than 20 per cent of micro-firms survive longer than six years and 30 per cent last less than 18 months (Storey and Cressy, 1996), there is an evident value in customising micro-firm managerial competence development and employee learning initiatives in this manner. From a policy perspective, appropriate interventions addressing specific training and learning requirements in the context of an individual firm's size, sector, structure and the owner/manager's attributes (a view supported by Johnson, 2002) are far more likely to reap sustainable competitive returns by:

- embedding the resource perspective in the design, development and implementation of the micro-firm's business strategy (Teece *et al.*, 1997; Grant, 1991); and
- by honing managerial competence, the value of available resource can be enhanced in pursuit of sustainable commercial success (as advised by O'Regan and Ghobadian, 2004).

Conclusion

This paper sought to establish a resource-based taxonomy of micro-firm management practice. The purpose of this taxonomy is to assist in the analysis of management practices in the micro-firm milieu. Assuming the micro-firm's underlying unique competitive advantage is centred on their capacity to learn at a faster rate than the rate of change in their environment, this taxonomy seeks to hone management practice in promoting and capturing individual and organisational learning in this environment. Specifically, micro-firm management competencies are found to be relationship management when interacting with the firm's business environment, opportunity (resource) management at organisational level, the owner/manager's inclusive leadership and communication skills within the firm, and the promotion of individual learning underlying HRD.

The reviewed literature and extracted micro-firm taxonomy depicts a unique entity in the organisational management context. Specifically, the organisation's minute size, paternalistic management style, intrinsic flexibility and informal culture should all contribute to a contextual understanding of micro-firm management, at least in theory. Unfortunately, underlying external and internal issues may curtail optimum management practices in this environment. In particular, centralised decision-making and control may create a constricted communication line within the micro-firm, resulting in a stunted internal culture. External regulatory and competitive pressures may produce a forced learning environment from the micro-firm perspective, creating competitive constrictions and ultimately causing a negative impact on organisational success. Pursuit and development of managerial competencies at each interaction point is therefore worthy of further investigation and the authors recommend research in the area of resource-based management practice and micro-firm managerial development in this regard.

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