

Developing a fresh approach to defining micro, small and medium-sized enterprises and the transitioning processes.

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## PhD Abstract

Current quantitative definitions of micro, small and medium enterprises (MSMEs), using employee numbers and turnover in different industries are idiosyncratic and conflicting, making comparative analysis impossible. This prompts a search for a qualitative basis to compare enterprises and their owner-managers at different stages of the enterprise's complexity. The author develops such a definition for each size, plus defining the interim transitional stages which yields a more fine-grained appreciation of increasing business complexity. The thesis also clarifies when a business is, unbeknownst to its owner, 'stuck' at one or other developmental/transitional stage.

Private Sector Enterprises (PSE) are considered the engines of economic growth. Whilst a consensus amongst researchers and practitioners exists regarding the economic and social relevance of PSE, there is a lack of agreement as to how to distinguish each size in different locations and industries and how to find standard measurements to define each size.

In this thesis, the researcher argues that studies conflating micro, small and medium enterprises, do not provide standard definitions to enable comparability of

results between studies. This thesis proposes standard definitions to enable comparability, validity and generalisability of results.

Since the middle of the 20<sup>th</sup> century, research of MSME has had two schools of approach to business size. The first being the static quantitative approach that accepts locally identified quantities of employees and turnover in the geographic areas and industries being studied as their basis for research. The second school examines the theoretical size of an enterprise to qualitatively analyse its activities. Both schools use the terms micro, small and medium, but neither of these schools have identical definitions or are comparable for research.

To resolve the issue of finding an acceptable consensus to the conundrum of private sector enterprise size, this thesis looks to answer the question ‘Can micro small and medium enterprises each have an acceptable distinctive definition agreeable to both schools and then how does an entrepreneur grow their enterprise from one defined size to the next?’

To move toward resolving the above problem, the author first undertook a systematic literature review to identify a range of definitions of MSMEs to give a flavour of the analytical difficulties they create through the various definitions in use by academics and practitioners. After the review, I examined the studies of a range of prominent researchers who analysed the internal activities of private enterprises, from which I devised a matrix of enterprise size. Then, I collected data to verify the results from which further organisational hypotheses were exposed and an additional understanding of entrepreneurial issues were uncovered. These were developed into the following four articles.

This thesis structure begins with an introduction, followed by 4 articles as noted in Figure 1.1. Article 1 examines the current quantitative means of

identifying the size of each micro, small and medium-sized enterprise. Systematic literature review methodology is used to identify the various definitions in use by academics and practitioners. This article reveals that the quantitative approach to defining MSME size is idiosyncratic to a study's sample and thus not directly applicable elsewhere.

Article 2 reviews literature relating to the qualitative features of owner-founders and enterprises for each size. This article identifies a method of classifying enterprise size through management competencies and business activities combined in a matrix, which collectively relate to an enterprise size. The argument is, that through using the matrix to find respondents, results of future research may be duplicated in different locations and industries.

Article 3 provides an empirical study that addresses the arguments developed in the first two articles. Responses from seventy-two (72) face-to-face interviews revealed the abilities and activities required of entrepreneurial owner-managers at each size and at the time of enterprise growth/transition. The results show how and why entrepreneurs behave differently at each enterprise size and provide important insights about owner-managers who either chose, or were unable to grow.

As a result of the information gathered from the interviews presented in Article 3, Article 4 argues that a new theoretical approach to determine the size, through interim stages of a private sector enterprises is introduced. The new theoretical approach considers the processes that an owner-manager undergoes in transitioning through interim stages from one size to another.

Overall, the thesis extends the body of knowledge relating to entrepreneurial competencies and activities, together with MSME development, through the

discovery of three new approaches to micro, small and medium enterprises. First, that identifying an enterprise size requires a combination of both the individual competences of the owner-manager and also specific structures, governance and culture of each sized enterprise. Second, that there are specific changes to the performance of the previous sized enterprise that must be carried out to develop and change all competencies and activities. Finally, that without the knowledge of required changes, owner-managers find themselves in a state identified in this thesis and expounded as the Theory of Organisation Transitional Liminality (OTL), which may thwart development and conceivably add to the possibility of failure. In so doing, the thesis offers a new approach with regard to entrepreneurial perceptions and understanding of business development.

The thesis clearly articulates the original contribution intended in the aim statement which indicates the thesis objective was to identify common characteristics of MSMEs across the dimensions of owner-manager abilities and business activity. Combined, the above information shows the individual characteristics of micro small and medium-sized enterprises and the differences between each of the three enterprise sizes. This new knowledge is important because it identifies the different management activities required for each size, it provides a standardised way of measuring MSMEs which previously was unavailable but fundamental to comparative research, and it identified a previously unrecognised phenomenon, namely, the transition phase between sizes. The most practical contributions of the thesis are the descriptive definitions and theory of OTL, which enables matching activities across countries where for local reasons the number of employees and turnover are unique to that location. The study also raised questions requiring further research of theoretical and practical interest.

Further research on the descriptive definition of MSMEs will continue to challenge

accepted paradigms in management theory and practice as it has in the past. The thesis' concluding point is that micro, small and medium-sized enterprises are each in their own way unique and should not be conflated as a group of SMEs or MSMEs being the same. Using the findings in the thesis in business development activities, some of these gaps may be transcended, and others reduced.