

# **The proximity law of small business management: between *closeness* and *closure***

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*“A small business is not a little big business”* This is almost certainly the most commonly quoted sentence in introductory chapters to books and articles on the management of SMEs. Over time, the postulate of the SME as an entity governed by specific laws of management has established itself as a genuine paradigm structuring research in the field, giving legitimacy to the creation of scientific journals and research associations like the ICSB (*International Council for Small Business*) in the English-speaking world or the AIREPME (*Association Internationale de Recherche en Entrepreneuriat et PME*, International Association for Research in Entrepreneurship and SMEs) in French-speaking countries.

This theory of the specificity of SMEs has now been widely accepted. It nevertheless has one major drawback. It does not precisely define the specificity of SMEs. If SMEs are specific, it must also be admitted that large companies are, too. Using the same term, *specificity*, to define two such fundamentally different realities is clearly unsatisfactory. The two types of specificity thus need to be qualified and given a more precise term.

The theory that we put forward is that the specificity of the management of SMEs is proximity. We use the term *proximity* as an ambivalent concept that refers us to both what unites us and brings us together (*closeness*), as well as what shuts us in and isolates us (*closure*). Proximity refers to the classic concepts of family<sup>1</sup>, friendship and neighbours, as

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<sup>1</sup> It should be noted that originally the word proximity, from the Latin *proximitas* and *proximus*, was used in the 15<sup>th</sup> and 16<sup>th</sup> centuries in its legal meaning of family relations in deeds of inheritance (Le Boulch, 2001).

well as to more modern concepts such as “link” and “social capital”. All these concepts have the particularity of revealing the same ambivalence between closeness and closure.

As regards *family proximity*, Bridge, O’Neill and Cromie (1998:129) note that a “family business can produce a permanent, solid family atmosphere and *esprit de corps*, which can often encourage both a closeness among staff and long-lasting relationships with customers, suppliers and other contacts”. The family can also, however, become a very closed circle and the source of clan-like management techniques, particularly in terms of human resource management (giving positions of responsibility exclusively to members of the family) or of setting objectives (a refusal to accept growth as a means of maintaining family control of the business). Denieul (1992) mentions this type of phenomenon several times. The family business is often seen as “the universe of continuity, certitude and trust, as opposed to the faceless company which is exposed to the dangers of chance and subjected to the unpredictable decisions made by associates”: “If he is not a member of your family, you can expect him to be capable of doing anything to you, good or bad. A member of your family will try to do his best and to develop, with all the benefits coming back to the family, through my sister’s children. The metaphor of the closed circuit (“will come back”) and autonomy sanctioned by being a member of the family structure should be noted”. Once again, this is the closeness/closure ambivalence.

The same can be said for friendship. Firstly, “sociologists have especially noted that the value of friendship increases as the closeness of the family declines” (Bell, 1981 *in* Yager, 1998). This means that friendship is a strong link for proximity that can sometimes replace family ties. But this friendship can also become a form of exclusion and closure. “The two-person nature of the Great Friend Approach is implicit. So all-encompassing and exclusive a relationship would be hard to sustain in a three-way (triad) or a group (network) setting. Such an idealized and intimate friendship thus cancels out other friends or friendships. The Great Friend relationship is hence as exclusive and as binding emotionally as marriage is legally” (Yager, 1998). Friendship is a type of proximity that can insidiously become a form of exclusivity.

As regards neighbours, a neighbour is someone who occupies the closest place, someone at a relatively short distance and someone we frequent. But in legal terms, a neighbourhood is often understood to be a place of potential nuisance and disorder. A

neighbour is thus also someone who can disrupt daily life, someone with whom we are in disagreement and someone separated from us by some kind of enclosure. The term neighbourhood thus also refers to the ambiguity of proximity, between closeness and closure.

The concepts of links and social capital are more recent. They both have their foundations in sociology (Granovetter, 1973; Bourdieu, 1980). Regarding links, although many authors have highlighted their function as a means of making contact (*the link that links*), it is also important to note the negative dimension of the *link that binds*<sup>2</sup> (Laplantine, 2003), sometimes until there is total suffocation (Poussin, 2003). This ambivalence can also be seen in terms such as *bound*, giving “*bound up with*”, meaning *connected* or *linked to*, as well as *boundary*, meaning a limitation. Similarly, although *bond* is a synonym for *link*, it also suggests *bondage* (slavery and submission).

The same can be said for social capital, which Bourdieu (1980) defines as “the sum of the resources, actual or virtual, that accrue to an individual or a group by virtue of possessing a durable network of more or less institutionalized relationships of mutual acquaintance and recognition”. Although social capital is often seen to be a strength, it can also be a weakness, especially when it leads to phenomena of withdrawal and imprisonment. The title of the article by Grabher (1993), written to contrast that of Granovetter, “The weakness of strong ties: the lock-in of regional development in the Ruhr Area” is quite explicit on this subject. This article “describe the troublesome attempts to transform the close interfirm linkages into loosely coupled networks” (Grabher, 1993: 256). He identifies a threefold “lock-in” of regional development: functional lock-in, cognitive lock-in, political lock-in. If the social capital is too strong, it can even lead to *corporatiste*<sup>3</sup> phenomena as we have shown in the Californian Mondavi’s failure to set up his business in the small village of Aniane in France (Torrès, 2004-a). “The relation between positive and “negative” social capital can be viewed in a similar light. Capital (except financial capital) is timebound. The social capital of groups and regions that is considered negative from society’s standpoint came into being once upon a time as a rational solution intended to safeguard and strengthen the group’s interests (...) By

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<sup>2</sup> According to Laplantine (2003: 186): “The French language of the 12<sup>th</sup> century used the word “lien” to designate a *lead* (for a dog) and, a little later, in the Gascon language, the term meant *chain*”. It is thus easy to understand a “link” is something that links, but also something that ties. Once again, this is the ambivalence of proximity.

<sup>3</sup> *Corporatisme* is both a preference granted to oneself and one’s own (peers, relatives and friends), and a form of protection against others (those on the outside and strangers).

creating strong networks, actors/groups have shut others out from the resources and markets to which they have access” (Westlund and Bolton, 2003: 81).

All these concepts reveal the ambivalence of the concept of proximity.

Of all the works on proximity, the psychology of space described by Moles and Rohmer (1978) gives an ideal summary of this ambiguity by introducing two concepts, that of proxemics<sup>4</sup> and that of partition. They propose a subjective and "*egocentered*" conception of space which corresponds to the "Here and Now" point of view of the individual in a given situation (living space), perceived as being the centre of the world: "Me, Here and Now, I am the centre of the world and everything is organised in relation to me in a discovery that is a function of my audacity. A world that is focused on Me is only peopled with beings and events to the extent that I perceive them. This is what is known as proxemics, with the importance of beings, things and events necessarily diminishing with distance to the extent that their perception itself diminishes" (Moles and Rohmer, 1978).

This is how Abraham Moles and Elisabeth Rohmer define the notion of proxemics. According to them, "fundamentally and axiomatically, what is close is more important than what is far, all things being equal, be it an event, an object, a phenomenon or a being." (Fig 1-a). The Law of proxemics appears as a principle of organisation that creates a hierarchy in the degree of importance of the actions and reflections of the individual<sup>5</sup>.

But if, for one reason or another, a deviation from this fundamental law of psychological continuity occurs – be it a discontinuity or a sudden variation –, then, another phenomenon emerges: the idea of an partition conceived as a dividing line, which necessarily reduces the importance of the phenomena lying beyond this singular point compared to the phenomena situated before this point (Fig 1-b). The partition weakens the outside compared to the inside. It effectively creates an opposition between the outside and the inside (Schwach, 1993). Thanks to the phenomenon of partition, Moles and Rohmer introduce the notion of proximity by studying what is close, and no longer what is far. They also highlight the

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<sup>4</sup> Here, we do not use the term "proxemics" in the sense of E. Hall (1981), referring to the study of perception and the use of space by Man.

ambiguity of proximity, which means both a preference for what is close (proxemics) and closure or isolation (partition).

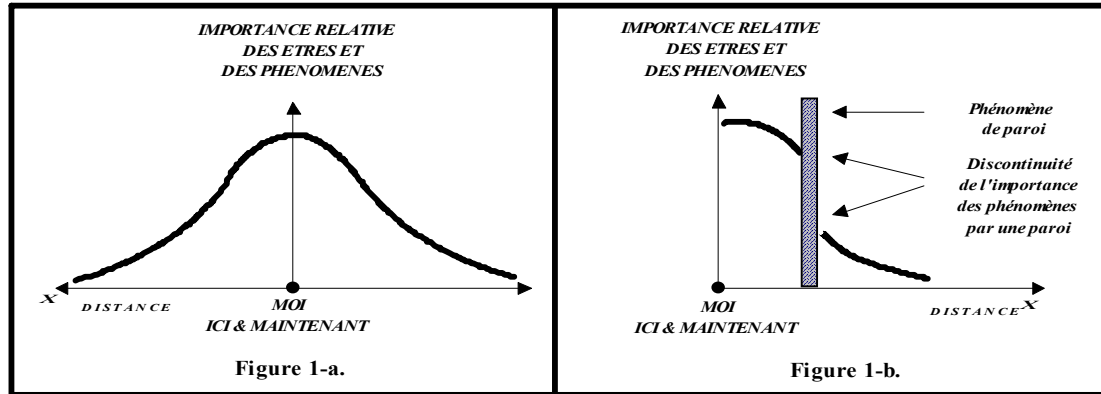


Figure 1. – The proxemics Law (a) and the partition phenomenon (b) by Moles and Rohmer

For those interested in the management of small-sized companies (Small Enterprises and Very Small Enterprises), the value of this axiomatic is twofold: on the one hand, it is founded in psychology (Moles, 1976; Schwach, 1993), which is a particularly appropriate field for understanding the strategic and organisational behaviour of small-sized companies<sup>6</sup> (Gervais, 1978; Parent, 1978). On the other hand, it is also based on the centrality of a single point of reference (the *Me, Here and Now*). This last aspect is perfectly suited to the situation of SMEs, as it is generally recognised that one of their specificities is the important role given to the director-owner, a central reference point *par excellence* (Marchesnay, 1991; D'Amboise, 1993; Julien, 1998). This is reminiscent of the famous expression from Gumpert and Boyd (1984), “*The business is the ‘ego’*”. Moles and Rohmer’s egocentered conception of space seems very apt for explaining the mechanisms that govern how a highly personalised management system functions.

<sup>5</sup> This idea of growing function can be seen again in Campbell (1978): “feelings of inequity are a function of the perceived closeness”.

<sup>6</sup> In terms of spatial decisions, Koenig and Joffre (1985: 194) note that “the satisfactions of a psychological nature in the choice of a particular site are more important in individual companies than in large companies, where power is more spread out and where there is greater rationalisation”. It is precisely this aspect that makes Deshaies (1998) say that in SMEs, it is preferable to talk of *reasons* for localisation (in reference to the entrepreneur) than of *factors* of localisation: “The entrepreneur becomes the obligatory source of information. You should start with him, rather than with a uniform space as in traditional localisation theories. Instead of drawing up a list of theoretical postulates concerning space, you should replace them with a set of hypotheses on the representations, attitudes and behaviour of entrepreneurs”. We believe that Moles and Rohmer’s Proxemics Law is the response to this desire.

The remainder of this article will aim to demonstrate to what extent the effects of proxemics and the effects of partition make it possible to explain in a unified and coherent manner a considerable number of existing results. The aim of this article is to propose a general theorisation for the smallness of companies based on the concept of proximity.

## 1. Management of SMEs and *closeness*: the role of the effects of proxemics

It is in this sense that proximity management, as we see it, is not confined to simple metric measurement. It is the choice-making principle for owner-managers. All other things being equal, the SME manager will opt for what is both geographically and temporally closer to him. This preference for proximity, and the management style that results from it, is a strategic and organisational construction enabling the SME manager to keep control of his firm and its development.

If we accept the concept of SMEs as described by the GREPME (Julien, 1994; 2000), we have already demonstrated that all the characteristics of the specificity of SME management can be expressed as a particular form of proximity (Torrès, 2004-b).

<b>From management SPECIFICITY... (according to P.A. Julien)</b>	<b>...to PROXIMITY management (according to O. Torrès)</b>
Centralized management	<i>Hierarchical proximity</i>
Low level of specialisation	<i>Intrafunctional proximity</i>
Simple and informal information systems	<i>Proximity information systems</i>
Implicit short term strategy	<i>Temporal proximity</i>
Close market, either geographically or psychologically	<i>Spatial proximity</i>

Table 1. – From specific management of SMEs to proximity management

Hierarchical, intrafunctional, temporal and spatial proximity (to name but four) make up a coherent framework producing the conditions required for action and reflection within a

centralised and non-specialised organisation, which consists of simple internal and external information systems and which favours informal and intuitive strategies. The concept of SME defined by Julien can be understood as a *proximity mix* (Table 2).

This reformulation enables us to move from a descriptive approach (a mere listing of characteristics) to an explanatory approach (highlighting a superior principle). The latter combines all the features of SMEs around a federating mechanism (proximity) and transforms this mechanism into the essential requirement for the standard operation of an SME. In other words, our perspective is that of a specific management style for SMEs that obeys a *proximity principle* (Torrès, 1999).

Several theoretical advances in the field of SME management reveal the existence of hierarchical mechanisms of this type, based on proximity:

- *In the choice of country for export*: attacking international markets seems to be governed by a proximity principle, as shown by the Swedish school in Uppsala in its concept of psychic distance (Johanson and Wiedersheim-Paul, 1975; Johanson et Vahlne, 1977). Similarly, the 6-stage exportation model developed by Bilkey and Tesar is based on proximity: “firms at early export stages should focus on psychologically close countries and firms at later stages should focus on psychologically more distant countries” (Bilkey and Tesar, 1977: 95). As Joffre (1987) remarks, “we often insist on the geographical rigidity of small- and medium-sized companies. The presence of small-sized companies decreases as the commercial distance increases, with exportation on a large scale remaining the specialty of large companies”. Similarly, the concepts of “glocalisation” (Johanisson, 1994) and “internationalising milieus” (Torrès, 1999; Fourcade and Torrès, 2001) have made proximity an active principle in the export strategies adopted by SMEs.

- *In the choice of successor-buyer*: despite the fact that “in the minds of company directors, the alternatives are neither exclusive nor part of an unchanging order” (Haddadj and D’Andria, 2001), the director of an SE who wants to make over his company is often subjected to what we could refer to as an “*organisation into a hierarchy of his choice of successor*”: a preference for the family, then the employees, clients or suppliers and finally for

a third party. In this way, “when choosing a buyer, company directors often adopt a system of concentric circles, starting with the closest contacts and relations and progressively widening their search” (Bah, 2002). This organisation into a hierarchy can be broken down into three segments: the *internal segment* (the director’s heirs and close family, the executives or all or part of the employees in the company), then the *immediate segment* (the clients, suppliers, colleagues, accountant and so on) and finally the *external segment*, which corresponds to a market open to unknown third parties. According to Bah (2002), the first two segments make up the “closed” market that operates essentially in a trust-based manner and by “word of mouth”. Only the third segment is a truly “open” market, although it has a bad reputation as companies that are on the market are often seen as “lame ducks” by potential buyers. We thus find ourselves returning to the classic problem of asymmetry of information and the well-known article, “The Market for Lemons” by Akerlof (1970).

- *In strategic choices*: Ansoff’s product/market model also provides an implicit organisation into a hierarchy for the way in which companies develop. Development axes must first of all be established within a single sector, within a single activity in the company. Once this axis has become saturated, it then becomes possible to envisage diversification, either in terms of profession or in terms of mission. Total diversification is a last resort solution, as it is the most subject to risk. “Bearing in mind that synergy gives companies the advantage of a higher consolidated return on investment than any group can hope for, at first sight it could seem that diversification should be made according to the principle of maximum synergy. That is, preferring changes that are the least different from the normal experience and internal resources of the company” (Ansoff, 1989: 132). This model brings us back to an implicit order, which goes from horizontal growth (“the most normal, the most common and the most habitual type of growth for companies”, [Parent, 1978]), to vertical and finally to conglomeral growth. The smaller the size, the more the company has a vested interest in remaining within its field, as Penrose developed quite clearly in his theory of interstices. Who cannot see, here too, that these strategic principles are further proof of a proximity rule that indicates that a company’s growth must go from what is closest (its niche or its interstice) to what is most distant and most subject to risk (diversification). The stagist models of growth can be interpreted as being part of a proxemic design.



- *In recruitment choices*: generally speaking, the smaller a company, the more it tends to prefer proximity in its management of human resources. In a survey conducted recently in France on the management of human resources in small companies, Chassard (2003) demonstrates that acquaintances and word of mouth are the top responses, well ahead of temping agencies or recruitment agencies. Directors of small companies do not like intermediaries and prefer to make use of their own lists of contacts when they must take on new staff. This type of behaviour is perfectly rational, as a recommendation from someone you know is a vote of confidence. It is for this reason that when directors of SMEs hire someone new, they prefer to start with their spouse, then turn to their family in general or circle of friends. Looking on the job market, which is much more anonymous, is only a last resort. Family, friends and an immediate circle of acquaintances are thus a strategic resource when the director says that he uses them as his main source for recruitment purposes. It is the very importance of these proximity human resources that made Letowski (2003) say that the concept of Human Resources is meaningless in very small companies, unless “non staff” human resources are taken into account, such as spouse, children, associates, peers and so on.

- *In the choice of means of financing*: many empirical validations of Myers’ pecking order theory (1984) for financial choices as applied to the field of SMEs stipulate that the growth of SMEs is essentially financed by self-financing, then by bank loans, rather than by issuing share capital (opening the capital) (Norton, 1991; St-Pierre and Baudouin, 1995; Mahéroul, 1999). Similarly, Belletante’s concept of “*financial territory*” (1991) or Crevoisier’s concept of “*proximity capital*”<sup>7</sup> (1997) support our theory of a hierarchical principle of proximity in financing. This *financial proxemic* also makes it possible to explain why SMEs prefer short term financing to long term (temporal financial proximity), or why, according to Hirigoyen (1984), SMEs pay more attention to maintaining the profitability of a company in the short term than to future profitability<sup>8</sup>. This once again reminds us of the concept of proximity in the relations the director-owner has with his banking partners.

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<sup>7</sup> As further proof of the link between proximity and financing in SMEs, Corpataux (2003) showed in his doctoral thesis to what extent the draining of the regional financing circuit in Switzerland mainly had an impact on SMEs. In his opinion, “the result is that from now on, SMEs can grow in two ways. Either they enter the stock market, with all the technical problems that that entails for small organisations, or they sell out to large, international groups. In the 1990s, for example, all the brand names from the clock-making sector were taken over by large groups” (Corpataux, 2003: 116).

Effectively, “the results of certain surveys show that directors tend to do business with only a few financial institutions (sometimes only one). It is more profitable to develop a good relationship with a banker, who ends up understanding the personality of the owner-director and accepts his own, personal way of making decisions” (St-Pierre and Baudouin, 1995). Binks and Ennew (1997) go even further, recommending *participative behavior* between SMEs and their bank: “Clearly, perfect information is an unobtainable goal, but a *close working relationship* between bank and business can significantly improve information availability”. Later, they add: “While collateral may be one mechanism for reducing the adverse effects of information asymmetries, the development of a *close working relationship* is an alternative. An effective banking relationship, by its nature, must involve two parties. For bank and businesses to invest time and effort in developing and maintaining such relationships requires that there are discernible benefits from so doing. (...) Further analysis suggests that more participative relationship types are associated with benefits to the firm in the form of better financing conditions and better quality of service and benefits to the bank in the form of more favourable customer assessments of bank service” (Binks and Ennew, 1997: 90).

- *In the choice of support networks and backing*: Gibb’s “layers” theory (1988) once again bears witness to the hierarchical proxemic relationships between the various spheres that make up the director of an SME’s support network. According to Gibb (1988), “a small business will be subject to many influences. It is not however always obvious what these influences will be or what will be the interplay between the different influences”. “The relative strengths of the influences of different groups of people are indicated in a diagram produced by Gibb to indicate the layers of small business support networks. One implication of this is that the closer, and more personal, layers will always have a much stronger influence than the outer, and more official, layers” (Bridge, O’Neill, Cromie, 1998). Gibb considers that the influence of the support network is organised into a hierarchy in relation to proximity and thus draws the following conclusions: “If friends when consulted are negative in their advice then it will be far more influential than any positive input from government agencies”. These opinions and influences are not all equal, but are organised into a hierarchy on the basis of weighting that increases in relation to the closeness of the link with the owner-director.

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<sup>8</sup> Hirigoyen (1984) wisely states that directors of SMEs turn their companies into *expense centres* rather than *profit centres*.



*Figure 2. - The “layers” theory (source: A. Gibb, 1988).*

These six examples show that the effects of proximity create a hierarchy of strategic decisions that privilege that which is close to the detriment of that which is distant<sup>9</sup>. The proximity principle is, in our opinion, a response that is adapted to the principles of limited rationality and the asymmetry of information. Proximity is a vote of confidence. This type of behaviour, which privileges proximity, is perfectly rational because anything recommended by a close friend or family member, or business relationship with an acquaintance, is trustworthy. Here, proximity plays the role of guarantee as well as a reducer of uncertainty. It reduces the asymmetry of information and broadens the rationality. This recalls Akerlof (1970), who advises someone selling a car in good condition to sell it to someone who trusts him – in other words, someone he knows. Proximity is the most natural response, and the least costly, to the problem of the asymmetry of information.

But this proximity strategy, which privileges the family and the familiar, nevertheless has its limitations, the biggest risk being that of isolation and imprisonment. And it is precisely this that highlights the concept of the partition effect.

## **2. Management of SME and *closure*: the role of the partition effect.**

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<sup>9</sup> There are several counter-examples to this proxemic concept. Studies on INV (International New Ventures), companies that grow rapidly or start-ups, on capital-risk and so on show that certain small-sized companies diverge completely from this conception. It is these companies that we have qualified as managerial SMEs as they tend to be managed like miniature versions of large companies (Torrès, 1998). This type of company is the

One of the theoretical bases that make it possible to explain the isolation of SMEs can be explained through the theory of links and social networks.

As early as 1973 in his founding article, “*the strength of weak ties*”, Granovetter provided the basic hypotheses for a general theory of social networks by proposing a distinction that has now become a classic, between strong links and weak links. According to Granovetter, the strength or weakness of a link is a combination of the amount of time, emotional intensity, intimacy (mutual trust) and reciprocal services that characterise the link. This explains why, in general, individuals only have a small number of strong links (rarely more than a dozen). By absence of link, he means not only a total absence of link, but also the links that are not very important such as vague acquaintances (people living on the same street, for example, or the link that you have with your newsagent). There is an absence of link when the interaction between two individuals remains negligible even if they know each other’s name.

From these few definitions, Granovetter develops a number of principles that govern the constitution of social networks and their evolution. He thus considers that the stronger the link between two individuals, the more these individuals will tend to resemble each other. To such an extent that when there are strong links that join A to B and A to C, there is a high probability that B and C will resemble each other too. This is the principle of the transitivity of strong links. Granovetter then continues his analysis by considering that if A has strong links with B and C, in time it would become almost impossible for B and C to have no link between them. Diagramme (A) illustrates this impossible triangle. Over time, the triad tends to be completed so that it resembles diagramme (B)<sup>10</sup>.

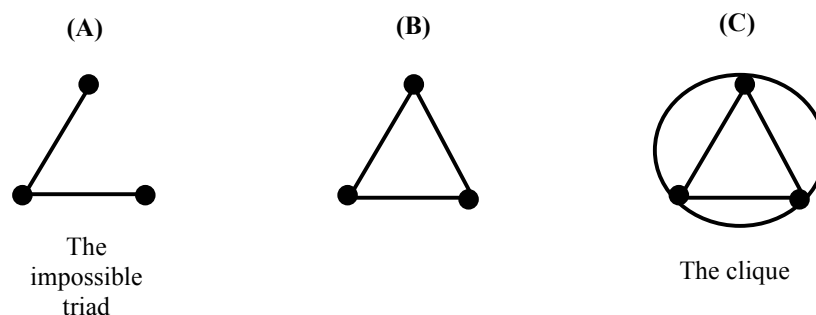
The problem with strong links, however, is that they tend to lead to enclosure. “For example, if we spread a rumour to all our closest friends and then they, in turn, do the same thing, there will be many who will hear the rumour twice, or even three times, because

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opposite of the standard SME, and is the illustration of denaturation phenomena (dilution of specificities) (Torrès, 1997).

<sup>10</sup> By analysing 742 sociograms, Davis (1970) demonstrates with great precision that triad B is the most common, and that triad A is, on the contrary, one of the least common.

individuals linked by strong links often have the same friends. If, on the other hand, the motivation of these individuals to spread the information decreases each time the rumour is told, then there would be a higher probability that it would remain enclosed in a few clans if it is transmitted by strong links than if it were transmitted by weak links: it would not be able to bridge the gaps". In this type of case, Granovetter speaks of the *suffocation effect* that we have represented as a circle that encloses the triad of strong links in diagramme (C). Strong links, and particularly if you work on the basis of a small number of individuals, tend, over time, to form cliques or closed circles that function as a closed circuit where exchanges become unnecessary. This means that a network composed of strong links tends to be walled off (clusterable). As Davis (1970: 844) says in his analysis, "groups tend to form levels (like floors of a building) and within levels all relationships are mutual positive or mutual non-positive; within levels, clusters or cliques occur (like rooms on a particular floor of a building) such that (by definition) within clusters all pairs are mutual positive, and between clusters all pairs are mutual non-positive".



However, it can be considered that the smaller the size, the more the number of interpersonal relationships is reduced. Smallness thus creates the conditions for strengthening the links between those involved. Directors know their staff personally, as well as their clients, suppliers, banker and so on. The smaller the company, the more probable it is that the links between the different active members of the company will be frequent, intense or even intimate. Smallness strengthens links because they are less in number. This provides us with an explanation of the double dimension of proximity: smallness increases the strength of links but also increases the risk of enclosure. It is thus easier to understand Michael Piore, who, in the inaugural speech for the 3<sup>rd</sup> Congrès International Francophone PME (International French

language Congress for SMEs, CIFPME) at Trois Rivières in Canada in 1996, said, “the problem for SMEs is not that they are small, but that they are isolated.

This isolation has already been mentioned many times in the literature on SMEs. For example, in the article, “The loneliness of the small-business owner” by Gumpert and Boyd (1984), “the authors explore the silent partnership between loneliness and the small-business owner”: “As a consequence, entrepreneurs often lack colleagues with whom to share experiences, explore ideas, and commiserate. Among respondents to our survey, 68% reported that they had no confidant with whom they could share their deep concerns. Also owners become more and more sequestered as demands on their time isolate them from others”. According to the authors, “on the one hand, loneliness reflects objective or environmental factors, such as the special nature of a small business and value conflicts between owners and those close to them – chiefly family and friends. On the other, it is also subject to internal or subjective pressures including the need to project a strong image and a proclivity for individual achievement rather than group dynamics.” (Gumpert and Boyd, 1984: 19). This isolation is even promoted in certain cases: “I’m not competing with anyone here. In corporate life, I was competing with everybody. If one of my decisions didn’t work out, you’d better believe there were six others guys in the company saying it was my fault. In my own business, the only competition is outside” (...) “Solo activities are satisfying for the immediate feedback on performance and the sense of control they provide” (Gumpert and Boyd, 1984: 22).

Nevertheless, isolation is a handicap that the authors highlight quite clearly: “Without input from peers, friends, or family, entrepreneurs are unlikely to consider all relevant options and risks in their decision making. Reducing loneliness should improve financial results.” (...) “In view of our findings, we think it essential that entrepreneurs also enter into group activities with family and friends; the energy and determination they show in the marketplace must be directed toward emotionally satisfying relationships as well”.

The isolation of the director of an SME can certainly be put into perspective, as shown by Curran and Blackburn (2001: 6), who write, “a high proportion of small firms, perhaps approaching 40 per cent, have two or more owner-managers/partners/directors. (...) Enterprises linked through cross-ownership may operate significantly differently to enterprises

that have no such linkages”. This perspective nevertheless raises two points worth mentioning: on the one hand, it should be noted that 60% of companies are still managed by just one person, which is still a majority, and, on the other, that there is nothing that proves that the partners are genuinely active and not just *sleeping partners*. As Gumpert and Boyd (1984: 20) note, “Ironically, the presence of partners does not necessarily change this pattern. In fact, it can make things worse. Our first survey showed that more than two-thirds of the respondents who began with partners eventually split up. Conflict among principals was the chief reason. Understandably, therefore, these owners approach the idea of a subsequent partnership reluctantly”. The model of the isolated owner-director, “with his nose to the grindstone”, seems to us to still have considerable validity.

It is for this reason that the concept of the microcosm effect developed by Mahé de Boislandelle not only seems to us to be pertinent, but also a useful means of explaining the isolation and enclosure effects in SMEs.

The Microcosm effect is defined by the fact that the director of an SME generally focuses his attention on the immediate, in terms of both time, that is, the short term, and space, that is, whatever is closest to him either physically or psychologically. The Microcosm effect results from the director’s high level of involvement in the organisation, the affective intensity of his relationships, the urgency perceived and the number of activities for which he is responsible. The Microcosm effect can also be seen in the relationships that the company develops with its environment. From an external point of view, the company’s image is affected by the director’s relational capital, which often plays a key role through his public, professional, social or political appearances. The Microcosm effect is similar to the concept of *environmental proximity* that Gueguen (2001) defines as an ensemble of external factors, perceived by the director, that emanate from key players who are close in terms of geographical and psychological distance, that are the subject of frequent and informal interactions and that have an incidence on how the company functions. It could be said that this is the ensemble of strong links.

The Microcosm effect also illustrates the fact that smallness in size often leads to an increase in the frequency of events liable to disturb the director’s decisional activities. This

can be explained by centralisation, which leads to further burdening the decisional agenda with short term problems. Drucker-Godard (2000) thus demonstrates, in his study into directors' day-to-day management of priorities, that to a certain extent centralisation is often represented by a strong emphasis on the short term and the operational. Small size thus exposes the owner-director more easily to daily disturbances and, as a result, prevents him from spending time thinking about strategy and looking at things objectively.

Directors of SEs often reason in the short term, preferring solutions that will work quickly to those of a more strategic nature whose positive effects are less immediate (over-estimation of the "Now" compared to the future). Similarly, their field of action is often limited to the environment closest to them, because it is at this level that directors think they have the most room for manoeuvre and that they have the highest level of control over the consequences of their actions (over-estimation of the "Here" compared to the "Elsewhere"). This Microcosm effect is strengthened by the single establishment nature of small-sized companies, which favours the pregnancy of a point "Here".

The unity of place in SEs and VSEs suggests a strong correlation between organised space and physical space and allows directors to appropriate their companies to a great extent. The smallness of companies accentuates the *domestication* of their management practices and shows that they have created a "home away from home", a place of privacy *par excellence* where directors fully exercise their control, which makes personalised management possible. This partition (enclosure) effect also makes it possible to explain why certain directors of small companies seem to be allergic to the principle of giving details of how they operate. The 35 hours law in France<sup>11</sup> was seen by some bosses as a real intrusion by the State into the internal operations of the company. Similarly, as Charpentier and Lepley (2002) state, small companies are characterised by the absence of institutions representing the staff. "The trade's union representative is often reviled, particularly because he would introduce exogenous procedures to the micro-organisation" (Lepley, 2002). Smallness gives the functioning of the company a domestic nature where norms come directly from the authority of the company director, and are more rarely subjected to the principle of an external third party. Smallness

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<sup>11</sup> As part of the law on the reduction of work time, the legal duration of the working week was decreased from 39 hours to 35 hours in France.



thus reinforces the enclosures that separate what is inside from what is outside, which explains the high degree of isolation in which many SEs and VSEs function.

This isolation limits perception of external events and reinforces the weight of internal elements, thus multiplying the proxemic effects and, more particularly, the role and importance of the director, who thus becomes the kingpin on which the entire management system depends. It is this aspect that makes many specialists in the field of SMEs say that the management of SEs is highly personalised, thus leading to *acute proxemics*. This concept of “*acute proxemics*” results in a reduction of the director’s field of vision because of his tendency to *systematically* over-evaluate all that is close and to under-estimate all that is distant.

These partition effects can be perfectly illustrated by the classic theories of SMEs. If we return to the six points mentioned above in relation to proximity (succession, growth, recruitment, financing and internationalisation and support networks), several theories have dealt with this phenomenon. For questions of succession, especially in family-owned companies, opening the capital to someone who is not in the family is often difficult, not to say impossible. Small, family-run companies are a perfect illustration of the ambivalence between proxemics (priority given to blood relations) and the risk of enclosure (the term “clan” is often used). In terms of strategy, certain authors mention the theory of limited growth, or a refusal of growth, when talking about small companies (Parent, 1978). More generally speaking, the result of the difficulties associated with recruitment in SMEs is often the risk of exposing the director to a work overload and thus to both fatigue and solitude. In a study by Chassard (2003), three quarters of those questioned declared that when they have too much work, they manage on their own, as best they can. It is this isolation, and the over-work that results from it, that explains why directors of SMEs sometimes find it difficult to formalise their own needs. In terms of financing, many authors, such as Stiglitz and Weiss (1981), have developed the theory of the rationing of credit. Others have insisted on the inaccessible nature of the capitals markets: “Essentially, the capital-structure decision must be regarded as *residual* in that the owner of the small business does not have the choices available to larger firms with access to public capital markets. The small business finances where it can, always attempting to minimize the cost of that capital, but it is constrained by its

limited access” (Osteryoung, Newman and Davies, 2001: 263). Similarly, according to Barton and Matthews (1989), although owner-directors prefer to finance their companies with internal financing rather than with external capital (loans or shares), it is to maintain the control of their company, the decisions that they must make as well as of day-to-day management. They thus prevent all investors from participating in these decisions by initially privileging internal financing. In terms of international development, crossing a national border, added to the linguistic and cultural differences that entails, are often seen as obstacles that are difficult to get round for small, and very small, companies. Bilkey and Tesar’s exportation model (1977), based on proximity, also stresses the idea of “perceived barriers”. Finally, regarding the support network, Gumpert and Boyd (1984) demonstrate how the director can find himself totally isolated. In Gumpert and Boyd’s opinion, solitude represents a wall that separates the director very definitely from the rest of the world.

## **Conclusion:**

It seems possible to summarise management of SMEs in terms of proximity management, on the condition that both dimensions of the term “proximity” be taken into account. That is, the proxemic effect (the priority given to what is closest) and the partition effect (the risk of enclosure or isolation). It is for this reason that we consider that the management of SMEs is situated somewhere between closeness and closure. Our modelisation of the management of SMEs demonstrates the interest of synthesising, in a single framework, both the advantages and disadvantages of SME management.

Taking the “proximity” factor into account when discussing the management of SMEs is part of a broader research trend that grants greater importance to relational aspects than to transactional aspects. In our opinion, the wall separates two spheres, one governed by relations, the other by transactions. It is precisely the importance and quality of these relations that are one of the key points of the analysis of the specificities of SMEs. Fuller even states that relations and personalisation are at the very heart of the specificity of the management of SMEs (Fuller, 2003, Fuller and Lewis, 2003). “Small businesses embody the personalities of their owners, and their ways of doing business with stakeholders are largely personal. The human “touch” and personal networks create the opportunity for enterprises with little market

or financial power to stay more in control of their future” (Fuller, 2003). For Fuller, the futures of small business are deeply connected with the futures of the value of ‘the personal’ in society. These remarks coincide with those made by Gibb (1997: 18), “Managing relationships with the stakeholder networks (external and internal) is the very essence of management of the small company. A day spent with any owner-manager will reveal the numerous contacts, internal and external, that are integrated into the web of the business activity. Networking and the “know-who” that goes along with it is the very essence of entrepreneurial activity and small business management and is fundamentally related to the survival and growth of the business. It is critical to the firm’s transactions costs, the development of trust and its credibility with its ‘community’. Later, he adds, “The very essence of small company management is the personal day-to-day handling of transactional and other relationships with networks of customers, suppliers, bankers, accountants, solicitors, agents, marketing channels, workers and regulatory authorities as well as (more intimately) acquaintances, friends and family” (Gibb, 1997: 18).

Our proxemic theory explains not only the importance of a hierarchy of relations in the management of SMEs, but also the tendency that SME directors have to remove themselves from the logic of the market. Resorting to the job market, the capitals market, the consultancy market and so on are often last resort solutions. Directors of SMEs do not like anonymous transactions. Whenever possible, they replace them with interpersonal relations based on links of proximity.

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