

Understanding the Role of Dynamic Capabilities within Rural Micro-enterprises: The Case for the Development of a Research Agenda

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Abstract

The concept of dynamic capabilities has become a significant area of research interest over the past two decades. Much of this interest is inspired by the potential performance improvements that dynamic capabilities may provide to enterprises. In this paper we highlight, however, that dynamic capabilities research has rarely ventured into the context of the rural micro-enterprise. This, we argue, is problematic since dynamic capabilities are context specific, and therefore, understanding generated from extant dynamic capabilities research in other contexts may not be applicable to rural micro-enterprises. In this paper we argue, therefore, for the development of a research agenda into dynamic capabilities in rural micro-enterprises. Such a research agenda could provide new theoretical insights into dynamic capabilities whilst also informing policy and practice to enable rural micro-enterprises to reap the potential benefits of dynamic capabilities for both themselves and the wider rural economy.

Introduction

Despite being one of the most densely populated countries within the European Union, over 85% of the land area in the United Kingdom (UK) is classified as rural with only c17% of the population living within these rural areas (DEFRA, 2016b). For the purpose of this paper we define rural in line with the Office of National Statistics (ONS) (2013) as a settlement of not more than 10,000 residents.

We argue that the economic landscape within rural England is changing and becoming increasingly diverse. This heterogeneity is being driven by the decline of farming and agriculture, coupled with an increase in specialist enterprises and the service industry (Deavers, 1992; Henry et al., 2016; Warren-Smith and Jackson, 2004). We agree with Paddock and Marsden (2015) that new businesses are needed for rural communities to survive, and therefore, there is a need to increase our understanding about how these new enterprises evolve, compete and support the rural economy. To generate this

understanding research needs to focus on micro-enterprises, since Tehrani and White (2003) suggest that new rural businesses are likely to be micro-enterprises; either diversified from an existing farming business or a wholly new venture, with owner-managers typified by their lack of business experience. In order to understand the evolution and development of such rural micro-enterprises, we put forward, in this paper, the case for developing a research agenda aimed at understanding dynamic capabilities within them.

Whilst there is no standard definition of a micro-enterprise (Kelliher and Reinl, 2009), a commonly used definition, and one that will be applied throughout this paper, is provided by the European Commission (2016) and defines micro-enterprise as a business employing fewer than 10 people and with a turnover / annual balance sheet of less than or equal to €2m. Micro-enterprises are a significant contributor to the UK economy, with Jaouen and Lasch (2015:p.413) stating that “micro-firms are increasingly important with respect to competitiveness, employment and growth”. They generate c£731bn turnover (17.7% of total UK private sector business turnover) and provide c8.7m jobs (26.2% of total private sector jobs in the UK) (DBIS, 2016). The micro-enterprise sector is a dynamic force within the UK economy, responsible for c98% of the growth in the number of UK private sector business between 2015 and 2016 and c97.6% of the growth in the number of private sector businesses since 2000 (DBIS, 2016). In rural locations c32.4% of all employment is attributed to micro-enterprises compared to c19.6% in urban locations (DEFRA, 2017).

We argue that for rural micro-enterprises to be successful they are advised to understand how they should change and adapt to surmount ever changing market conditions such as globalisation, technological development and the impact of Brexit. In this paper, we contend that one way they can achieve this is to understand how to develop and activate dynamic capabilities, which have been argued to be a potential source of performance improvement for organisations (Helfat et al., 2007). In this paper, dynamic capabilities are defined as "the capacity of an organization to purposefully create, extend, or modify its resource base" (Helfat et al., 2007:p.4) where the word “organization” incorporates organisational processes and entrepreneurial managerial decisions which at conception are unlikely to be routinized processes.

Throughout this paper, we argue why it is important for rural micro-enterprises to develop and apply dynamic capabilities. To facilitate them doing this, we propose that a research agenda focussing upon

dynamic capabilities within rural micro-enterprises needs to develop to increase understanding about dynamic capabilities within these organisations. This increased understanding, we contend, can help provide important contributions to knowledge, policy and practice.

We commence the paper with a review of extant dynamic capabilities literature, advising that much of the research into dynamic capabilities relates to large organisations, thus highlighting a gap in knowledge relating to dynamic capabilities within micro-enterprises. We continue by considering the changing landscape within the rural economy, specifically relating to rural enterprise. This highlights the lack of academic literature about rural micro-enterprises, which we argue is problematic and needs to be reversed due to the importance of rural micro-enterprises to the sustainability and resilience of the rural economy. Then we discuss the sparse literature relating to dynamic capabilities in micro-enterprises and the even sparser literature on dynamic capabilities in rural micro-enterprises. We thus establish the need to undertake future research to understand how such organisations develop and use dynamic capabilities. We conclude by highlighting the potential contribution to knowledge, policy and practice from the proposed research agenda.

Dynamic Capabilities

The concept of dynamic capabilities first came to prominence in the paper by Teece, et al. (1997) as a theory to evaluate organisational ability to create and attain sustained competitive advantage. Dynamic capability can explain how organisational efficiency is sought by taking a resource based perspective with a “focus on strategies for exploiting existing firm-specific assets” (Teece et al., 1997:p.514) as proposed in the resource based view of the firm (RBV) (Barney, 1991; Barney et al., 2001).

Since the original, broad definition of dynamic capability¹, subsequent authors have posed alternative definitions as the concept of dynamic capability has evolved upon attracting substantial academic interest and consideration (Easterby-Smith et al., 2009; Helfat and Peteraf, 2009). The definition of dynamic capabilities used in our paper is the one proposed by Helfat et al. (2007:p.4): “Dynamic capabilities are the capacity of an organisation to purposefully create, extend, or modify its resource

¹ “the firm’s ability to integrate, build and reconfigure internal and external competences to address rapidly changing environments” (Teece et al., 1997:p.516)

base". We accept that dynamic capabilities may also reside within an organisation's senior managers (Teece, 2014). Thus, the word 'organisation' within the definition incorporates organisational processes and entrepreneurial managerial decisions which at conception are unlikely to be routinized processes. This nuance is important when considering rural micro-enterprises because the entrepreneurial owner-managers may have a significant impact upon the business operation.

Arguably the most influential alternative conceptualisation of dynamic capabilities is by Eisenhardt and Martin (2000:p.1105)² who argue that dynamic capabilities are "specific and identifiable processes". These processes may be steeped in detail unique to an individual organisation; however, due to industry specific organisational commonalities, these idiosyncratic processes can become replicable and transferrable between organisations. Thus, dynamic capabilities can be considered as "best practice" across an industry even though firms within the industry have different and distinctive origins.

Contrary to Eisenhardt and Martin (2000), Teece (2007) argues that dynamic capabilities are unique, idiosyncratic processes unlikely to constitute 'best practice' over time. Eisenhardt and Martin (2000: p. 1105) do concede that "as best practice, dynamic capabilities remain idiosyncratic in their detail" (Eisenhardt and Martin, 2000:p.1105), thus referring to the notion that 'best practice' may not be prevalent within all industries.

Peteraf et al., (2013) argue that both strands of dynamic capability research have some elements of commonality (e.g. their approach to the role of routines and processes and both platforms depict dynamic capability as an extension of RBV) although they differ in their views about the nature of dynamic capabilities within a dynamic environment and how they can enable a firm to achieve sustainable competitive advantage. Teece et al., (1997) consider dynamic capabilities are effective in a rapidly changing environment and an effective tool in the armoury of an organisation seeking to achieve sustainable competitive advantage; whereas Eisenhardt and Martin (2000) pose that dynamic capabilities revert to becoming simple processes in a dynamic environment. Eisenhardt and Martin (2000:p.1110) also contend that due to their unstable nature dynamic capabilities "can be a source of

² Eisenhardt and Martin (2000:p.1107) state dynamic capabilities are "The firm's processes that use resources - specifically the process to integrate, reconfigure, gain and release resources - to match and even create market change. Dynamic capabilities thus are the organisational and strategic routines by which firms achieve new resource configurations as markets emerge, collide, split, evolve and die."

competitive but not sustainable advantage”, explaining that sustainable advantage is not achievable because dynamic capabilities become ‘best practice’.

Considering the semantics used in the debate Peteraf et al., (2013) attempt to reconcile the two camps in contrast to the direct critique of Eisenhardt and Martins’ (2000) conceptualisation by Teece (2014) when he finds that their position is confused and flawed compared to that of Teece et al., (1997) and offers no attempt at reconciliation. We agree with Dixon et al. (2014) that the theory of dynamic capability is evolving and it remains difficult to definitively define.

The conceptualisation of dynamic capabilities we are using is aligned to the position held by Teece et al., (1997). We argue that rural micro-enterprises are unique organisations and as such their processes are likely to be idiosyncratic. We consider it unlikely that such processes could reduce to “best practice” as suggested by Eisenhardt and Martin (2000) due to their unique attributes and influences of the owner/manager upon the business.

Building upon the role of dynamic capability proposed by Eisenhardt and Martin (2000), Barney et al., (2001) claim that in a rapidly changing market the nature of valuable resources and capabilities can change to become obsolete. Indeed, this limitation of RBV was a key catalyst for the original conceptualisation of dynamic capability (Teece et al., 1997). Boccardelli and Magnusson (2006) also agree that resources which were previously valuable and rare can deteriorate and become worthless assets in need of renewal in a turbulent market. Dynamic capabilities enable this important renewal of an organisation’s resources (Helfat et al., 2007; Teece et al., 1997) and this, we argue, could be an important factor when considering the success of rural micro-enterprises. In short, we contend that an ability to reconfigure their resource base could be beneficial and contribute to longer term success.

Zollo and Winter (2002), upon considering market conditions, pose that in a stable market environment dynamic capability may be unnecessary. Dynamic capabilities are costly to maintain (Zahra et al., 2006) because they involve “long term commitments to specialized resources” (Winter, 2003:p.993) which can lead to a trade off against profit. The environmental conditions facing a firm may therefore be an important consideration when management are deciding whether to invest in learning and the development of dynamic capability.

We assert that for many rural micro-enterprises to prosper, the investment in developing and maintaining dynamic capabilities would be beneficial due to the changing nature of the rural economy which is under pressure from macro influences due to global competition and technological development (Halseth et al., 2009). It can be argued that these influences stimulate volatility into the economy and in such an environment the development and application of dynamic capabilities could help rural micro-enterprises grow and survive. In the following section of this paper we elaborate further upon challenges facing the rural economy.

In line with Easterby-Smith and Prieto (2008) who suggest that micro-enterprises are advised to become sufficiently agile to cope with different potential contingencies they may face, we argue this also applies to rural micro-enterprises. We agree with Helfat and Peteraf (2009) who advise that having dynamic capability is critically important in a changing market to ensure organisational success, it enables an organisation to make a series of incremental changes over time and thus shift the organisation's centre of gravity to help maintain its competitiveness.

Teece (2014) advises that organisational routines are at the heart of dynamic capabilities; however, dynamic capabilities may also reside within the leadership and senior organisational management. This is supported by Adner and Helfat's (2003) concept of dynamic managerial capabilities³ which reflects their contention that managerial decision making is an important aspect in shaping organisational strategy. Dynamic capabilities can also incorporate entrepreneurial elements such as identifying new opportunities (Teece, 2014). This is particularly pertinent to the proposed research because in rural micro-enterprises the owner-manager is likely to be entrepreneurial (Blackburn et al., 2013) and their style is likely to have a disproportionate impact upon the success of the venture compared to an entrepreneurial manager within a large organisation (Faherty and Stephens, 2016).

³ Adner and Helfat (2003:p.1012) define dynamic managerial capabilities as "the capabilities with which managers build, integrate and reconfigure organizational resources" stating that it is analogous to the conceptualisation of dynamic capabilities by Teece et al., (1997). They suggest that the three concepts of Managerial Human Capital, Managerial Social Capital and Managerial Cognition underpin Dynamic Managerial Capabilities and lead to different managers making different decisions.

The Rural Economy

Pato and Teixeira (2016) consider rural to be a difficult concept to define as rural means different things to different people, for some it is simply where they live and for others it is a nostalgic idyll; being subjective and dependent upon one's personal circumstances (Moyes et al., 2014). Factors influencing the definition of rural include; population density, population size, economic activity and remoteness (DEFRA, 2016a; Halseth et al., 2009; ONS, 2013; Pateman, 2010; Pato and Teixeira, 2016).

The ONS, from the 2011 census data, provides a common definition of rural and urban. The rural urban classification defines urban as an output area with settlements containing more than 10,000 residents and rural as "not classified as urban" (ONS, 2013). This definition of rural which will be used throughout the paper.

The definition of rural enterprise has proved to be equally challenging (Korsgaard et al., 2015) to that of defining rural. For an entrepreneur to be considered a rural entrepreneur it has been suggested that the enterprise created needs to be embedded within and creating value for the rural community as well as the entrepreneur; being bound to its location, optimising local resources and improving the resilience of the local community (Deakins et al., 2016; Korsgaard et al., 2015; Pato and Teixeira, 2016). It has been argued that to be considered "distinctly rural" the entrepreneurial enterprise needs to utilise arable land (Deakins et al., 2016) e.g. in food production (Korsgaard et al., 2015).

The rural entrepreneurial construct contrasts with the concept of the entrepreneur in a rural environment. In this construct the rural aspect can be considered as referring to the space in which the enterprise is based; the rural location. It does not necessarily provide a link to or is an important aspect relating to the activity of the enterprise (Korsgaard et al., 2015). In the cases of entrepreneurship in a rural area, the entrepreneur may be utilising the benefits associated with a rural area such as lower land costs, lower labour costs and a better lifestyle without the ties to the rural location (Korsgaard et al., 2015).

It has been argued by Deavers (1992) that rural areas are as distinct from each other as they are from urban areas. The rural economy is not homogeneous (Faherty and Stephens, 2016; Moyes et al., 2014); it is a mix of global, small and medium enterprises (SME) and micro-enterprises. The growth of rural micro-enterprises is a rural strength (DEFRA, 2016) despite barriers to business start-up and growth

intrinsic to a rural location. Barriers to business success in the rural economy include poor access to broadband, weak transport infrastructure as well as a lack of access to finance and business support (Steinerowski and Steinerowska-Streb, 2012; Warren-Smith, 2014). The rural economy has been impacted by social and economic changes implemented by governments (Paddock and Marsden, 2015) over recent decades, as well as challenges inherent in its geographical remoteness (Townsend et al., 2016).

We contend that to succeed in a changing environment, rural micro-enterprises need to address the challenges faced due to their rurality and develop dynamic capabilities to adapt and overcome these challenges. Social, technological and economic challenges facing the rural environment are discussed below and we will argue the importance of rural micro-enterprises developing and applying dynamic capabilities to succeed in each of these areas.

Social Challenges

Living in a rural area has been viewed by some commentators as a positive lifestyle choice; safe and away from the dangers of the city (Tyrrell and Harmer, 2015), but for many, rural life is tainted by inadequate public transport links, the need to travel greater distances than in an urban area to access public services and amenities such as schools, employment and hospitals (DEFRA, 2016). We argue that rural micro-enterprises need to be agile to cope with these challenges inherent in rural life; developing and applying dynamic capabilities is likely to be important. This is because dynamic capabilities can be considered as routines which can enable a business to change, by developing dynamic capabilities, rural micro-enterprises may be better placed to adapt to the challenges they face.

The rural economy is typified by higher housing prices potentially causing issues of affordability for rural workers (Pateman, 2010) in conjunction with wages c16% lower than in urban areas (DEFRA, 2016a). The lower waged economy, off-grid heating systems and limited housing stock available in rural areas have the propensity to lead to fuel poverty (Roberts et al., 2015).

Poverty is a significant factor in rural life due to low wages, higher housing, fuel and transport costs compared to urban areas. In spite of their lack of material status, it is argued that rural poor tend to

benefit from stronger social networks and appear to cope with their situation better than those living in urban poverty; viewing poverty as a “significant feature of rural life” (Milbourne and Doheny, 2012: p. 392).

There is an increasing elderly population in rural areas (Milbourne and Doheny, 2012); over 50% of the rural population is over 45 (DEFRA, 2016). The challenges facing rural populations may have contributed towards a migration away from rural areas for younger people. Young adults, aged 15 – 45 years make up circa 31% of the rural population whereas they comprise circa 41% of the population in urban areas (DEFRA, 2015); this highlights the need for rural development to boost employment to reverse this trend (McManus et al., 2012; Moyes et al., 2014; Pato and Teixeira, 2016).

Families historically view the countryside as the ideal place to raise children with rural areas seeing an above average population of middle- aged people and children under 14, potentially due to their lower crime levels than in urban areas (Pateman, 2010). However, as their children grow up; the remoteness of the area can lead to loneliness and feelings of isolation for teenagers due to the lack of public transport, distance between friends’ houses, poor internet access and remoteness (Tyrell and Harmer, 2015).

Given that rural micro-enterprises are a significant employer within the rural economy we argue that a better understanding of how they develop and change is likely to help future entrepreneurs make the choice to establish rural micro-enterprises; this could potentially lead to an improvement in the social context within the rural economy (Steiner and Atterton, 2015). We contend that the growth of rural micro-enterprises could significantly benefit the rural economy. Being based in the rural, we argue rural micro-enterprises are best placed to utilise rural resources such as the local workforce through job creation; which may help reverse the decline of migration of young adults to the urban and improve rural economic conditions. We agree with Steiner and Atterton (2015) that rural businesses are likely to have a higher propensity for supporting the community, potentially through investing in initiatives to engage young people (e.g. training, sports clubs) and supporting the elderly leading to improved social resilience. We pose that by developing dynamic capabilities, rural micro-enterprises could evolve their business, possibly adding a social enterprise dimension to further embed the business into the rural community.

Technological Challenges

In addition to the social challenges rural areas are facing there are also technology ones. Provision of broadband services in rural areas can be problematic due to the physical topology of the landscape, sparse population, lower skills, education and income of the rural population. Lack of broadband availability in rural areas could hinder job creation and business growth (Galloway, 2007) potentially leading to a digitally divided society (Choudrie et al., 2005).

We argue that if a rural micro-enterprise develops and applies dynamic capabilities for learning and technological aptitude they may be better able to harness the opportunities presented by access to the internet. The internet enables rural micro-enterprises to expand their shop window from local to global, and we are aligned with Sanders, Galloway and Bensemann (2014) that adoption of the internet as a business tool can help mitigate remoteness as a barrier to growth. Sanders et al., (2014) reveals that when a rural firm embraces the internet they make greater use of on-line resources available, such as market research, than urban firms. This could be indicative of having a greater focus on external markets due to the comparatively small local market; we propose that developing dynamic capability will help rural micro-enterprises leverage IT related benefits.

Economic Challenges

It has been argued that the rural economy is in a state of flux (Halseth et al., 2009). Acknowledging the rural economy is not immune to global influences and embracing new technologies, we suggest, will enable rural micro-enterprises to compete on more equal footing with businesses around the world. The European Union has acknowledged that the rural economy requires help to survive (Warren-Smith and Jackson, 2004). Warren-Smith and Jackson (2004) continue that help could be achieved by restructuring government support policies by offering a broader range of support services to rural businesses; ideally in conjunction with support for social and cultural aspects of rural life (Bell and Jayne, 2010; Naldi et al., 2015). We agree that support policies would be beneficial, however they should be targeted where they are most needed; the research agenda that we propose in this paper

could offer an insight into areas of support that rural micro-enterprises require. We argue that developing understanding of dynamic capabilities within rural micro-enterprises will enable support to be targeted to help such enterprises develop the ability to react to the changing economic landscape.

Traditional rural industries are no longer the dominant employer in the countryside. Agriculture is declining whilst the service sector is in growth (Henry et al., 2016; Warren-Smith and Jackson, 2004). Rural entrepreneurship is no longer limited to farmers and farming activity but covers a much broader scope of enterprises (Somerville et al., 2015), however, Tate (2010) confirms a low level of engagement in entrepreneurial activity by the traditional, mature (aged 50+ years) farmers. Tehrani and White (2003:p.26) assert that “micro-enterprises comprise the backbone of a healthy rural economy”, micro-enterprises are an important aspect of rural business. Due to their ability to create jobs, enhance local skills, provide local investment and contribute to the viability and sustainability of the local economy.

We agree with Quinn et al., (2014) that rural micro-enterprises are pivotal to an area’s growth although they do require support to enable them to succeed. This opinion is aligned to Warren-Smith and Jackson (2004:p.370) who state that “rural enterprise needs to be encouraged to preserve the countryside”. In addition to monetary support via grants, they require practical support in some less obvious areas such as mentoring, access to childcare (Warren-Smith, 2014), business planning and development (Quinn et al., 2014). It has been argued that a heterogeneous business base creates a more sustainable rural economy better able to positively contribute to the national economy (Warren-Smith, 2014).

We contend that understanding how rural micro-enterprises develop dynamic capabilities, and how they apply them to the benefit of the rural economy, is an important aspect to further our understanding about rural micro-enterprise development. It will also enable identification of the support rural micro-enterprises need to survive by enabling tailored support plans for areas where rural micro-enterprises have not developed dynamic capabilities.

Strengths within the rural economy

Having outlined some of the challenges facing rural business we also consider the benefits inherent in running a rural enterprise. The location itself can be a business success factor. It can provide demand

for products and services as well as natural resources, however these should be fully understood and properly leveraged before the enterprise is established (Tehrani and White, 2003). The perceived lifestyle advantage of the countryside can entice some entrepreneurs to establish their businesses there, enabling a better work-life balance than may be afforded in an urban area (Steiner and Atterton, 2014). This can lead to a diverse entrepreneurial business base thriving in rural locations.

Steinerowski and Steinerowska-Streb (2012) find social networks are denser in rural areas than urban areas; potentially resulting from higher levels of trust and participation in civic activities. This can lead to a greater propensity for social and commercial entrepreneurship than in urban areas. Networking is an important source of social capital – the “value obtained from participating in a social network” (Townsend et al., 2016:p.30) and utilisation of social media (e.g. Twitter, Facebook) can help rural micro-enterprises build trade and customer contacts. In line with Adner and Helfat (2003) we argue that understanding the dynamic managerial capabilities of the rural micro-enterprise owner-manager will enable a better understanding of the propensity of the rural micro-enterprise to engage in networking and community activities, typically areas where micro-enterprises are weak and a differentiating factor between rural and urban micro-enterprises.

As highlighted earlier, the rural economy is diverse with a “massive but latent adaptive capacity” (Paddock and Marsden, 2014:p.302) to evolve new rural networks and establish new enterprises by a new breed of rural entrepreneurs. We argue that it is important to understand the new rural micro-enterprise owners, how they view challenges and adapt to the rural environment because within a micro-enterprise the owner-manager is likely to have a significant influence over the strategic direction and decisions made within the business. The motivation of the owner-manager (e.g. profit, growth or lifestyle) are likely to shape the rural micro-enterprise’s direction (Faherty and Stephens, 2016).

Ellis and Bosworth (2015) advise that government policy associated with some rural locations is designed to encourage a climate for entrepreneurship to thrive. This has helped create a heterogeneous rural economy and is aligned to Warren-Smith and Jackson (2004), with whom we agree, who confirms that rural enterprises should be encouraged to prevent rural economic decline. We suggest that this agenda to encourage rural enterprises would benefit from an understanding of how rural micro-enterprises develop and apply dynamic capabilities during their lifecycle, as this could help facilitate a platform for future micro-enterprise development.

Pato and Teixeira (2016:p.6) describe entrepreneurs as innovators - “dynamic agent of change for the rural economy” - to succeed they are required to overcome the barriers of doing business within rural locations whilst maximising the benefits associated with the locations rurality. We argue that dynamic capabilities enable an organisation to reconfigure and change its resource base analogous to the entrepreneur as agent of change and as such it is equally as important to understand dynamic capabilities and their role within rural micro-enterprises as it is to understand the role entrepreneurs have within the rural community.

Henry et al., (2016) opine that the rural economy may be remote but it is more cut-throat than sleepy and an entrepreneurial spirit is needed to succeed. The high level of enterprise diversity (McManus et al., 2012; Steiner and Atterton, 2014) could be indicative of flourishing heterogeneous entrepreneurial activity, despite the rurality. Rural entrepreneurs cite many different and complex reasons for being in business; these range from wanting a better lifestyle to the pursuit of profitable growth (Quinn et al., 2014). We contend that the proposed research into understanding the role of dynamic capabilities within rural micro-enterprises is important because it can help explain how the rural micro-enterprise develops and changes over time to remain successful.

Dynamic Capabilities within Micro-enterprises

There is a notable scarcity of research into dynamic capabilities in micro-enterprises. Whilst there does appear to be a very small upward trend in this direction in more recent years, the body of literature in this area as a whole is fragmented and lacks direction (Kevill, 2014). Furthermore, much of this research incorporates both micro-enterprises and enterprises that are larger than this, thus losing sole focus on the specific context of the micro-enterprise (for example, Alegre et al., 2013; Evers, 2011; Vickers and Lyon, 2011). This becomes problematic for understanding the role dynamic capabilities may play in the rural economy since new rural businesses are likely to be micro-enterprises (Tehrani and White, 2003) and the micro-enterprise context is likely to be different from that of larger organisations (Devins et al., 2005; Kelliher and Reinl, 2009; Matlay, 1999).

One potential difference, for example, is that micro-enterprises may be more susceptible to the influence of just one or two manager(s) due to their very small size (Devins et al., 2005). This is an

important contextual factor as managers can be integral enablers of dynamic capabilities (Pablo et al., 2007; Schlemmer and Webb, 2008) and dynamic capabilities may even reside at the level of the individual manager as noted above (Adner and Helfat, 2003). Therefore, research undertaken into managers as enablers of dynamic capabilities in small, medium and large enterprises that are likely to be less influenced by their manager(s), are liable to generate findings that cannot be directly applied to the micro-enterprise context.

In short, the lack of extant dynamic capabilities research that takes account of the unique micro-enterprise context is likely to result in key insights being missed that are important for understanding the ability and potential of these organisations to grow and evolve. This is particularly the case since dynamic capabilities 'become tailored to the settings in which they function' (Helfat et al., 2007:p.7). We agree with Kelliher and Reinl (2009:p.522) when they argue that: -

'micro-firms are intrinsically different in their organisational characteristics and approach to business problems and...these differences render many of the theories derived from studies of larger businesses inappropriate when applied to micro-firms'

We are concerned, therefore, that extant understanding of dynamic capabilities, primarily formed outside of the micro-enterprise context, is likely lacking when it comes to the development and application of dynamic capabilities in micro-enterprises. Since new micro-enterprises are a significant contributor to the rural economy it is important to address this lack of understanding to enable such enterprises, and the rural economy in general, to benefit from gains in competitive advantage that dynamic capabilities may bestow upon them.

Dynamic Capabilities in Rural Micro-enterprises

The literature investigating dynamic capabilities within rural micro-enterprises is sparse and we argue that this is problematic because it is indicative of a lack of understanding about the role of dynamic capabilities within rural micro-enterprises. A notable exception is a paper by Grande (2011), a qualitative study of 3 micro-enterprises diversified from existing farming businesses in Norway. Grande (2011) views dynamic capabilities and RBV as significant entrepreneurial and strategic management

theories. Grande (2011) also suggests, in line with the position of this paper, that to change or diversify a business, dynamic capabilities are required to enable reconfiguration of its resources.

Grande (2011), however, mainly focusses on the necessity for enterprises to have dynamic capabilities when engaging in farm diversifications. The findings of Grande's (2011) study are helpful but we suggest that more research is needed to understand the foundations which underpin such dynamic capabilities and how dynamic capabilities are applied within rural micro-enterprises. We also argue that rural micro-enterprises are heterogeneous and the scope is much broader than solely farm diversification, which Grande's (2011) study focusses exclusively on. Therefore, the insights from Grande's study are likely to be limited when considered in the context of the rural economy as a whole. As such, there is a lack of extant literature and understanding about dynamic capabilities in rural micro-enterprises. By understanding the dynamic capabilities residing within rural micro-enterprises, we would argue that leveraging these (e.g. research and development, marketing capabilities) could have a positive effect upon the rural economy; potentially creating an area of excellence within the rural economy and adding to rural sustainability and resilience.

Proposed Research Agenda

From our analysis above, we have argued that there is a gap relating to dynamic capabilities, rural enterprise and micro-enterprise, as illustrated in figure 1.

Figure 1: Gap in academic literature

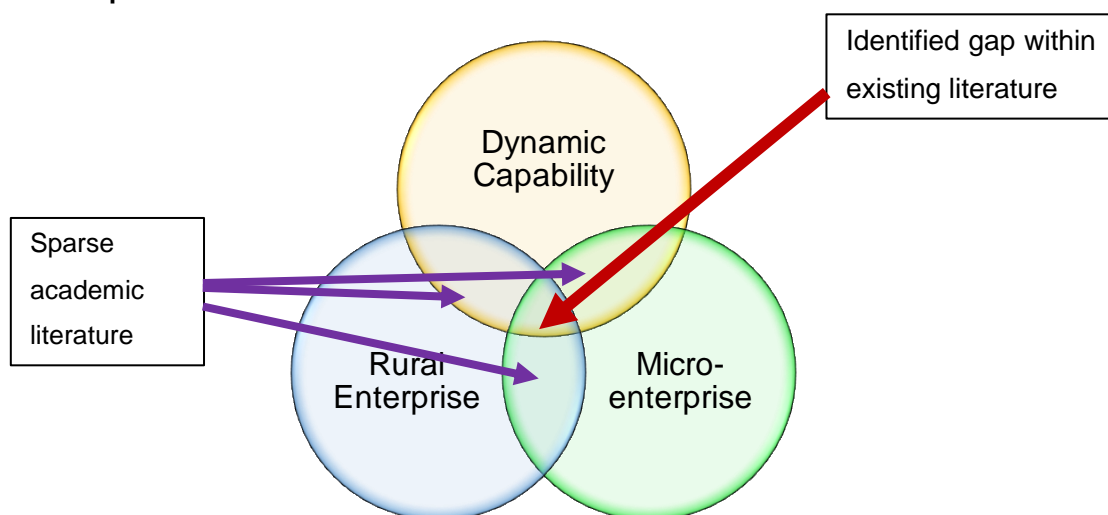


Figure 1 illustrates how dynamic capabilities research has rarely ventured into the domain of rural enterprises or the domain of micro-enterprises. This is even more so the case when it comes to dynamic capabilities research in rural micro-enterprises. Indeed, we have identified only one study that has addressed this area – Grande (2011) – and have highlighted limitations of Grande's (2011) study above. Thus, we have argued for the need to undertake future research into dynamic capabilities in micro-enterprises. As such, we argue strongly that a research agenda develops in this area. We contend that such a research agenda offers great opportunities for rural micro-enterprises by providing an understanding that could be used to inform policy and practice to enable rural micro-enterprises to navigate the challenges inherent within the rural economy and to remain dynamic to cope with environmental forces. This could then have a significant knock on effect to the wider rural economy, given the significant contributions that micro-enterprises make to it. Furthermore, undertaking research into rural micro-enterprises could help to develop theoretical understanding of dynamic capabilities by highlighting previously unacknowledged enablers of them.

With a deeper understanding of dynamic capabilities in rural micro-enterprises the gap in the theoretical understanding of how dynamic capabilities develop and are applied within rural micro-enterprises can start to be bridged. This understanding could help rural micro-enterprise owner-managers better understand how to manage change and compete more effectively in the UK and global marketplace. This research could also help to inform policy makers of the specific support needed to enable rural micro-enterprises to establish themselves, grow and thrive in the rural economy to the benefit of rural communities.

Conclusion

In this paper, we contend that rural micro-enterprises are distinct from larger organisations and SMEs. Furthermore, they are also distinct from urban micro-enterprises. Therefore, findings from extant studies into dynamic capabilities in larger organisations and urban organisations may not be applicable to rural micro-enterprises. The lack of understanding about dynamic capabilities within rural micro-enterprises is indicative of a gap in the understanding about how these businesses develop, change and grow. We propose that by understanding dynamic capabilities within rural micro-enterprises we are better placed to understand their influence within the rural economy, the impact rural micro-enterprises have upon the resilience of rural communities, and the support rural micro-enterprises need to thrive

and navigate challenges within the rural economy. Furthermore, new insights emanating from studies in this area could, as we have argued throughout this paper, provide important contributions to knowledge, policy and practice.

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