

Money in Everyday Life

New Financial Services for the Paradoxical Micro-entrepreneur

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Abstract

This study investigates the day-to-day life of managers of small businesses (so called ‘micro-entrepreneurs’) in order to identify needs of new financial services. Small businesses are crucial in the modern economy and are pivotal for employment, growth and innovation. Nevertheless, they also face many challenges, ranging from macro economic conditions and legal constraints to personal issues like work-life balance and time-pressure. Society’s interest in small businesses is closely linked to effects such as increased employment, industry revitalization, innovation etc, ie on the societal impact of the small businesses. Public policy and support has therefore often been directed towards inspiring and guiding people who start companies and to stimulate existing companies to grow. However, previous research indicates that the micro-entrepreneurs themselves find shortcomings in the support offered, as it is focused on structural conditions, rather than the entrepreneur’s everyday situation. Many of these shortcomings relates to financial services, and are hence of interest to banks targeting this market segment.

Despite an overwhelming number of studies within the field of micro-entrepreneurs, there is still a lack of knowledge about their everyday life and its context. Previous research is fragmented and does not take the complexities of the micro-entrepreneurs everyday life into account. Hence a comprehensive understanding of the variety and integrated nature of small businesses is missing. To capture business opportunities and develop new innovative ways to deliver customer value to small businesses such knowledge is pivotal.

Structural problems like capital shortage, severe competition and difficulties to recruit competent employees are known to have an impact not only on the performance/success of the company but also on the life situation of the micro-entrepreneur. From previous research we also know that the identity of the micro-entrepreneur is tightly associated with the company and that the boundary between the private and the professional spheres are often blurred. Running a small business is therefore not only a job in the traditional sense, but an integrated part of the entrepreneur’s life situation. Business problems tend to surface on the individual level, for example in the forms of stress, frustration and disturbance in the work-life balance. Financial services that are able to address these individual problems as well as underlying financial needs are likely to be competitive as they support the micro-entrepreneur’s situation.

However, this requires new ways of thinking when it comes to developing banking products though. It is the argument of this paper that new services should be derived directly from the general everyday life, rather than from exposed or assumed customer needs of financial services. By truly understanding the small business customer context, new, innovative

financial services can be developed that enables new forms of customer value to be created. This is in line with recent developments in service research where it is claimed that focusing “value-in-context” is necessary for developing service offerings adjusted to the need of small businesses.

To foster such an understanding, 100 Swedish owners/managers of small businesses were asked to keep a diary for three weeks. They were instructed to account for and comment upon what had happened during the day, including but not limited to financial matters. The advantage of the diary method is that it does not constrain the respondent to prejudices caused by existing financial services or the role of being a “bank customer” (rather than a micro-entrepreneur).

Preliminary results from the study show that life as a micro-entrepreneur comes with several challenges. Among the problems mentioned, four recurrent themes are identified: time/space, competence, financial assurance and solitude. As to the first theme, *time/space*, it refers to the shortage of time and the impossibility to mentally escape the company even when physically separated from it. Among other things this leads to a conflict between the company and the private life. The *competence* theme encompasses both professional skills (that needs to be continuously developed) and financial knowledge necessary to run the business. Not only the former but also the latter kind of competence emerges as highly contextual in the diaries. Problems within the theme of *financial assurances* are often connected to conflicts between short term survival and ambitions of long term development. Yet another challenge is the micro-entrepreneur’s personal economic involvement in the company, causing financial insecurity in the business as well as the private domain. Finally, we found a theme related to the *solitude* associated with being an entrepreneur. The owner/manager often feels a personal responsibility for handling all emerging difficulties in the company. Access to networks seems to be crucial for managing this; both for handling acute problems and for enabling long term competence and company development.

From a product development perspective, our interpretation of the micro-entrepreneurs’ situation concerns firstly the blurred boundaries between the role of private self and the role of micro-entrepreneur that is most evident in the time/space and financial assurance themes. Many of our respondents struggle to reconcile these roles, and we see an interesting potential for bank services that explicitly relates to this dilemma. Such services might either provide means to clarify and separate the different roles, or assist the micro-entrepreneur to integrate them. Secondly, it is obvious that not all small businesses are alike. The heterogeneity offers opportunities of customization within the segment. For example, services directed towards providing customized competence support might complement the standardized support offered by authorities and other actors. Finally, we can trace an underlying paradox throughout the diaries. Although being enterprising and business oriented, they seem to be reluctant towards the financial aspects of running a business. Financial services seem to generate only a minimum of interest and involvement, and in some cases the respondents even seem to be resistant to engage in the services all together. From the banks perspective this attitude might seem problematic since it obstructs strategies where the customer is expected to be active. However, the insight of this lack of interest among the customers also opens up for new financial services that are capable of handling this paradox.