

## OPENNESS AND KNOWLEDGE AS LEADING TENDENCIES IN DEVELOPMENT OF MICRO ENTERPRISES

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### Abstract

Small and micro businesses are the key elements of market economy and most dynamic, flexible business sales form. Establishment and development of micro enterprises are a necessary condition for forming normal economic environment, what promotes manufacturing goods and competition between service companies. Micro enterprises are important source of work-places, create spirit of entrepreneurship and innovation in European Union and therefor are essential for strenghtening employment and competition. Lately there are heard a lot of speeches in media about importance of small and medium enterprises in the European Union and national level, but rarely are mentioned that most of these enterprises are exactly micro enterprises. Micro-enterprise is not a small version of a large company! Their legal condition, situation in market, opportunities of attracting financial means fundamentally differs from large companies. So approach in fostering development of micro enterprises has to be tailor-made for exact needs of micro entrepreneurs. Practice shows that micro enterprise managers often deal with problems, rather than foresees problems and plans solutions in advance. They lack knowledge (its world-wide problem of micro entrepreneurs!), skills and funding. State initiatives are formal, not connected to real micro entrepreneur`s needs and focused on the supply of financial resources, but part of knowledge and skills sometimes are of greater importance as it determines correct and effective use of money. Taking into account specific details of micro enterprises management, probably the best solution for getting knowledge is a partnership, openness to information from other micro-entrepreneurs and the power of cooperation. The article aims to analyze the specific features of micro-enterprises, their importance and resources fostering competitiveness, particularly highlighting two emerging trends in the world: focus on knowledge and openness in context of micro entrepreneurs and possibilities to adjust these tendencies to the needs of Latvian micro-entrepreneurs.

Study was performed by analyzing data, researching best practice examples, interviewing experts and exploring latest tendencies and recommendations in literature and scientific journals.

Research shows that Latvian micro enterprises lack cooperation between themselves, enterprises and research institutes and Universities and between micro enterprises and government institutions. Therefor partnerships are insufficiently used tool for creating knowledge-oriented business environment and have to be promoted between both entrepreneurs and researchers. Several changes have to be made to foster development of Latvian micro enterprises and ensure orientation to knowledge and innovation. First, there is need of paradigm change in minds of micro-entrepreneurs to promote openness and free knowledge flow instead of secrecy. Secondly, initiatives showing best practice examples and encouraging knowledge sharing and partnerships are needed. Thirdly, information of specific details of knowledge and other resource management in micro enterprises has to be outspread. Only keeping in time with newest and effective proved tendencies of the world can ensure orientation of Latvian micro enterprises to knowledge- inclusive economics.

*Keywords:* Micro enterprise, knowledge management, partnership.

*JEL Classification:* L11, L14, L25, L26.

### Introduction

Economics are made for people, and its main purpose is raising society`s living standard. Therefor enterprise`s contribution in society`s living standard raise must be measured not only in its GDP share but also by social areas- how much people does it employ, whom does it help to survive or live better life and how does it impact society in whole. Small, medium and micro enterprises are inextricably linked to economic empowerment, job creation, and employment within disadvantaged communities (Davies, 2001). Looking from social as well as from economical perspective, most important type of enterprises are micro and small enterprises. Being labor intensive and technologically extensive, microenterprises fulfill an important role in spheres of employment and an even distribution of income, where as a prime example can be mentioned Taiwan (Harvie, 2003). Micro, small and medium enterprises have a valid claim to heightened relevance, and strategies have been developed world wide to expand and integrate this sector into the mainstream of economic activities (Luiz, 2002). Theme of micro enterprises is very popular but economic indicators suggests there is a problem why so small percentage of micro enterprises survive after first or few first years, why there is so small profits in this field and why European Union still unsuccessfully fights unemployment and poverty? The aim of the article is to analyse the specific features of micro-enterprises, their importance and resources fostering competitiveness, particularly highlighting two emerging trends in

the world: focus on knowledge and openness in context of micro entrepreneurs and possibilities to adjust these tendencies to the needs of Latvian micro-entrepreneurs. Research is basically theoretical but made with Latvian micro-enterprises in mind so research results could be applied into praxis as real-life suggestions for Latvian policy makers.

By Latvian Central Statistical Bureau data, in Latvia in year 2010 micro enterprises contributed 91.17% of all enterprises. Not only it is the most popular form of enterprises, population density in Latvia isn't suitable for larger enterprises. Population density in Riga region in year 2011 was 2303 inhabitants per square kilometre, but in the rest of Latvia's territory only 24.86 (data from Central Statistical Bureau). It is fully understandable why there are unsuitable obstacles for establishing medium or large enterprises outside Riga. Main problem here is that policy makers in Latvia follow lead of European Union looking at micro enterprises as seed material for larger forms of enterprises. Instead of this micro enterprises should be seen as resource and material for future development in quality (by generating added value and orientation to knowledge economics) and quantity (by reducing unemployment). Research of the author shows that not only most Latvians work in micro enterprises but they want to work there because of flexibility of this enterprise form, personal attitude and possibilities to adjust to current situation. By authors pilot research data: 35% of responders would like to work in micro enterprise versus 33% in small, 18% in medium and only 14% in large enterprise. 63% of responders would like to create their own micro enterprise and 70% would like to be entrepreneurs. That proves not only actuality of the topic but also unrealized potential to develop sector of micro enterprises.

### **Specialities of micro enterprises: why this sector needs different approach**

Before analysing possible ways of developing micro enterprise sector, it is very important to understand that this enterprise form is highly different from other enterprises. Most theoretical research, examples of good praxis, suggestions for strategic and operational management are made for medium or large enterprises. Due to specialities of micro enterprises, these are not directly transferable.

Micro and small enterprises promote competition, the development of market relations (promote the decrease of the level of price, product and service quality improvements, create relations of normal competition); provide not only a variety of services to consumers, but also helps to operate large enterprises more efficiently (many small companies are suppliers of large factories). Micro and small enterprises are able to respond quickly to changes in demand. They are flexible; rapidly change the assortment of production. Micro and small business is more effective than large, to make a rapid movement of goods and changes in a relatively short time, quickly filling the market; focus on small "market share" in the market of products and services, promote the development of social middle class. The country's stability and prosperity are not possible without it. But this is only sight from one side. Being a micro entrepreneur is not easy, especially in Latvia, where there is need to fight with shadow economics, ineffective tax system, corruption, unneeded bureaucracy and instability of the government (Schwab, 2011). Micro entrepreneur is often busy with day to day operations and tactics and therefor lacks strategic planning. Strategic planning processes in micro and small firms have been found to be unstructured, irregular, and incomprehensive. They are best described as informal; they are almost never written down and are rarely communicated beyond the chief executive's closest associates. Moreover, the strategic focus in small businesses takes on a more limited time horizon than in large organizations, usually covering periods of two years or less (Papulova, Papulova, 2006). That results in micro enterprises being less productive, with shorter life-cycle and functioning in fields not asking special knowledge. This can be explained too by the availability of technology in conditions of scarcity of resources, as well as a small role of the productive sectors in the Latvian economy as a whole. Technology choice, which is used in micro-enterprise, affects, first, total factor productivity (efficiency) and, secondly, employment and income distribution in society. Lack of productive sectors is clearly visible in statistics of Latvian micro enterprises. Looking at the Latvian companies by size groups and the main activity, it shows that only 4 types of micro-enterprises exceed threshold of 5% in 2009: agriculture, forestry and fishing (10.89%), crop and animal production, hunting and related service activities (9.92%), wholesale trade and retail trade, automobile and motorcycle repair (9.61%) and retail trade, except automobiles and motorcycles (5.33%), (Central Statistical Bureau, Republic of Latvia, 2009). With such structure of most enterprises, it is almost impossible to create knowledge inclusive economics or ensure realisation of smart growth as European Union strategy 2020 suggests. This gap is made even wider in technological aspect of entrepreneurship. Large enterprises tend to employ smart technologies and accent on technological aspect of entrepreneurship determines relatively small need for workforce as machines and automatics can do most of

the work, especially nowadays. Unlike large enterprises, micro and small enterprises tend to be work-force intensive and have much smaller part of technologies. As economic situation in Latvia and all European Union is challenging, changes must be made according to the obstacles, needs of the market and global situation.

### **Openness and knowledge: new buzzwords in micro enterprise sector**

Development tendencies of micro enterprises could be divided in two parts: knowledge oriented development path, generating high technology, niche product or highly specified micro enterprises and cooperation (openness to opportunities) with state, research institutes and between enterprises. Openness, together with state's support, is the key to fighting unemployment in Latvia and, in many cases, in gaining knowledge necessary for development of micro enterprise. But what are main problems Latvian micro entrepreneurs have to face? Great problem for Latvian entrepreneurs are lack of entrepreneurial skills and history what has resulted in quite damaging paradigm. A lot of Latvians see need of more micro entrepreneurs, even want to have their business but is hold back by doubts like "entrepreneur has to have special talent or mental gift", "entrepreneurs are not honest people", „this is only for very smart people“, „it cannot be done without contacts I do not have“ etc. Mentality of lonesome person, someone willing to do all by himself, is very damaging for entrepreneurial spirit as business is team sport where networking, being open to possibilities are very important. The empirical studies show that the training activity in micro enterprises is influenced mostly by three variables: the owner's commitment towards employee learning and knowledge sharing; the competitive strategies adopted by micro firms; and the way work is organized (Panagiotakopoulos, 2011).

Most important task of the state would be to give idea to society that micro business doesn't necessary has to be very knowledge-intensive, has very bright idea beyond it or is something very exclusive. Micro entrepreneurship could be anywhere in range between high technologies and very simple service allowing its owner to nourish his everyday needs. Actually, the world tendency shows that more and more micro enterprises becomes service oriented, leaving production to larger types of enterprises and doing what they can best- adjust to changing needs in market, be flexible to client's needs or demands, make tailor-made solutions for each situation or order. Orientation to service is weak point in Latvian enterprises because of our historical background. Significant transformation from 1990-ties in Central and Eastern Europe has engendered substantial changes in business conduct and service to its customers. Historically, the command-oriented economies did not encourage or emphasize service orientation in enterprises (Lynn, Lytle, Bobek, 2000). Together with lack of entrepreneurial experience, mentality of scarcity and secrecy and lack of state support, that results in Latvian micro entrepreneurs not being open and not cooperating. United States of America has successfully fought unemployment with the help of micro enterprises. In this success story key element is collaboration between the state and micro-entrepreneurs, but the importance of cooperation is topical in other ways: between micro-entrepreneurs and micro-entrepreneurs and research institutes. Many literature sources indicated that in cooperation and in building a social network micro and small businesses are able to respond to the challenges of global competition, using the opportunities of local market and collective competitive advantage (UNIDO, 2001). Importance of micro enterprises and their collaboration with the state is recognized not only in theory; By author's pilot research data, majority of responders -78% - think micro enterprises are important for growth of Latvia and that Latvia need more micro entrepreneurs (86%). In same time, responders think that micro entrepreneurs in Latvia doesn't receive sufficient support in knowledge and information field (42%) and doesn't receive sufficient support in financial resources field (49%). By respondent thoughts, this is omission from the state as only 11% of responders consider collaboration between micro enterprises and state sufficient and effective. In this situation all the sides are to blame but mostly government: with smart guidance, support programs and strategic planning a lot could be done. In Latvia, government wait for initiative from entrepreneurs but don't take into account specifics of micro enterprises- majority of business environment and the ones that need help. It is a great mistake to think of micro enterprise as smaller version of large or medium size enterprise. One of attributes of a micro enterprise is thing, that micro entrepreneur often has to fulfill a lot of roles all by himself. Micro enterprise doesn't have human resources department, financial and legal departments, marketing, research and development center. Often micro entrepreneur has not only produce goods or offer service but also fulfill management, marketing or several else functions. In this case it is no wonder micro entrepreneur is concentrated on direct management and producing and therefor doesn't have time to search out latest tendencies in management science, read books or scientific articles. It results in micro enterprise not meeting

its full potential because of lack of knowledge about methods, skills and newest tendencies in science and research. As products and services all around the world are getting smarter and smarter, more complicated and knowledge inclusive, there has emerged another tendency between micro and small entrepreneurs. As one person cannot accumulate all the newest trends and options, it has to be open to get it from outside. The majority of today's organizations have some kind of „knowledge management project” under way, and their total costs are often substantial. They are also a significant burden on senior management's time and attention so some organizations have appointed chief knowledge officers to help them cope (Spender, 2006). It could be too much of resources for micro entrepreneur to do. This need for knowledge without enough resources and state support in getting them by company itself has resulted in partnerships- both formal and informal platforms of knowledge sharing.

### **Partnership as tool in knowledge sharing and creation**

Networks allow the micro and small enterprises to create formal and informal collaboration, which can take many forms: knowledge sharing, or just trade relations or clarification of the relationship network, which could include different stakeholders, such as formal and informal institutional actors. As shown by the scientific literature, the main role in these complex networks has universities and research centers, and other institutions that provide external support in many production and service related questions as well as promote innovative activity (Dubini and Aldrich, 1991; Storey, 1994; Drucker, 1984, 1985; Pavitt, Robson un Townsend, 1987; Acs un Audretsch, 1988).

Partnership allow knowledge transfer, know-how and create new knowledge. Even more, in partnership functions synergetic effect- the total gain is greater than the sum of each part. As micro entrepreneurs are very busy operating business and producing goods, they often reacts to problems not foresees them. That is one of reasons why partnerships are extremely handfull: by dealing with each other`s experience it is possible in advance be warned about possible risks and find out solutions to problems not yet faced as development phases of micro enterprises tend to be similar. Partnership also offers greater possibilities of cooperation thus fostering business development of both partners. Orientation on knowledge is extremely important to European Union as right now it is not in same place as Eastern countries and United States. With an average of 1,8% of research and development expenditure as percentage of GDP in 2007 compared with 2,7% in the US and more than 3% in Japan or South Korea, aggregate research and development spending in Europe lags significantly behind competitors. Moreover, the average share of people with territory education for 25-64 years old is only 23% compared with 40% for Japan and 39% in the US. Europe has many universities but only two (Cambridge and Oxford) in the top ten of the Shanghai ranking. Moreover, with only 16% of world patents registered by the EU compared with 35% by the US or 18% by Japan, it could do much better in turning knowledge into business (the confederation of European Business data).

Volume of knowledge builds micro-enterprise human capital, which determines the company's success or failure in the market. Micro, small and medium sized enterprise success will depend on recruiting and retraining human capital. Human capital has become the new buzzword for companies in today's knowledge-based economies. Labor shortages for qualified employees and the need for highly skilled employees to fuel this knowledge-based economy has become apparent (Pearson, 2005). Therefor need of following latest tendencies in education is essential to micro entrepreneurs. One of the most promising trends in education is the competence-based education that includes learning from each other and learning through doing and developing performances. A similar concept is two or more person participation with a specific target for growth. Unlike this, the partnership's concept focuses on inter-organizational context. In the case of small firms, research evidence suggests that such organizations are less likely than larger employers to provide training to employees. Although there are strong arguments to suggest that this type of approach is perfectly rational from the point of view of the small business owner who lacks the financial capital to fund training activities, it may not produce the optimum level or mix of skills for the economy as a whole (Johnson, 2002) Because of this, it is extremely important to gain knowledge elsewhere. In a similar manner as a learning organization can learn inside the organization and learn from other organizations, the network can include learning in it and from it. There is critical importance in both organizational learning and learning from organizations, and, in network learning context, development of learning mechanism is essential.

Despite the fact that national and local economies worldwide are largely constituted of micro-firms and small enterprises (Observatory of European SMEs, 2003), research that focuses specifically on workplace training and skills development in micro-businesses is missing from the specialist literature.

Although there is an extensive literature on what stimulates training in large organizations, the state of knowledge around this issue in micro enterprises remains very limited (Matlay, 2002; Senker, 2002). This is why there is tendency for informal partnership platforms to emerge instead of planned and state's supported partnership establishing. This creates risk for not well-thought over actions and insufficient knowledge base.

Partnership establishing should be done thru strategic approach to connect company's aims with direct action and therefore results. The more knowledge network of partners has, the more they can share; and as knowledge has tendency to develop in clusters, enterprise should use their advantage. Clusters, formed as a result of improving the business environment, are defined as geographically-related group of companies and institutions, who have both common and complementary issues. Since the sum of the parts is greater than the value of individual companies or institutions, cluster creates synergies that create the preconditions for creativity and innovation development. This is highly important for European Union on its way to knowledge intensive economics. By the end of the twentieth century, two thirds of the global partnership consisted of North American companies, mostly from the United States. Asian companies were engaged in one third of global partnerships and Europe companies - in just one quarter (United Nations Publications, 2002). These indicators reflect trends in the region to engage in and initiate a partnership link, but read in context of the micro-partnerships, each region's entrepreneurial orientation fields should take into account and policy makers should learn from each other.

### Conclusions

1. Micro enterprises are the most important part of entrepreneurial environment not only because they contribute most part of all enterprises but also because of their social duty in providing work places. In the case of Latvia, micro enterprises are most suitable enterprise form and therefore must be treated with needed respect. Government should tribute special attention to micro enterprises' needs taking into account their specific features and actual problems.
2. Micro enterprises lack strategic sight, planning and management and that results in non-productive operation in knowledge-extensive fields. To enliven European Union strategy 2020 there is need for fostering knowledge management, especially knowledge need planning and adequate support for knowledge gain.
3. Most actual trends in micro enterprise environment are knowledge-orientation and being open to possibilities thru cooperation. That results in more and more service micro enterprises. Due to time and other resources lack, micro enterprises often has unrealized need of knowledge gain. This can be effectively solved thru both formal and informal partnerships.
4. Research shows Latvian micro enterprises lack cooperation in all levels: between themselves, between micro enterprises and government and between micro enterprises and research institutes and organizations what would deliver both commercialization of newest inventions and create smarter and knowledge-intensive companies.
5. Several changes have to be made to foster development of Latvian micro enterprises and ensure orientation to knowledge and innovation.
  - a. There is need of paradigm change in minds of micro-entrepreneurs to promote openness and free knowledge flow instead of secrecy.
  - b. Initiatives showing best practice examples and encouraging knowledge sharing and partnerships are needed.
  - c. information of specific details of knowledge and other resource management in micro enterprises has to be outspread. Only keeping in time with newest and effective proved tendencies of the world can ensure orientation of Latvian micro enterprises to knowledge- inclusive economics.

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