

# **Microbusiness and the Human Economy**

*The evolution of the new business rules for  
the 21<sup>st</sup> century economy*

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Prepared for the Microbusiness Research Institute  
by Dawn Rivers Baker



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# Introduction

LET ME THROW A QUESTION AT YOU, one that most of us never stop to think about.

*What is the purpose of having an economy?*

Does that seem like an absurd question to you? Maybe you think that we have an economy in order to do business, to make and sell and buy things from each other. And, on a certain level, you'd be almost right. It would be more accurate, though, to say that we do those things within the context of our economy.

But that still leaves the question of *why* we do those things within the context of our economy. What is the purpose of making and buying and selling things?

And possibly you'll tell me, if the question is put to you that way, that the purpose of making and buying and selling things is growth. That's what everybody says, isn't it? We measure individual businesses for their growth — in revenues, in market share, in number of employees, in tax revenues generated. Then we put all that individual business growth into a big kitty and measure it, too, and call it our Gross Domestic Product. That way, we know how much we're making and how much we're buying and selling, and how much all those things are growing.

And still, we haven't really answered the question. Because we know that we make and buy and sell things, and we measure them carefully so that we can know *how much* we are making and buying and selling. But none of that tells us *why* we are doing all these things. The question remains: what purpose does having an economy serve for a society or a community?

For these kinds of questions, I like to turn to my dictionary because, for these kinds of questions, words matter.

The American Heritage Dictionary defines “economy” first as “careful, thrifty management of resources, such as money, materials or labor,” and second as “the system or range of economic activity in a country, region or community.”

Most of us talk about the economy in that second context but, for our purposes, that presents us with a problem. If we’re trying to understand what having an economy is supposed to accomplish, this is a fairly circular definition, isn’t it? *An economy is a range of economic activity ...* That’s great but then what is “economic” activity?

Turning once again to the American Heritage Dictionary, we find that the word “economic” is defined thus: “of or relating to the satisfaction of material needs of humans.”

*Ah hah!* So, if we cobble together this exercise in dictionary browsing, we arrive at the following definition of an economy:

*An economy is a system of careful, thrifty management of resources, such as money, materials or labor, for the purpose of satisfying the material needs of humans.*

There are several things about this definition that are worth mentioning. First, you will note that there is little notion of careful, thrifty management of resources in the way that most people think about the U.S. economy. As a matter of fact, the U.S. economy is profoundly wasteful of resources, whether they are financial resources or material resources or human resources. We are wasteful because our economy functions not through careful stewardship of resources but

through rampant consumption of resources in order to fuel growth.

Which brings up the second point: there is nothing at all in the above definition about the concept of economic growth. Returning to our original question, the purpose having an economy in a community or a society is to satisfy the material needs of the humans who live there. The most fundamental material needs of humans are those for food, clothing and shelter. Everything beyond that is window dressing, falling under the banner of standards of living. At the same time, there are many elements to the quality of a life lived that have to do with meeting non-material human needs like leisure, relationships and community.

And it is because we have largely forgotten that having an economy is supposed to serve society by satisfying the material needs of humans that, by the end of the 20<sup>th</sup> century, in many ways our economy was no longer working for us.

*What can you possibly mean by that?* I hear you say. The U.S. economy has, with a few bumps in the road, grown fantastically over the last half century, helping Americans to achieve a standard of living that is the envy of the world. People who, by our standards, are living in poverty would be considered comfortable in many countries and would be considered wealthy in many more. We have the largest economy in the world and it continues to grow strongly. How can anyone say that it is not working for us?

Well, that's one way of looking at it.

At the same time, because we have a growth oriented economy that is predicated on consumption, we are, as I said, terribly wasteful. Because we are both wasteful and consumption-oriented, we are doing more to destroy the planet than any other single country — although China and India seem determined to catch up with us as quickly as they can. Because we are focused on growth to the exclusion of everything else, including satisfying the material needs of humans,

we have reduced people to the status of commodities, inputs that either help or hinder economic growth. And, because we have turned human beings into economic inputs, we have arrived at a moment in history in which the economy is no longer serving us. Instead, we have become subservient to the economy.

As a result, Americans have an awful lot of stuff but we are killing ourselves working to get it and keep getting it. We work for employers who don't care whether they pay us enough money to live on, as long as they pay us little enough to maximize their profits. And that means that there are some people in this very rich country whose basic material needs are not being met, making our strongly-growing economy a robust failure.

Meanwhile, even though they may or may not pay us enough money to ensure that our material needs are being met, many employers are demanding more and more work from us in order to improve efficiency and productivity. As Americans work more and more hours in order to perform more and more work, we have less and less down time available to meet those other, non-material needs that I mentioned a little while ago. We have less healthy communities, less healthy families, less healthy bodies and less healthy minds than we did half a century ago.

In short, most of us have very high standards of living while simultaneously having a very poor quality of life. We have a growing economy full of fairly miserable people. And we have a public policy that seems intent on preserving the health of companies with cancerous growth strategies, at the expense of mere citizens who may be increasingly injured by how those companies operate and what they make and how they sell it to us.

After that description, you may find yourself wondering: how on earth did we get to this place? There are many different answers to that question, since it can be answered from a variety of different perspectives. And, for our purposes,

how we got here is less relevant than the fact that we are now in the process of changing direction, and that what that change of direction looks like will force us to consider issues that we have never had to consider before.

Some observers have dubbed the economy of the new century ‘the Entrepreneurial Economy.’ Some call it ‘the Information Economy’ or ‘the Knowledge Economy.’ Still others refer to it as ‘the Interactive Economy.’ What all of these titles have in common is that, unlike previous so-called economic ages, the 21<sup>st</sup> century economy will be defined less by the “how” (water, steam, electronic) or the “what” (agrarian, industrial) than by the “who.”

The economy as it is evolving before our eyes has less to do with things than it has to do with *people*. That is why I think it’s appropriate to pull all these labels together under a single, overarching umbrella, which I will call the **Human Economy**.

For this white paper, I rely heavily on the writings of Umair Haque, Director of the Havas Media Lab, “a new kind of strategic advisor that helps investors, entrepreneurs, and firms experiment with, craft, and drive radical management, business model, and strategic innovation.” Haque writes the *Edge Economy* web log (<http://blogs.harvardbusiness.org/haque/>) for the Harvard Business Publishing web site.

Of course, I don’t expect economists far and wide to agree with Haque’s observations on what has happened to the economy during the early part of this century, nor on the direction in which the U.S. economy is heading as it evolves for today’s business climate. I am not looking for consensus here; Haque’s ideas make more sense to me than any other set of ideas I’ve encountered, particularly since they match my own observations — albeit from an entirely different perspective.

# The Path That Leads To Here<sup>1</sup>

THE HISTORY OF HUMANKIND has been full of innovation and discovery, but only a few of those innovations have had a major impact on the nature of what one calls "work."

From the dawn of man until the 19th century, most people worked the land in one way or another. Very early on, after the domestication of plants and animals led to organized agriculture, technological improvements such as the plow and the irrigation system allowed farmers to produce enough so that there was a surplus of food. That meant that not everybody had to farm in order to eat, which freed up enough people for the evolution of crafts.

Craftsmen produced items like pottery for storage, cloth for clothing, tools to use in working, furniture and furnishings. And, since farmers no longer had to make these things themselves, the quality of their lifestyles improved to some degree. In some ways, it was a perfect market. The craftsmen needed what the farmers grew (for obvious reasons) and the farmers wanted what the craftsmen made (so they wouldn't have to make it themselves).

That's more or less the way it stayed for thousands of years, with one or two wrinkles. Those wrinkles had to do with the development of the organizational structures of society: government, bureaucracy, police and armies, and (eventually) courts.

As the population grew, more craftsmen invented more goodies for their fellow humans. In most cases, these were products that people had never had before and had never noticed they lacked. In other cases, they were products that

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<sup>1</sup> This section is, for the most part, reprinted from "The Entrepreneurial Economy," published by The MicroEnterprise Journal (a media property of Wahmpreneur Publishing, Inc.), 2004.

people once made themselves but that they could now buy. With the development of labor-saving devices through rudimentary technology, the drudgery was gradually being lessened from life. Games, toys, entertainment, hobbies — all these early components of the entertainment industry came about as the craftsmen-merchants conceived of ways to monetize leisure.

Back then, standards of living were still low enough that there would have been a ready market for almost anything those craftsmen could come up with that would make people's lives easier. The only problem, of course, was that the peasants on the farms were low man on the societal totem pole. More often than not, the craftsmen's best market consisted members of another relatively new societal development: aristocrats. That was only natural. Business people generally consider it to be a waste of time to try to sell their goods and services to people who can't afford to buy them.

Population growth eventually posed a problem for those craftsmen, because there are only so many hours in a day and only so many items any one man (or even a man in a shop with several apprentices) can make. That problem was ultimately solved by the invention of mechanized manufacturing during the Middle Ages.

Many people connect early manufacturing to the steam engine but it had actually been around for centuries by then. Basic machines powered by people or by specially trained animals did everything from roasting sides of beef to making parchment. Real automation came about when producers learned to harness the power of moving water to run their machinery, a technique used by the ancient Romans and retained by Medieval monks long enough to be re-discovered by business people during the Restoration period.

Of course, this type of manufacturing was still pretty small scale and it didn't make any particular change in the nature of work for most of the world's

population. The vast bulk of the world's people were still toiling on farms. "Work" was still what it had been for millennia. People worked to provide themselves with food, clothing, shelter and a few labor-saving amenities they could make or (if they were very fortunate) buy. Most work involved hard, not to say back-breaking, physical labor for relatively low returns and, by our standards, poverty was the rule rather than the exception.

That's the way things were when the United States of America was born. We were originally a nation of small craftsmen, shopkeepers and farmers. Unemployment was a foreign concept; people worked because they had to in order to survive and "jobs" as we use that term today did not exist. But then, jobs weren't really needed. For as long as there was land available on which one could stake a claim, there was always a way for a man to support himself and his family.

That was probably the biggest difference between then and now: there was always work, because people needed to wrest their survival needs from the resources at hand, but there were not really "jobs." In fact, if you stop and think about it, the push for independence among the leaders of the American colonies, and the level of support they received from everyday colonists, was at least partly rooted in their individual economic self-sufficiency. Fighting for independence from the arbitrary dictates of a "mother country" was a natural impulse for them. It was simply a political extension of the way they lived.

When the steam engine erupted onto the manufacturing scene, it would be difficult to overstate the profundity of the changes it wrought in the way people lived. Mass production changed everything about the relationship between the individual and the economy.

On the one hand, mass production created what British journalist James Burke once called a "democracy of possessions." When you make lots and lots of

copies of a product for little enough money so that most people can afford to buy it, then ultimately everyone winds up with more or less the same stuff. This almost uniformly raised standards of living, but it also created the machinery of our present consumer economy.

It is an economy that is absolutely dependent on getting everybody to buy everything; skills like sewing and embroidery, carpentry and woodworking, leather working, canning and preserving, which were once essential survival skills, are now reserved for hobbyists. It is also an economy that is absolutely depending on getting everybody to buy everything over and over again, even non-perishable items; over the years, companies needed to devise justifications for their customers to keep buying from them even after their markets were absolutely saturated.

At the same time, it transformed us into a nation of employees, with both positive and negative consequences. Being an employee means that one goes from wresting a living from the materials at hand to earning a wage in return for labor performed. Rather than providing for themselves, employees enrich their employers with their labor — a situation that seemed unfair to scholars with socialist and communist leanings. But in exchange, employees were relieved of much of the responsibility for ensuring their own economic self-sufficiency. Over the decades from then until now, being able to make one's own way in the world has come to mean being able to hold down a job.

Not only that but, as the vast majority of the American population transformed into something called the American workforce, policy makers saw in such concentrations of citizens a way to create social safety nets with some degree of certainty that they wouldn't miss anybody (or at least, that they wouldn't miss enough people to matter). That is how it came about that matters such as retirement security, health insurance, unemployment insurance and disability insurance were provided for American citizens not through the

government — which, if you're an American, isn't to be trusted anyway — but through one's employer.

All this has had a peculiar effect on the collective American psyche. As much as we talk about life, liberty and the pursuit of happiness, most Americans are fundamentally concerned with security, comfort and the accumulation of *things*. We have long since passed the point at which our economy was a means to provide for the simple food-clothing-shelter trifecta. Instead, the basic purpose of having an economy was subsumed by a new goal: growth.

But what is growth supposed to achieve for an economy? Through economic growth, the thinking goes, a nation gets technological innovations and advances, new jobs for new generations and population increases, more tax revenues for governments to provide services for the citizenry, and ever-improving standards of living. And all that has proved true, up to a certain point. As the economy grew, standards of living improved and wages also grew. We have been able to keep most of the American workforce working, we have certainly reduced the drudgery of life, and we generate enough in tax revenues to make the U.S. government into the world's biggest spender.

But, while we've been accomplishing all that, economic growth has transformed from a means to an end — the end, you will recall, being *satisfying the material needs of humans* — to the end itself. We have become an country that pursues economic growth for its own sake. That has caused the major players in the economy to do some rather peculiar things.

In the pursuit of scale, we have fundamentally changed the way we feed ourselves, for example, so that a great deal of what we Americans eat is not really food. A lot of it, like all that soy in the products we eat, is filler. There is also quite a lot of fat and sugar, as well as an alarming amount of salt. That's because the food processing industry takes edible materials and, in order to stretch them

out and make them go farther, augments them with all sorts of things that add bulk but don't add nutritional value. They add sugars to make this faux-food palatable and they add chemicals to make it pretty, but they don't add enough actual food to make it filling — which causes people to feel hungry again more quickly and to eat more. That makes the food processing companies happy because it causes people to buy more food. Unfortunately, it is also a likely cause of the fact that, for a rich country, the United States is a remarkably unhealthy one.

There are other products we Americans use that are poorly engineered, so that they wear out or break after a certain amount of time and are incapable of repair. This makes the companies happy because people are then required to go out and replace the products, which increases their sales and makes for “growth.” Unfortunately, it has also created overflowing landfills piled high with the discarded bounty of the earth and the laboratory, with very little in the way of true improvements in standards of living to show for it at this point.

In short, all this craziness is focused on avoiding making the best products — because the best products won't break and they won't need to be replaced or repaired — and trying instead to make products that are good enough to get people to buy them over and over again, for more and more money, whether they serve any real purpose or not. The continued functioning of our industrial production/consumption economy has come to depend on the ability of producers to convince consumers to buy a wide array of mediocre products they may or may not really need.

Why do producers and companies do these things? Because these are the rules I referred to earlier, the rules that have led us to where we are now.

## The Old Rules<sup>2</sup>

IF A XENO-ANTHROPOLOGIST FROM THE ANDROMEDA GALAXY came to Earth to observe citizens of the United States of America, he (or she or it) would no doubt be quite baffled about a lot of the things we do and would remain baffled even after those behaviors were explained to them.

That is because, looked at objectively, there are a lot of things we do with and through our economy that don't make sense.

The simple fact that our country and everything it does revolves around that concept of economic growth — such that we seem incapable of solving any of our collective problems unless somebody can figure out a way to make a profit from doing so — defies logic. Similarly, the things that companies do in order to operate in the post-industrial economy are destructive and short-sighted but they play by the rules that developed in the context of the scenario I described in the last section.

It's worth looking at those rules because we need to know what used to work and why it doesn't work any more.

Modern management grew out of a period in the world's history during which there were global empires built in order to find plentiful natural resources that could be turned into products for the enrichment of merchant princes and monarchs. It might seem quaint to look back at that period from our enlightened 21<sup>st</sup> century perspective, but the basic idea was that God had created this planet and everything in it for us to use. Combined with a concurrent idea that white Europeans were the paramount creation on the planet and had a right to pretty

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<sup>2</sup> The underlying concepts in this section are from “Constructive Capitalism,” a talk given by Umair Haque at the Daytona Sessions conference, Stockholm, Sweden, February 12, 2009. The entire one-hour presentation is available online at <http://www.daytona.se/sessions/vol2/umair>.

much anything they wanted, economic imperialism found its intellectual ground.

The overt racism of that viewpoint has long since been distanced from the economics but the idea that part of running companies is to find and use resources for as long as they last, while operating under the assumption that they will last forever, remains with us. At the time the idea developed, populations were much smaller and exploiting natural resources at breathtaking rates did not seem to pose much of a problem. But that is no longer the case.

In our modern world, we are intellectually aware of the fact that we are using up our planet much faster than she can renew herself. Regardless of what oil company executives may say about the subject, I'm sure they are smart enough and well enough informed about the processes involved to know that we are using oil much faster than the planet can make it.

A rational person, confronted by this situation, would start looking around to see how they could adjust their business model or their product so that they could stop selling a resource — any resource — that was on its way to depletion. Not only is that the ethical, responsible thing to do, it is good business sense. Why would you put all your energy and resources into maintaining and, if possible, growing production and sales when you know that we're going to run out of the stuff eventually? Sure, you might make a lot of money now but what will become of your company in the future?

But, according to those imperialistic rules, the future will take care of itself. After all, our exploitation of these natural resources is God's will and, when we run out of this stuff, God will take care of it.

That is the first rule: **exploitation**. Companies exploit resources, rather than managing them frugally (remember our definition of an economy), for the sake of growth.

One of the key things that was exploited under the old rules was human beings, which may possibly explain why humans in U.S. society have become subservient to the economy.

Companies seeking to make things for as little expense to themselves as possible will seek employees to fit the bill. For a long time, the existence of labor unions kept the relative exploitative potential of this practice in check. However, today, workers compete for jobs in a global marketplace where a decent day's wage in China is a very different animal from a decent day's wage in Detroit. Companies, which are operated by people who feel a sense of responsibility toward their shareholders rather than toward their employees, take advantage of the global labor market to drive down wages for everybody.

In the marketplace, too, companies have been in the practice of acting upon their customers, doing things to us in a set of communications channels that were uncompromisingly one-way. It is common to be able to watch the evolution of this sort of thing with companies that start small, with approachable and accessible entrepreneurs at the helm who were responsive and engaged with their flagship customers. As that company grows, however, it begins to distance itself from mere customers so that, by the time it reaches the size and scale that is thought to be desirable in the realm of 'growth,' its customers can complain about any new policy or product they like and the company will not respond. If anything, the attitude is, "Do you know how many customers we have? We don't care if you like this new thing or not, we're big enough so that we don't need you."

Mere customers were not important, at least not as individuals. What mattered was the product and how it could be produced and marketed for less and less money, and how it could be sold to more and more customers for more and more money. Nothing else, after all, is "cost effective."

This, then, is the second rule of pre-21st century business: **dictatorship**. Companies command both customers and employees, dictating to them what they want, what they can have, how they will work and, to a degree, how they will live.

If you are beginning to sense a certain amount of hostility on the part of these companies, you would be quite right. Another feature of pre-21st century imperialistic business norms is the notion that business is war. Companies fight with each other and, as often as you'll hear a corporate CEO say they welcome competition, they expend time, energy and resources to avoid doing just that.

Companies buy patents in order to keep products off the market if those product will threaten their existing business models. They spend money on lobbying efforts with legislative and regulatory agents in order to secure a legal and regulatory framework that favors them, particularly against innovative new businesses. Sometimes, they even pay potential competitors directly (albeit illegally) in order to keep them out of the market.

One wonders what would happen if those companies took all the money they spend on all this anti-competitive behavior and used it to invest in the research and development that would allow them to say they welcome competition and mean it? As it is, one of the principle functions of company management under the old rules is to hold the line, to fight off the competition, to defend the business model.

So, the third of the old rules is: **hostility**. Companies are hostile to everyone, from innovators (who might improve their products) to regulators (who might improve their treatment of their own customers) to other companies (that might invade their market space) to their own customers and employees.

A big part of the point of all of these seemingly self-defeating behaviors is

that companies seek to dominate their market. They may not be willing to invest in better products, better workers or better customer service, but they still are not willing to share their markets with other companies.

This means not only that these companies indulge in behaviors to keep potential competitors out of the market, they also invest resources in suppressing new companies with products that might erode their market share. And somewhere along the way, everybody seems to have gotten the idea that only having three companies making cars and only two companies providing landline long distance telephone service and only two companies with 90% of the health insurance market share are competitive market situations. As long as there is more than one company, then there is competition.

Except, of course, that there isn't. The three big automakers make, essentially, the same cars and they don't have to compete with foreign automakers or younger, more innovative domestic startups that make very different cars. There may be two companies providing landline long distance service and there may be two or three companies providing most of the nation's mobile phone service. However, in much of the country, customers have access to only one service provider, depending on where they live. If they want the service, they have no choice of providers. None of this can honestly be called "competitive market conditions."

Perhaps the oddest bit about all this is that these large, dominant companies appear to be less bothered about competing with their fellow corporate giants than they are about competing against little upstarts. In that sense, nothing much has changed since the demise of the Edsel.

So, our fourth industrial-imperial business rule is: **dominance**. Companies want to hold down costs and improve margins by neglecting to invest in product and service improvement and can thus only remain viable if they are the only

game in town.

All of these rules lead inexorably to the final rule. Companies operating according to these standards make a lot of money and they usually realize their goals of ongoing growth. However, they have reached the point at which they do so by destroying real value, at the expense of the rising standards of living that was supposed to be the purpose behind all that growth.

As of this writing, the U.S. economy is facing its worst economic downturn in almost a century. In the year leading up to the current global economic crisis, however, we experienced what experts told us was a lengthy period of healthy growth that was only briefly interrupted by a relatively painless hiccup at the beginning of this century. And, in spite of the growth in the economy, the American middle class has been struggling with rising costs, declining real incomes and, more recently, diminishing asset values.

What has been happening then?

A lot of the mirage of growth has had to do with the way companies have perfected the art of repackaging what they already do to create the appearance of adding value when, in fact, they are not. That is especially the case when companies “add value” by repackaging something that is essentially valueless and selling it for a great deal more than it is worth — as was the case with the exotic financial instruments that precipitated the financial market collapse of late 2008.

In addition, our collective love affair with economic growth, as currently measured by the U.S. Bureau of Economic Analysis, has come back to haunt us. Regardless of how strongly the economy is growing, if that growth coincides with a diminished middle class whose standards of living are declining rather than rising, then what is the point? That seems to be a question that it did not occur to anyone to ask, possibly because the decision-makers whose responsibility it is to

steward our economy are not themselves members of the middle class and generally move in different circles.

What is happening to the economy now as it shrinks at a seemingly unprecedented rate appears to be a titanic market correction, as the smoke and mirrors employed by companies to create the *appearance of value* where no real value existed. As the gross domestic product plunges and the Dow Industrial Average plummets, the final result is likely to be (among other things) that we will all finally find out what the U.S. economy is really worth.

And, in the midst of all that, companies behaving according to the old rules have managed to leech all the value out of the working lives of humans who are required to function according to these rules. Employment in corporate America has become a struggle for survival, working for companies that demand one leave one's humanity at the door when arriving for work, that try to control every aspect of the workers activities, that treat workers like replaceable parts in a giant machine, that destroy every possibility of finding joy in work.

Humans are sentient creatures. They need to feel that their life's principle employment has meaning, that it justifies their existence. Humans are social animals, with needs beyond that of the trained canines once used to turn a roasting haunch over a spit. And then, there are those material needs of humans, which the economy in which they function are supposed to meet. Under the old rules, companies did a poor job with all of that, so that even the value of employment was lost.

That is the final rule of the old economy: **lack of value**. Companies operating according to these rules do not add value to anything: not to their employees' lives, not to their customers, not to the overall economy. Much of the degree to which it has appeared over the last quarter century as if they did was a function of measuring incomes rather than outcomes, combined with a certain

amount of fiscal sleight of hand.

What, then, seems to be the result of allowing our economy to function according to these rules?

1. Chronic exploitation has led to a **crisis of depletion**.
2. Economic dictatorship has led to a **crisis of rigidity**.
3. Unending hostility has led to a **crisis of conflict**.
4. Devotion to dominance has led to a **crisis of creativity**.
5. The failure of value has led to a **crisis of meaninglessness**.

While this may sound quite dismal, a groundswell of change has been afoot for the last fifteen years that had laid the groundwork for a new set of rules, one that is much more responsive to the realities of the 21<sup>st</sup> century.

That change has been driven by the technology that has empowered consumers, most of whom also happen to be employees, to speak and make themselves heard before a global audience. Perhaps much more to the point, that same technology has enabled people to speak directly to companies and to report to the rest of us whether and how those companies respond. Neither consumers nor employees are passive receptacles of corporate machinations anymore and, in this new century, it appears that the companies that can best adapt to their own loss of control will be those best suited to survive the current, titanic shift in the bedrock fundamentals of the economy.

But, while the companies that have dominated the 20<sup>th</sup> century economy scramble to figure out the 21<sup>st</sup> century one, and turn to Washington to beg for sustenance while they do, a vast and largely silent sea of other companies have emerged to write the new business rules of the new century. And, as we watch the old economy disintegrate much more rapidly than anyone could have foreseen, it is difficult to say whether it is more ironic or pathetic that very few of the

economic experts know that they are there or fully comprehend the significance of how they are changing the economic landscape.

# The Evolution of the Modern Microbusiness

MICROBUSINESSES ARE GENERALLY DEFINED as firms with fewer than five or ten employees. That sort of quantitative definition is useful in the context of getting basic information about them, such as their numbers, their industry sector distribution, their owner demographics, their annual receipts and their overall contribution to gross domestic product (GDP).

However, that definition does little to explain why it makes sense to view microbusinesses as a separate category of small businesses. Thus, in *The Entrepreneurial Economy*, I proposed an alternative, qualitative definition of a microbusiness:

*A microbusiness is a small business in which no one employee performs a single function or task for the business, and all employees (including the business owner) have functional responsibilities in multiple areas of administration, production and management for the business.<sup>3</sup>*

This definition is useful in that it creates a set of parameters around which to view the operations of microbusinesses and to see, from a practical point of view, just how they differ from other firm size classes.

There have always been microbusinesses, of course. But the business form known as the microbusiness has evolved in significant ways over the past ten to fifteen years, assisted by technological advances, to events, and to changes in the consumer landscape.

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<sup>3</sup> “The Entrepreneurial Economy,” 2004.

As was discussed in *The Entrepreneurial Economy*, microbusinesses are defined less by their size than by the way in which their size dictates how they operate. Microbusiness owners have developed alternative business models that allow them to operate in their chosen industry sector *in spite of* their size. They are notoriously fast, frugal and flexible, usually willing to experiment and operated by people who are almost always determined to enjoy what they do.

While it is true that the size of a microbusiness is the deciding factor in the difference between the way they and larger firms operate as businesses, it is also true that *being* a microbusiness is, to a very large extent, a matter of the choices made by microbusiness owners.

They are not *forced* to run microbusinesses. There are all sorts of public and private sector service providers available to help microbusiness owners pursue more traditional small business growth trajectories, if that is what they want to do.

For that matter, they need not operate their own business at all. A microbusiness owner who feels that his venture is a failure because it has never grown beyond micro size does have the option of closing his or her firm and accepting a position in a more traditional work environment. Except in a particularly dire economic climate, they can usually find work of some sort and, in fact, doing so would often entail working fewer hours for better financial rewards.

From these observations, it seems reasonable to deduce that, for the most part, microbusiness owners run microbusinesses because they want to run microbusinesses. The microbusiness choice has to do with the goals and motives of the microbusiness owner, among which making money may number but would

not necessarily be the top priority.<sup>4</sup> And it is, in part, because money is not necessarily the only reason for running a microbusiness that their owners have evolved a distinctly different way of doing business than that of other firm size classes.

That evolution began shortly after the turn of the century, as microbusiness owners came to realize that it was no longer necessary for them to pretend their firms were large in order to be taken seriously. Similarly, home-based businesses were no longer required to hide the fact of their business location, as favorable media coverage and government attention made home-based business ownership generally more mainstream and, thus, more acceptable.

At the same time, the number of microbusinesses that launched and then chose not to grow beyond micro size began to gain remarkable momentum, such that the percentage of non-micro small businesses (firms with more than five but fewer than 500 employees) in the population of U.S. firms began to shrink. The primary reason why so many new microbusinesses were appearing on the scene was that they were inexpensive to start, inexpensive to operate, and their owners were adept at finding products and services to offer that could be crafted from practically nothing.

Thanks to telecommunications technology, microbusiness owners could locate products that were practically worthless in their local markets but that could be sold elsewhere around the world at reasonable prices to customers without access to those goods who were very happy to be able to buy them. They learned to remove certain skilled positions from the corporate hierarchy, repackage them, and re-present them to those same companies while charging fees that were more commensurate with the true value of the services they

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<sup>4</sup> Baker, Dawn Rivers, “The Microbusiness Way of Growth: How microbusinesses substitute operational efficiency for scale and sacrifice organizational growth for revenue growth,” *The MicroEnterprise Journal* (a media property of Wahmpreneur Publishing, Inc.), 2005.

provided. They learned early to take what they know, or know how to do, and package that information in low-cost digital form so that it was available not only to those who could afford high-priced consultants but also to their socio-economic peers.

Microbusiness owners believe it is important to be of use to their customers, to their employees, to their communities, to their country. They want to help people. They want to matter. And they want everyone they come into contact with — employees, colleagues and peers, and customers — to know that *they* matter. So, the common mantra for these microbusinesses is, “How can I help you to be fantastic? How can I help you to make your life easier? What can I do to give you back some of your time or money?”

Microbusiness owners also tend to care about their impact — on their environment, on their local economy, on their community, on the planet. They want to do meaningful work and they want to offer their employees that same opportunity. Many microbusiness owners are corporate refugees who deliberately work to make the experience of their employees the antithesis of the “cog in the machine” sensibility that often afflicts larger firms.

So, the first new rule developed by microbusinesses was **adding value**. Microbusinesses create worth and wealth of a sort that is not routinely measured by official statisticians because they work to improve outcomes for their customers while providing meaningful work for themselves and their employees.

Microbusiness owners are generally not interested in operating large organizations or in growth beyond a certain point. Microbusinesses are operated by people of modest ambition, the majority of whom want only to earn enough money to support themselves and their families in comfort. They might best be understood primarily as artisans rather than bureaucrats, and so they prefer to produce goods or provide services rather than assume the endless series of

administrative tasks known as running a business.<sup>5</sup>

Because of that, and because their tiny firms are generally very inexpensive to operate, microbusiness owners don't need massive customer bases in order to be profitable. They can afford to share their markets instead of seeking to corner them or dominate them. Microbusinesses enter mature markets in search of niches that are either chronically underserved or chronically marginalized by the mainstream or dominant industry players as being too small a market segment to be profitable. They also find markets were previously none appeared to exist. While much has been made of Chris Anderson's theory of The Long Tail, and particularly of the potential profits to be made by Long Tail aggregators such as Amazon.com (publishing), Google (advertising) or Rhapsody (entertainment), little attention has been paid to the Long Tail suppliers: microbusinesses.

As a result, microbusinesses have eschewed the old rule of market domination and replaced it with a new rule of **creativity**. Knowing that they cannot compete with large companies on their own terms, microbusiness owners will not try to make as many widgets as inexpensively as possible, to sell to everybody who might want a widget. Rather, they will find that set of customers for whom the existing widgets don't meet their needs and develop products to serve *them*, with no desire to knock the dominant widget-maker off its throne.

Since they have little interest in empire building or world domination, microbusiness owners rarely, if ever, engage in the sort of hostile or anti-competitive behavior against other firms in their market space than is considered the norm under the old rules of the business world. Often, microbusiness owners seek to be the best at whatever they do, more as a matter of personal and professional pride, and they don't shy away from the inevitable competition with other providers serving their market. They constantly strive to improve their products and services, investing in whatever they believe will enhance their

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<sup>5</sup> "The Microbusiness Way of Growth," 2005.

ability to be just what their customers need.

Even then, microbusiness owners don't seem to be comfortable with the hostility with which larger firms direct their operations. Communities of microbusiness owners tend to be friendly places where people make connections, with minimal "I'm the best" chest-thumping, and with quite a lot of sharing of resources and advice and encouragement. Rather than trying to rob business from the firms that might be considered "the competition," microbusiness owners are more likely to subcontract or make referrals to those so-called competitors when demand for their products or services puts them at or over capacity.

Clearly, then, another of the old business rules, hostility, has been replaced in the microbusiness world by a new rule: **community**.

Another area in which microbusiness owners were soon forced to develop their own distinctive style was marketing and advertising. Without the resources to match the marketing budgets of larger firms (and often without funds to spare for a marketing budget at all), microbusinesses could not have imitated the dictatorial style of large firms in search of a passive audience, even if they had wanted to.

And, fairly often, they did not want to. In fact, many microbusiness owners appear to have trouble with traditional marketing. They dislike it because they have never liked what they have seen as the rampant dishonesty that afflicts many of the marketing techniques employed by larger firms. Yet they knew that marketing was an important function of customer acquisition. So, they developed relationship-based marketing techniques that felt more genuine to them, required the investment of time and effort but very little money, and has proved to work well for them.

Microbusiness owners began to find ways to use their size as a

competitive advantage. Being as small as they are, for example, allowed microbusinesses to develop a customer service style based on that smallness, in which customers frequently interact with an approachable, accessible business *owner* who gives them the sort of personalized service that larger firms simply cannot imitate in a cost-effective fashion.

The more successful microbusiness owners also made extensive use of technology to tear down geographic barriers and develop networks of colleagues around the country and, in many cases, around the world. They focus on building relationships and on having public conversations via social networking platforms and web logs and other forms of interactive technology. As a result of the relationships they build with customers, they tend to be more respectful and less intrusive than traditional “push” marketing and, for many (perhaps most) microbusinesses, these techniques work for them.

Another of the new rules, then, has replaced dictatorship with **democracy**. Regardless of what industry sector they occupy, microbusiness owners tend to have a service mentality. They prefer to interact directly within the various communities they inhabit and pride themselves on being ‘real people.’ Critically, they actively solicit customer feedback and input, with no thought of control, and they are not so wedded to any product or service as to make them unwilling to tweak it if that means they can better serve their market.

All of these circumstances — the combination of goals and motives with the contingencies of being very small in an economy in which business operations are based on the presumption of a certain kind of growth — have also caused microbusiness owners to develop a different view of doing business to compliment their different way of doing business.

Because their firms tend to be intensely personal to them, their business dealings will tend to be colored at every level by their own personal morals and

ethics, which are rarely subordinated to the goal of simply making money. And, since they generally are low on megalomania, they have management perspectives that are not infested with the old European imperialism that is still found in larger firms.

So, microbusiness owners often make business decisions based in part on the things that are important to them. Those things include keeping jobs in this country instead of shipping them overseas, reducing energy consumption, recycling and otherwise reducing their carbon footprint, making use of renewable energy alternatives where they are available and affordable, contributing to charitable causes and participating in their communities through their firms. Many of them are uncomfortable hiring workers if they cannot pay them a living wage and/or provide reasonable benefits; most microbusiness employers feel profoundly and personally responsible for their workers.

In short, microbusiness owners do not exploit; they have replaced the old rule with a new business rule of forward-looking **frugality**. People who operate microbusinesses do not behave as if they believe that running a business gives them an unlimited right to pillage or plunder each other, their employees, their customers, their fellow taxpayers or their planet.

When you put all that together, the difference between the old way of doing business and the new way of microbusinesses becomes stark. Up until now, companies were operated to **exploit** resources, **dictate** to passive workers and customers, with the presumption of **hostility** (actual or potential) on the part of other companies because all of them sought to **dominate** their markets without actually being required to make investments in products or services, which eventually caused those products and services to suffer a **lack of value**.

On the other hand, microbusinesses are operated to be **frugal** with resources, to interact with empowered consumers and employees in an economic

**democracy**, to seek customers by establishing relationships through **community** (real or virtual) and by using their **creativity** to develop products and services for the unserved and underserved, products and services that **add value** to the lives of their customers and **add meaning** to their work and the work of their employees.

In fact, microbusiness owners operate businesses that adhere to our definition of an economy. They have developed business models through which they carefully, thriftily manage their limited resources, in materials, money and people, in order to meet the material needs of themselves, their customers and their employees.

Interestingly, all of these characteristics, these alternative rules for doing business, have earned microbusinesses the contempt of policy makers, small business lobbyists, economists, and the media. (That is particularly true of their characteristic perceived lack of ambition.) They are routinely scorned, sneered at as “lifestyle businesses,” dismissed as hobbies, ignored as unimportant microeconomic phenomena. They have few advocates.

And yet, the new rules and new business models that have been developed by microbusiness owners may hold the key to a new kind of economy, one that is sorely needed to replace the shambles of the old, obsolete industrial economy with its old, obsolete, imperialistic rules. Because, even as policy makers struggle with the detritus of the 20<sup>th</sup> century economy, they have evidently failed to realize that the nation’s microbusinesses have already created the rules and the institutional structures of the 21<sup>st</sup> century economy.

## Conclusion

THE EVOLUTION OF THE 21<sup>ST</sup> CENTURY ECONOMY actually began approximately half way through the final decade of the 20<sup>th</sup> century, when microbusinesses began to grow substantially in number and to evolve a new business paradigm that lets them reach *their* goals rather than the goals set for them by the stewards of an earlier economic era.

Many of the old economic masters (economists and policy makers) remain unconscious of the new rules and unfamiliar with the mores of the new economic landscape. They persist in believing that microbusiness owners are simply “doing it wrong” and are thus doomed to business failure — which they define as a lack of growth.

Meanwhile, there have been a few companies that started life as microbusinesses but have grown into entities that look more like “real” businesses to those old masters. In fact, firms like Google and Threadless straddle the two worlds, behaving like the big bad companies of old to the extent they need to in order to function during these transitional times and behaving like microbusinesses (operating according to the new rules) in ways that matter to their company mission and vision whenever they can.

Unfortunately, the fact that these new economy firms sometimes grow into something that looks like old economy firms to the old masters only serves to convince them that nothing has changed and that nothing is changing.

From a public policy standpoint, then, the question is not what the government can or should do to move the U.S. economy forward into this century. That transition is already underway and will only gain momentum, with or without the cooperation of, or assistance from, Capitol Hill. The snowball is already on its way down the slope.

The real question is how much more difficult will this rather violent transition become, thanks to the way Capitol Hill is spending hundreds of billions of dollars trying to sustain a dying system, in complete ignorance about the new one that has already arisen to replace it.

The transition will be painful, regardless of how it proceeds from here. How painful it will be will depend on the degree to which policy makers remain determined to stand between the meteor and the dinosaurs, and the degree to which they force the rest of us to stand there with them.

## About the Author

What if you heard of a woman who grew up in a public housing project in Philadelphia, surrounded by teen mothers and gang violence, herself the product of a single-parent family dependent on welfare?

What if you heard about another woman, who enjoyed all the privileges of an exclusive finishing school followed by an Ivy League university and an exciting career, first in law and then in journalism?

What if I told you that both of those women are **Dawn Rivers Baker**?



One of the nation's most prominent of only a handful of experts on microbusinesses, Dawn Rivers Baker has been researching, writing and thinking microbusiness for over a decade. Her activities on behalf of these very small businesses range from offering input on federal legislation to addressing audiences around the globe to serving as the nation's only microbusiness journalist.

Dawn Rivers Baker is the President and CEO of Wahmpreneur Publishing, Inc. ([www.wahmpreneur.com](http://www.wahmpreneur.com)), and the editor and publisher of *The MicroEnterprise Journal* ([www.microenterprisejournal.com](http://www.microenterprisejournal.com)).

Ms. Baker is a member of the Online New Association and a National Partner of Women Impacting Public Policy, where she serves on its Executive Advisory Board. In 2003, the Syracuse New York District of the U.S. Small Business Administration named Ms. Baker as Small Business Journalist of the Year, and she has been selected for annual inclusion in Marquis' *Who's Who in America*<sup>®</sup> and *Who's Who Among American Women*<sup>®</sup>.

Ms. Baker is also often sought by fellow journalists for her expertise on microbusinesses. She is the exclusive news provider for BusinessOwnersIdeaCafe.com and a regular contributor to the OPEN Forum (American Express) web blog and the Other Voices: On Small Business (US News & World Report) web blog.

Ms. Baker has been a featured guest on Internet radio and podcast shows including Jim Blasingame's *Small Business Advocate* and *Small Business Trends Radio* with Anita Campbell. She has also been quoted in articles for such publications as *US News & World Report*, *Information Week*, *CBS Marketwatch*.

Ms. Baker is intimately acquainted with both the heights and the depths of human endeavor as a result of a life that has spanned almost every socio-economic lifestyle available in this varied country. She rose out of poverty through education, earning an ABC (A Better Chance) scholarship that sent her to Foxcroft School in Middleburg, Virginia. From there, she attended Princeton and Columbia Universities and went on to work in legal administration for The Atlantic Recording Corporation and for premier Manhattan-based law firm Rosenman & Colin.

In addition to her work as a journalist, Ms. Baker is the author of several books and papers, including *E-Commerce For The Unfunded* (2001), "The Entrepreneurial Economy" (2004), and the epic fantasy novel *The Rise of The Phoenix* (2002).

With a widely varied background that allows her to view the microenterprise phenomenon in the United States from many different perspectives, she brings insight and dedication to her reporting for microbusinesses all across America.