

EXPLORING THE INTERTWINED PROCESSES OF STRATEGY AND KNOWLEDGE MANAGEMENT IN MICRO FIRMS – A CASE STUDY FROM PROFESSIONAL SERVICE CONTEXT

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In our qualitative study, we explore the strategy development and knowledge management in micro firms. The data for our study is collected through observing workshops and interviewing owner-managers of 21 micro firms offering various professional services. Through our empirical study we have identified components that affect both the strategy development and knowledge management of owner-managers in micro firms. They are: reflecting the role of collaboration networks, reflecting about one's role in the market, reflecting about the customers, reflecting entrepreneurial identity, and reflecting self-management. These components can be comprised to two 1) Environment and stakeholders reflected in strategic reasoning and knowledge management in micro firm, and 2) The entrepreneurial identity and managing oneself reflected in strategic reasoning and knowledge management in micro firm.

Track: Entrepreneurship - Managing humans and microenterprises in change

Key words: micro firm, strategy, strategy development, knowledge management,

Introduction

Traditionally the theoretical background of strategic management has been built and tested in large companies and established organizations; and the literature on small business strategy can be seen to draw from perspectives developed for larger firms (Lumpkin, McKelvie, Gras & Nason, 2010). Based on the existing literature can be stated that small firms tend to be less strategy oriented than large companies. They seldom apply tools to strategic management, and do not necessarily have established a written strategy or vision (Richbell et al. 2010)

The prior literature has highlighted the need to develop an improved understanding regarding the nature of strategizing in the micro firms (Fernandez-Esquinas et al., 2017). The need arises from the fact that the existing theoretical contributions to strategy are not best suited to address the micro activities and day-to-day life and operation in organizations. When it comes to strategy, there is still need to put more emphasis on context and actions of people who work in organizations (Johnson et al., 2003). Kearney et al. (2018) have reviewed existing literature regarding the aspects that differentiate micro firms from SMEs and larger companies, and in their study put the focus on strategizing in smaller firms, since owner-manager has a strong and key role in micro firm (Danson et al., 2015; Komppula, 2014), and he/she can assume the roles of owner and key resource allocator (Alonso & Bressan, 2014) and manager (Lieberman-Yaconi et al., 2019), but he/she is also an important employee and engages in everyday activities and work in the firm (Kelliher & Reinl, 2009). This of course changes the nature of strategizing and engages in more to everyday activities. Also sometimes for an entrepreneur, the hobby may become career and business, and thus it can be stated that the business philosophy may compete with lifestyle motivation as drivers for strategy (Jaouen & Lasch, 2015).

In their study Lumpkin et al. (2010) have also explored the liabilities of smallness and newness to highlight how microenterprises and very new enterprises differ from larger and more established firms, when it comes to strategic analysis, strategic content, resources and processes. According to them, many millions of small business founders and owners could benefit from a clearer understanding of small business strategy. Therefore, there is still a need to focus on strategy-making processes in small firms, taking into account the resource constrictions that the very small firms may have and also the key role of the knowledge and its development, especially in professional service context. Thus it is important to build understanding on how and why the strategic management literature may differ for the smallest and newest, not least because of the huge number of microenterprises and solo entrepreneurs. This study aims to address this research gap by exploring the way in which strategy development and knowledge management are intertwined in micro firms.

This is in particular the case for knowledge-based firms offering professional services where substance knowledge and experience form the basis for developing service offerings for the customer. Equally important is the knowledge needed in managing one's own business, such as knowledge about marketing, finance, accounting and so on. Moreover, we argue that it is necessary to focus on strategy development in small firms, taking into account the resource constrictions that the very small firms may have. Additionally, given the key role of the knowledge and its development related to the professional service context, we consider it

important to understand how strategizing and knowledge management are intertwined in micro firms.

The objective of our qualitative study is to explore the links between strategy development and knowledge management in a micro firm context. More precisely, our research question is: *How are strategy development and knowledge management linked in micro firms?* The rich dataset for this study has been collected by interviewing owner-managers of 21 professional service firms and gathering observational data in workshops. In the workshops the owner-managers discussed their existing and needed competences, strategy work and vision. Our findings highlight the way knowledge resources are intertwined into strategizing in micro firms. By analyzing and developing an understanding, what they can do and with whom to co-operate, they simultaneously develop strategy. Hence, our findings highlight first that in micro firms strategy is not guiding knowledge management but the opposite, knowledge guides strategy. Second, strategizing is mundane and it is conducted continuously, iteratively, and simultaneously with everyday business activities. Third, we have identified and discussed components through which the entrepreneurs offering professional services develop both strategy and knowledge management.

Strategy development in micro firms

Strategy development in micro firms can be seen to emerge from the perceptions of the owner-manager concerning the firm's internal and external environment, current as well as historical (Kearney, Harrington & Kelliher, 2014). In this paper we adopt the definition of strategy-making process by Dess et al. (1997, 679) and look at strategy development "*a process that involves the range of activities that firms engage in to formulate and enact their strategic mission and goals*".

Verreynne and Meyer (2011) have reviewed prior literature on strategy-making processes and according to them the most commonly used strategy-making processes are: adaptive strategy-making, participative strategy-making, the intrapreneurial mode of strategy-making and simplistic strategy-making. The adaptive strategy-making process is often used by small firms as it entails active engagement of external stakeholders (customers and suppliers), enabling the firm to pursue opportunities quickly (Barringer & Bluedorn, 1999; Verreynne & Meyer, 2011). In participative strategy-making the inclusion of internal stakeholders, especially employees in strategy work, in addition to management of the firm is highlighted. The employees play an important part in intrapreneurial mode of strategy-making and in firm utilizing this type of strategy process, employees are encouraged to experiment and come up with ideas for new products and services (Verreynne & Meyer, 2007). The firms using simplistic strategy-making

on the other hand focus on the factors that have led to success beforehand and the focus is on one single strategic goal (Miller, 1993; Verreynne & Meyer, 2011). According to Verreynne and Meyer (2011) engaging in adaptive strategy-making has the strongest impact on entrepreneurial orientation and this can be supported by participative and intrapreneurial strategy-making. Liberman-Yaconi et al. (2012) discuss in their study the strategic decision making and the differences between small and large firms. According to their empirical study from the context of service IT firms, it is the owner-manager's personal characteristics together with the internal resources available to the firm (skills available, technology, financing, networks) that influence the owner-manager in his/her strategic decision making process.

According to Lumpkin et al. (2010) as a strategic choice, many new and small firms engage into relationship development in order to overcome individual resource shortages, the liabilities of both newness and smallness. The liability of newness (eight years or younger) can be defined as the risks of failure experienced by newly established firms, due to the underdevelopment of organizational roles and routines, and also the possible lack of relationships and established customers (Freeman, Carroll & Hannan, 1983; Lumpkin et al., 2010). The liability of smallness, in turn, denotes the risk of failure associated with firm size. This is because small organizations typically lack economies of scale, have challenges in raising capital, and are also relatively more vulnerable to fluctuations in the marketplace, thus finding it difficult to effectively compete. It may also be difficult for small firms to achieve economies of scale or gain recognition as a significant player relative to larger firms, and these facts can affect the extent to which microenterprises use strategic tools and pursue strategic initiatives. In addition to liabilities mentioned above, newness and smallness can also prove advantageous. Compared to larger and more established firms, microenterprises can make decisions and act based on them more quickly. Since the commonly accepted industry norms may be somewhat unfamiliar to new firms, this can result in development and implementation of novel practices. One other important benefit for microenterprises is the ability to engage in experiments. (Lumpkin et al., 2010.) In small and new firms, the strategy development can therefore be more informal and intuitive than often is the case with larger, established firms (Allred et al., 2007). In the context of new and very small ventures, like for example solo entrepreneurs in professional services, as is the case in our study, the resources of the founder may also be the resources of the firm (Lumpkin et al., 2010). This may pose a challenge, namely that it may be difficult to separate the individual from the firm. In this paper the focus is on micro enterprises defined in line with Lumpkin et al., (2010) as small businesses with no more than 10 employees including the founder.

Knowledge management in micro firms

Knowledge management entails planning, implementation and evaluation of practices that ensure the competences needed to achieve company's strategic goals (Nordhaug, 1998). Thus, the aim of the knowledge management is to enable better performance of the company (Coates, 1999; Sher & Lee, 2004). Strategy-based knowledge management supports professionals' competences, guides the change, and brings competitive advantage (Wu & Lin, 2009). Knowledge management in micro firms is argued to be poor, particularly due to the lack of resources, such as finance, time and knowledge (Nartisa 2012). However, Handzic (2006) reports about an Australian study which suggests that SMEs may have also advantages in knowledge management compared to larger organizations. SMEs tend to be, for example, agile, willing to learn from customers, clients, competitors, suppliers and providers. In addition, SMEs tend to be well integrated to surrounding networks consisting of e.g. professional and industrial associations. These practices are likely to support knowledge management.

Adoption of knowledge management practices is, however, said to be challenging (Wong & Aspinwall, 2005). While introducing knowledge management it is also important that firms have a positive orientation towards the development, such as innovative culture to encourage R&D project and management that is based on competencies. (Marqués & Simón, 2006.) Liebowitz (1999) refers to Liebowitz and Beckman (1998) and suggest that knowledge management process should be started with determining the core competences and formalizing the existing knowledge. Furthermore, relevance, value and accuracy of the knowledge should be evaluated. To enhance organizations' competitiveness and success new knowledge should be developed while also existing knowledge should be utilized efficiently (Handzic 2006). Practical guidelines particularly to SMEs for conducting knowledge management suggests to start with building knowledge management awareness, aligning it with business strategy and auditing knowledge, such as assets and resources. Finally SMEs are recommended to develop and implement knowledge management solutions that are suitable for the firm and add value to it. (Handzic 2006.)

Methodology

Research context

Four groups of micro entrepreneurs were invited to workshops (21 companies in total) to discuss managing one's business and competencies (knowledge and skills) required to succeed in it. There was discussion about managing the firm and what owner-managers needed to know about and master regarding marketing, sales, finance, new customer recruitment, networks for new service development and so on. Thereby, the focus was not so much in the substance

competencies that each entrepreneur had and had developed, but more on issues regarding business and steering the company. Of course the substance knowledge is the core in their business and the service they offer to customer, their expertise. After deciding, what competences they felt were important for their business, each participant in the workshops evaluated their own expertise by conducting an IT –based competence analysis with software especially designed for it. Thus the competence analyses was used as a facilitation method during the first three workshops. Results were put together to show the participants' combined results and these were discussed. The participants from three groups were interested in meeting again and thus follow-up workshops were organized. One of the groups did not feel the need to meet again. During the follow-up meetings, the participants discussed the next steps chosen for competence development for each of their firm. They were also able to compare the aggregate results drawn from their individual competence analyses with a large data of results collected from other companies (data available in the software and results collected from companies operating in various industries over the years). The participants reflected the results and discussed, whether the competence analyses had confirmed the development needs they had already recognized prior to the analysis, or whether something surprising had come up.

Table 1 presents an overview of the participating companies. All participating companies were micro organizations, either solo entrepreneurs or with one employee. The participating companies operate in several industries: management consulting, coaching, advertising, professional guidance, services for career planning and recruitment, services for financial management. Companies participating the workshops represented different fields of professional services. This enabled us to explore and identify the elements in strategy development used by knowledge intensive micro firms, irrespective of the specific industry. This, in turn, allows the conclusions to have wider implications. Furthermore, it is noteworthy, that all the participants were interested and willing to a) engage in systematic analysis of their strategic competencies and capabilities and b) to pursue the path of continuous development of the knowledge management.

Table 1 Characteristics of the participating companies

Services	Number of participants
Consulting and coaching - e.g. career coaching, work well being consulting, work supervision, lifestyle coaching	10
Business supporting services - e.g. accountancies, knowledge management consulting, IPR consulting, advertising agencies	9
Social services	2

- child welfare, empowering photography	
Total	21

Data collection and analysis

The aim of this study is to explore the link between strategy development and knowledge management in micro firm context. More precisely, our research question is: *How are strategy development and knowledge management linked in micro firms?* In order to be able to explore the strategy development in micro firms, a qualitative research design was chosen. The study at hand is a multiple case study with the case being the strategy formation process that each entrepreneur reflects during workshops. The qualitative research design is also justified because the existing literature around the topic is somewhat faint (Eriksson & Kovalainen, 2008). The design enables the collection of in-depth data and thus provides in-depth insights from micro firms. In the research process different data collection methods are combined

The data of the study consists of interviews with the owner-managers of the companies and observational data from seven workshops. The interviews were conducted in each participating company prior to workshops. The thematic interviews were (semi)structured and focused on the themes of: vision, purpose and benefits of strategy for the firm, challenges that the business will face in the future, the importance/benefits of human resource strategy, processes of knowledge management, and importance/benefits of systematic competence analysis for business, both for today and for the future. Following the interviews, the data was also collected in workshops organized for micro firms. The researchers participated the workshops, which were facilitated by business coach, and made field notes during all the seven workshops.

Data analysis

Data analysis was conducted in parallel with data collection. During our research process, we have followed the process of systematic combining in line with Dubois and Gadde (2002), where our theoretical framework has directed us in our data collection and provided us with preconceptions (Dubois & Gadde, 2002). The pre-understanding guided us in forming the semi-structured interview form used in collecting the data from the participating companies, discussing how they see the role of human resource strategy, business strategy and knowledge management.

The data analysis began by scrutinizing the interview data preceding the workshops. The semi-structured interview data enabled the identification and analysis of the knowledge management processes currently used by participating entrepreneurs. Furthermore, the way in which SME's perceive the (significance) of human resource strategy, business strategy and vision was analysed from the interviews. Thus the interview data provided us with a picture or frame about the conceptions that micro firm owner-managers have regarding strategy and also knowledge

management. Even when we recognize that we had a preconception based on our prior understanding and literature review, when we began analyzing our observational data, we wanted to let the data speak to us. Thus we conducted our data analysis according to the approach presented by Gioia, Corley and Hamilton (2012), for conducting qualitative and interpretive research, and for systematic inductive approach to concept development. When conducting a case study of moderate constructionism, during research process both abduction and induction can play a role (Järvensivu & Törnroos, 2010). As Gioia et al., (2012) point out, when analyzing qualitative data inductively, the researchers can adopt a role of a “glorified” reporters. This means that the idea is to give adequate account of the experience of the entrepreneurs. The observational data i.e. the field notes were analyzed first by one of the researcher individually. After reading through the data, patterns could be identified. This means that the quotes and pieces of data could be categorized under themes that emerged from the data. The initial finding were then discussed between researchers and analyzed further.

Starting from the 1st order concepts and compressing them in 2nd order themes, we identified five components that affect simultaneously to both strategy development and knowledge management. The owner-managers put focus on collaboration networks, on one's role in the market, and are interested in customer. Then there is the other side of the coin so to speak, the focus on what kind of knowledge and competencies the firm has and how knowledge and competencies are managed. The five components that emerged from the data were discussed between the authors, with one of the authors adopting an outsider's perspective Gioia et al., 2012). She had not participated the workshops like other two authors and thus was able to critique the interpretations made by other authors when required and relevant. The five components and their role in strategy development and knowledge management is more detail in the next section together with aggregate dimensions.

Findings

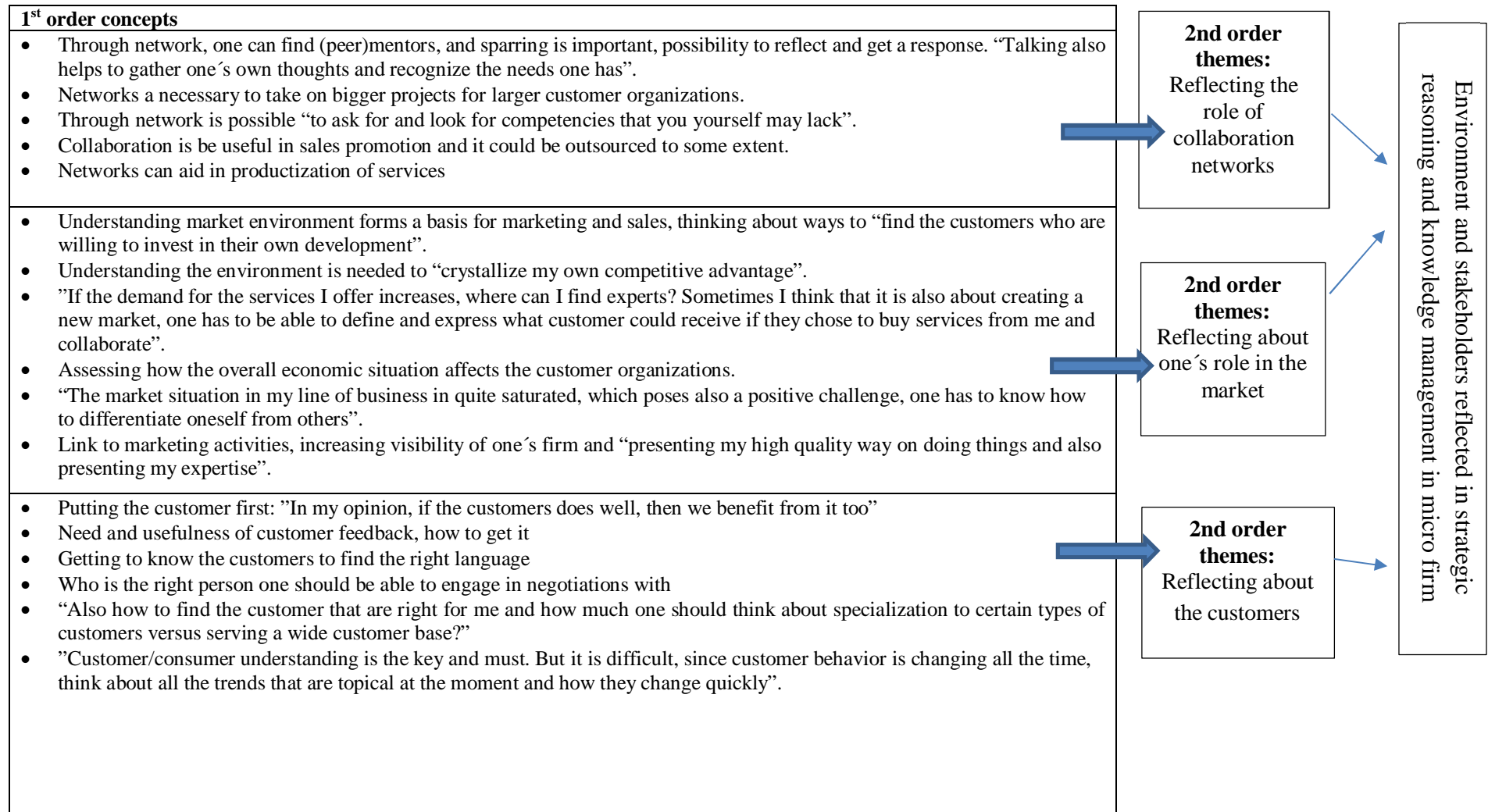
The entrepreneurs participating our study had no written strategy for their firm. However, in workshops entrepreneurs were able to orally describe their strategy for each other. Their strategies seemed to be strongly based on their core capabilities and knowledge base. They also linked their vision of creating customer value to their strategy development. We begin this section with two quotes depicting the intertwined nature of strategy development and knowledge management.

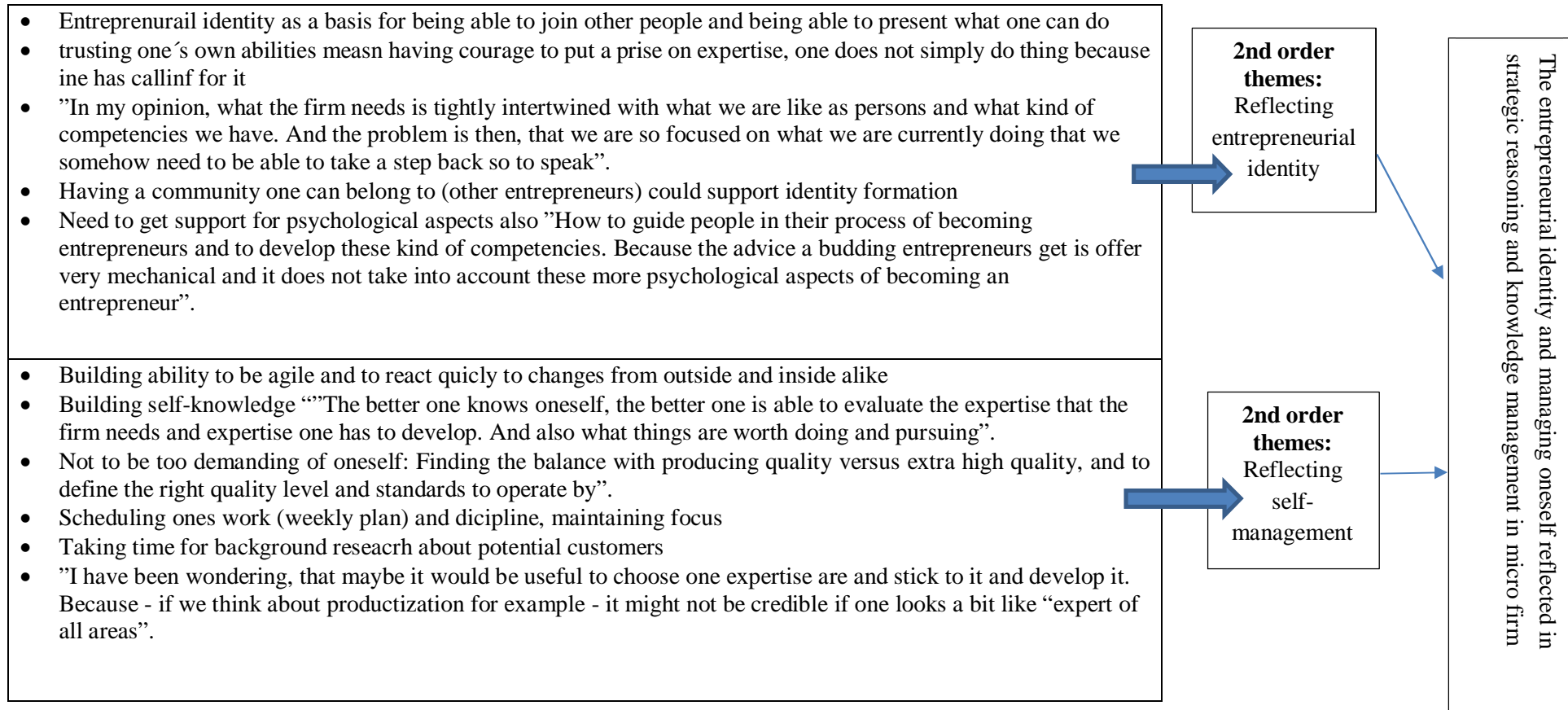
“When we talk about competencies as a solo entrepreneurs they seem to be changing. I mean that the competencies that I judge to be crucial depend a lot on what I am doing at the moment and with what kind of partners and customers”.

"In my opinion, what the firm needs is tightly intertwined with what we are like as persons and what kind of competencies we have. And the problem is then, that we are so focused on what we are currently doing that we somehow need to be able to take a step back so to speak".

Our analysis revealed five components influencing simultaneously on both strategy development and knowledge management: reflecting the role of collaboration networks, reflecting about one's role in the market, reflecting about the customers, reflecting entrepreneurial identity, and reflecting self-management. These five components will be introduced in more detail next in Figure 1.

Figure 1 The components forming a basis to both strategy development and knowledge management





Discussion and conclusions

Despite the importance of micro firms for our economic development, strategic management remains an understudied area and much of it stems from the large firm context. To address this omission we have investigated how strategy development and knowledge management are intertwined in small firms. We base the proposition that strategy development and knowledge management are intertwined on our findings. Through our empirical study we have identified components that effect both the strategy development and knowledge management of owner-managers in micro firms. They are: reflecting the role of collaboration networks, reflecting about one's role in the market, reflecting about the customers, reflecting entrepreneurial identity, and reflecting self-management.

As Kearney et al. (2014) point out, strategizing in micro firms emerges from the perceptions of the owner-manager concerning the firm's internal and external environment, current as well as historical. Our findings corroborate with this notion and also put emphasis on the knowledge management, in addition to strategy development. When it comes to knowledge management the internal and external environment both play an important role. The entrepreneurs assess and plan the future of their firm by analyzing what they can do, what they could offer to potential customers and how to express their expertise. Also they realize the importance of networking and collaboration for example when endeavoring to offer their services to larger customer organizations. Networks also add to the resources available and thus affect the knowledge management. This is what the entrepreneurs saw as strategically important, to decide what to do themselves and for what activities or operations they could utilize stakeholders and business partners.

In the existing literature, strategy can be considered as a core element in organization's management, which creates background for other managerial tasks in the company, such as for knowledge management. Knowledge management entails planning, implementation and evaluation of practices that ensure the competences needed to achieve company's strategic goals (Nordhaug, 1998), aiming to enable better performance of the company (Coates, 1999; Sher & Lee, 2004). When knowledge management is strategy-based knowledge management, it supports professionals' competences, guides the change, and brings competitive advantage (Wu & Lin, 2009). Based on our empirical finding, we can argue that knowledge management in micro firm may be strategic without necessarily being strategy-based. Based on our study, three main results can be highlighted. First, in micro firms knowledge management is not based on strategy, instead quite opposite, knowledge guides the strategy. Second, in micro firms strategic reasoning is mundane and agile, which has its benefits but also disadvantages. Third, there are components that guide both strategy development and knowledge management, and

they are: reflecting the role of collaboration networks, reflecting about one's role in the market, reflecting about the customers, reflecting entrepreneurial identity, and reflecting self-management.

Based on results it can be argued that for micro entrepreneurs the strategy development is mainly based on entrepreneurs' core competencies, and vision of the customer value. Instead of knowledge management being based on strategic decisions, in micro organizations it is likely to be opposite. In knowledge-intensive business services it is the knowledge residing in the firm or formed jointly with the network of firms, that enables searching for new opportunities (Sarasvathy, 2001) and thus driving the strategy development of the firm. Strategy is developed and evolved not systematically or in a linear fashion but instead in mundane activities. In addition, unlike the large organization that establishes strategy for a certain period, for micro organizations in our case study, the strategy was constantly evolving.

It has been argued, that resulting from lack of knowledge, skills and finance, micro firms are reactive, rather than proactive (Nartisa 2012, 1579). Based on our findings we suggest, that there is agility and pro-activeness also in micro firms, when it comes to developing business and services based on the knowledge and resources. This agility was also seen essential feature for micro entrepreneurs by the participants. Agility can also be a wolf in sheep's clothing. That means that if the entrepreneurs redirect the strategy and the course of the firm heavily based on the needs expressed by the customers, the variety of services offered and the customer base served may become too wide. The entrepreneurs discussed this dilemma of the necessity to choose between specialization to one expertise area on one hand, and the need to be customer oriented and flexible on the other.

According to our study, the particular challenge for entrepreneurs was to make a difference between their own competences and the competences needed in the organization. This is somewhat understandable, because typically in micro firms the entrepreneur is the firm, so to say. However, this extremely subjective perspective might blur entrepreneur's capability for strategy development. The difference between competencies that firm needs and competencies that entrepreneur needs also emerged as an important topic in workshops. It was an eye opening experience for the participants to understand that these two are different things. It is not efficient to try to know and do everything by him/herself, instead it is important to decide the competences that entrepreneur should have, and what competencies are not either in the core, or can be acquired from elsewhere. This however, requires taking "a helicopter" perspective which might not be easy particularly for new entrepreneurs.

This study contributes to the theoretical literature of strategic management in the micro firm, describing strategic management as a mundane behavior rather than systematic practices. It also sheds a light on the knowledge management in micro firms and elaborates the intertwined relationship of strategy development and knowledge management in small firms by presenting the components affecting both strategy development and knowledge management in micro firm context. The findings highlight that classical elements related to the successful strategy of the firms such as customers, networks and markets are important also in micro firms. More importantly our findings highlight the role of the individual entrepreneur and their capability of constructing credible, authentic entrepreneurial identity for themselves as well self-regulating their own activities through self-management as important elements in enabling strategy formation in micro-firms.

Our study provides practical implications as it describes practical benefits that are available from a systematic analysis of qualifications and competences for micro firms. This study also helps entrepreneurs to identify the themes that are worth taking into account while evaluating the qualifications, competencies and the way in which they are linked to the strategy.

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