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CHAPTER 12

The development of leaders and managers in small and medium-sized enterprises

CHAPTER OUTLINE

Introduction
 What are SMEs?
 The nature of learning in SMEs
 Performance and LMD provision in SMEs
 Providing LMD in an SME context
 Summary

LEARNING OUTCOMES

After studying this chapter, you should be able to understand, explain, analyse and evaluate:

- the ways in which small and medium-sized enterprises (SMEs) are different from their large firm counterparts
- the implications these differences have on the development of managers in SMEs, and the way in which size affects the leadership process
- the nature of learning in SMEs
- the implications of performance measurement on small firms
- key issues and approaches to LMD in SMEs

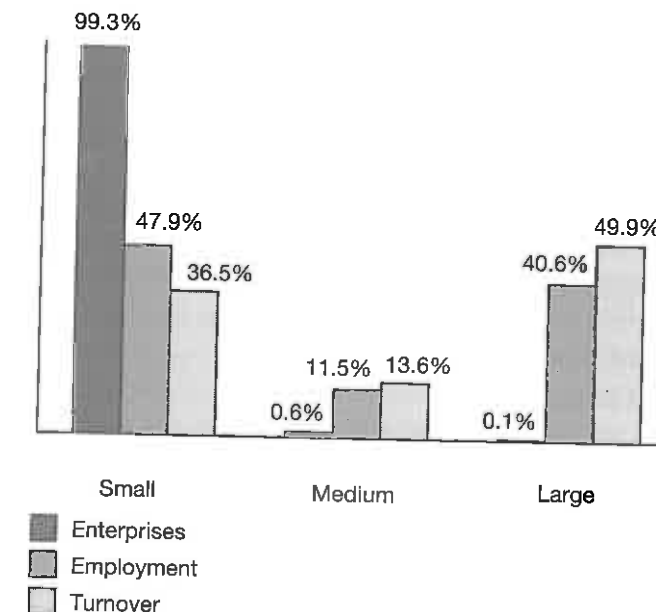
INTRODUCTION

For many years the number of small and medium-sized enterprises (SMEs) in Britain has been relatively low in comparison to other European countries and the United States. As a consequence, recognising their value to the economy and the way they can serve to reduce unemployment and create wealth, politicians of

all persuasions have made attempts to support the development of this important sector of the economy. But this level of support has not always been present. It was not until the Bolton Report (1971) that the contribution of SMEs, especially smaller firms, to the economy and employment of the country was recognised. Prior to this, SMEs were considered extremely marginal to the economy, as, in a sociological context, were the individual owners and managers who ran them (Stanworth and Curran 1973). Following the changes to the structure of the economy that have taken place in recent years, these views have now changed and SMEs are now regarded as playing an important role in, for example, contributing to the gross national product through new business starts and small business growth, providing one of the solutions to unemployment, and through entrepreneurial development creating new products and services. For many there is a view that it is from such tiny acorns that large oak trees grow.

According to the most recent statistics (BERR 2008), there were in the UK an estimated 4.8 million private sector enterprises, with SMEs accounting for 99.9% of all enterprises, 59.4% of private sector employment and 50.1% of private sector turnover. Thus employment in SMEs was estimated at 13.7 million. However, we should note that these figures refer to the start of 2008, well before the onset of recession later that year. Figure 12.1 shows the share of enterprises, employment and turnover by size of enterprise at the start of 2008.

Figure 12.1 Share of enterprises, employment and turnover by size of enterprise



Source: Department of Business Enterprise and Regulatory Reform (BERR 2008)

WHAT ARE SMEs?

One of the issues that bedevils any discussion on SMEs is how they might be defined. There are even whole books related to the difficulties of measurement



WEB LINK

Statistics relating to SMEs are published every year but always lag behind the current time period. Check the latest figures at <http://stats.berr.gov.uk/ed/sme/>.

(Hertz 1986)! More formally in the UK, sections 247 and 249 of the Companies Act 1985 define an SME for the purpose of accounting requirements. These sections have been amended a number of times, most recently by Statutory Instrument 2004/16. According to this, a 'small' company is one that has a turnover of not more than £5.6 million, a balance sheet total of not more than £2.8 million, and not more than 50 employees. A 'medium-sized' company has a turnover of not more than £22.8 million, a balance sheet total of not more than £11.4 million, and not more than 250 employees. A further distinction is often made for organisations with fewer than 10 employees, which are referred to as 'micro-businesses'. There are, of course, many micro-businesses and they account for around 30% of all private sector employment (BERR 2008).¹

However, it is generally recognised that SMEs are not a homogeneous entity and cannot be compared in any straightforward manner. There will always be differences relating to turnover, sector, size, market structure, and so on that make a single-criterion definition difficult. Although there are a number of commonly used definitions – for example, firms with 249 employees or fewer – this does little to take into account how capital-intensive the business is, such that a high-technology firm employing 200 people could represent a very large company indeed. That might also be true for professional service organisations, such as firms of solicitors. It is for this reason that we prefer to use a more qualitative definition in relation to size which highlights the nature of what it means to be small or medium-sized, and one which genuinely distinguishes small firms from their large firm counterparts. This approach was first suggested by Ganguly and Bannock (1985) and serves to encapsulate three aspects of business life which all SMEs share. These are:

- a relatively small share of the market
- a personalised management style
- independence that gives them a certain level of freedom when making major decisions.

The characteristics relating to an SME's market share means that it normally cannot calculate its market share, nor has it any real need to. Instead, it carves out a proportion of the market sufficient for it to prosper. As a consequence, the impact it makes on the environment is usually relatively small. In respect of the personalised style of the management, this is significant – and the main focus of this chapter. Because the manager or owner is usually active in all the major discussions and activities in the business, there is often very little delegated authority and control, and the strategy and the planning rests firmly with the owner. Independence usually means that the owner controls the business himself

or herself, being relatively autonomous in the decision-making. Taken together, then, the way in which we might define an SME – particularly the smaller organisation – is to invoke the notion of a *lonely decision-taker*. This means that a small business is small if the owner-manager or entrepreneur feels isolated and lonely.

Gibb (1983) has operationalised a number of these aspects in a paper that compares and contrasts the impact that size has on a range of variables within the firm. For example, he contrasts the effects of size on such things as whether the firm has any formal management systems, or the extent to which it is able to obtain capital, or the way that managers can influence how tasks are performed.

DIFFERENCES BETWEEN OWNER-MANAGERS AND ENTREPRENEURS

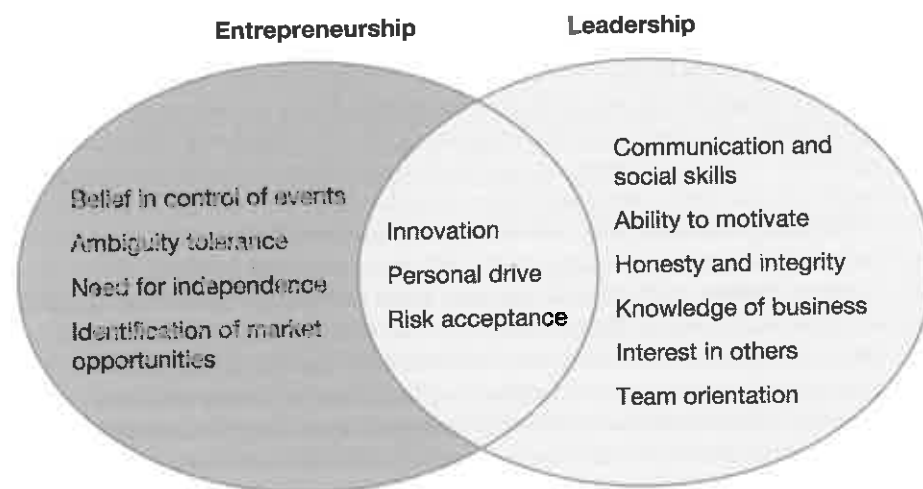
In most media presentations, the terms 'owner-manager', 'small businessman/woman' and 'entrepreneur' are used interchangeably. However, although there is an overlap between entrepreneurial firms and SMEs (Cartland *et al* 1984), owner-managers may well be entrepreneurs and vice versa. What we feel it is important to recognise is that these two phases have embedded in them decidedly different ways of working, and these ways of working will have implications for the methods of development and support that will be appropriate in terms of development. Failure to distinguish between these two groups could lead to much wasted effort and resource. Entrepreneurship has strong positive connotations of a person who takes risks, recognises opportunities and brings together either factors of production or individuals, or both, into new arrangements (Schumpeter 1934). Cartland *et al* (1984) indicate that an implicit assumption is often made that entrepreneurs make a disproportionate contribution to the wealth of a nation yet in development terms we have perhaps been slow to isolate these development needs. Cartland *et al* (1984) have devised a helpful framework for thinking about entrepreneurial activity related to both individuals and firms, and offer the following four basic classifications:

- *small business venture* – any business that is independently owned and operated, not dominant in the field and engaging in new, innovative practices
- *entrepreneurial ventures* – ventures engaging in one or other of Schumpeter's categories of entrepreneurship, where a principal goal of the business is profitability and growth, and where innovation is a component
- *small business owner* – an individual who creates and manages a business and sees the firm as an extension of himself or herself, and is intrinsically bound up in his/her own identity, motivations and ambitions
- *entrepreneur* – an individual who establishes and manages a business for the purpose of profitability and growth. The entrepreneur is characterised by innovative behaviour, and the policies and strategies employed are all with the aim of growth.

MANAGEMENT, LEADERSHIP AND ENTREPRENEURSHIP

We recognise that organisations need management, leadership and entrepreneurial behaviour if they are to succeed, and in many ways the distinctions we make between them are more academic than real. In reality, the roles typically act simultaneously, suggesting the need for a combination of development interventions. The overlap of skills and competences between entrepreneurship and leadership, for example, was a clear finding of the UK Government's Council for Excellence in Management and Leadership (Perren and Burgoyne 2002), as illustrated in Figure 12.2.

Figure 12.2 The overlap between entrepreneurship and leadership



Source: Perren and Burgoyne (2002)

Entrepreneurship draws from management and leadership orientations and extends behaviour towards innovation, networking, visionary commitment and risk management. So, rather than seeing entrepreneurial behaviour or leadership as inherited traits gifted to a few, we argue here for the adoption of a dynamic learning perspective that can be developed and supported over a lifetime as well as in different contexts. By adopting such a perspective, learning and how it takes place become critical to entrepreneurial effectiveness. Such a dynamic view also means that less importance will be afforded to the pursuit of single personality traits, with the focus turning instead to understanding entrepreneurial processes, structures and those contexts where the attitudes we define as leadership and entrepreneurship can be developed and thrive.

THE NATURE OF LEARNING IN SMES

Another aspect of SMEs that is different from their large firm counterparts is the way that the business is closely related to the manager or owner, and very often family-based. This tends to mean that owner-managers run the business day to

12.1 REFLECT – CONCLUDE – PLAN

Do you have any ideas for innovation in any aspect of work?

Will you keep this idea to yourself or share it with someone else?

Do you accept the risk of taking this idea to a next stage?

day in addition to having overall management responsibility (Johnson 1999). Thus, for example, the 'task structure' is likely to be a highly personalised one, as opposed to one that is more objective and rationally prescribed (Gibb and Dyson 1982). This feature of the relationship between the owner and the firm means that if you develop the individual, you have a far greater chance of developing the firm as a consequence.

What becomes important then is to understand the nature of learning within SMEs as well as to understand that the development of SMEs is in many ways synonymous with the development of their owners or managers. That is, it is through the development of the owner that the business as a whole can be developed. However, it is often the case that the managers of SMEs are those least enthusiastic about formal training, which reinforces an absence of a formal HRD culture (Fuller-Love 2006). This is borne out by the proportion of managers who receive training or undertake formal HRD initiatives. Matlay (2004), for example, has shown that formal initiatives such as Investors in People, vocational qualifications and programmes brokered by support agencies such as Business Links only attract marginal interest from SMEs. This is the case even where SME managers are aware of initiatives and understand them. For some time it has been recognised, therefore, that it is doubtful that HRD activity, in a formal sense, could provide a measurable payback (Gibb 1997).

One of the reasons for this is that SME managers are often short of time and necessarily focused on day-to-day problems. Another is that they don't see the relevance of development, and when they can, they find taking time off work difficult and expensive (Ram 2000). This phenomenon was one identified by the Bolton Report as long ago as in 1971, but it was not until the work of academics such as Gibb (1983, 2009) and the emergence of a more considered understanding of SMEs and how they operated that steps were taken to intervene more effectively. Gibb's work showed how an understanding of the nature of small firms and the attitudes and orientations of their managers, how they acquired knowledge and managed, meant that better, more considered pathways of support could be designed. Before that time interventions all too often emphasised recipes for business improvement available to all, rather than to those businesses with the potential to develop – for example, not distinguishing between entrepreneurial firms that wished to grow and more mature businesses in a steady state that did not.

We have already considered the difference between a small business and an entrepreneurial venture, and an owner-manager and an entrepreneur, and we

have suggested that aspects of both are important at different times in the context of SME development. We have also seen that when it comes to understanding SMEs a continuing issue is that they are often referenced against the business practices of larger organisations and that this is not always helpful. What we have come to understand is the way SME managers need to pay attention to both the day-to-day details as well as the longer-term ongoing aspects of governance. So it matters little whether we call what they do 'management' or 'leadership' development. Instead, what is important is how the learning relates to how managers experience and undertake their work (Gold and Thorpe 2008).

There are clearly managers who want to grow their business in markets that are able to sustain growth, but who soon become overwhelmed by the day-to-day issues faced. We also know that there are others with little interest in growth *per se* (although they still might need support). These are businesses that we might characterise as mature – the ones that wish to retain their independence and survive, but for whom major change is either difficult or unattractive. For many SME managers there is a paucity of time for them to stand back and reflect – yet often this is exactly what they need to do if they are to take stock and develop. This often means that most learning in SMEs takes place at work, outside formal educational settings such as universities and colleges, and although in recent years there has been a growth in the number of programmes for 'entrepreneurs', there is still very little support available for the vast numbers of managers in small businesses. Their learning preference appears to be to develop by actively working through problems, and talking to customers, staff and other SME managers they meet during the course of their day. What we know by studying managers is that everyday occurrences offer significant learning opportunities. Moreover, the learning occurs naturally because it is already part of their work, and often goes unrecognised when researching where managers learn their craft from. This everyday phenomenon of learning is learning, nevertheless (Billett 2000). Again there is nothing new in highlighting this: recognising the value of this kind of 'informal learning', Alan Gibb (1997, 2009) and his team at Durham University championed a variety of learner-centred, problem-centred approaches in the 1980s and 1990s. However, in broad terms managers in SMEs learn by doing, exploring, experimenting, copying and problem-solving, through opportunities taken and lessons from mistakes made (Gibb 1997; Beaver *et al* 1998; Dalley and Hamilton 2000).

LEARNING THEORY IN RELATION TO SMALL FIRMS

Gold and Thorpe (2010) have summarised the relationship between learning, training and organisational performance in a small firm. Picking up the themes we have developed in earlier chapters, they outline previous research that shows how significant learning by managers derives in ways other than formal courses (Pavlica *et al* 1998), and the way natural learning (Burgoyne and Hodgson 1983) occurs in relation to 'significant' events that take place at work. The literature on SME learning also recognises that if the learning that takes place through these naturally occurring processes can be captured, then learning can be enhanced and speeded up – a finding that has led management developers to consider what

mechanisms might be designed that can effectively intervene and facilitate this learning (Cohen and Sproull 1996).

These considerations would suggest that the most appropriate learning theories for SMEs that we considered in Chapter 5 would be Lave and Wenger's (1991) situated learning theory and Vygotsky's (1978) socio-cultural theory – the first because of the attention given to the idea of learning within a community of practice, where learning and practice are intimately connected to the working of relationships in the situation of practice. Thus learning usually occurs in the face of a problem that occurs within the practice of work. Vygotsky's theory is also concerned with practice and the achievement of goals, mediated by tools that both enable and potentially constrain the achievement of goals. Learning involves a disturbance to the use of existing tools through the introduction of new tools. Writers focusing specifically on learning within SMEs such as Rae (2004) and Down (2006) have pointed to the importance that needs to be placed on developing tools to help managers think and reflect, often critically, about such things as their identity as managers and how to exploit their social networks and working relationships within their organisations (Devins and Gold 2002). Again, Gibb (1997) had earlier pointed out the necessity of drawing on the help of others in SME learning, including family and friends, and professional help such as bankers, solicitors and accountants. These form what has been called the 'network-interdependency' of an SME.

Gold and Thorpe (2010) also point to the historical preoccupation of much of the academic research on individuals within the firm as opposed to understanding the social contexts in which learning takes place and is embedded. This extension of the focus of where and how learning occurs has led writers (Jones *et al* 2010; Jones and Macpherson 2006) to consider how knowledge is gained via an individual's human and social capital, and the role that learning networks play in the development of useful knowledge that will help the owner-manager overcome problems and difficulties at work (Cope 2005; Tell 2000). The focus on issues such as these makes the link between learning and leadership but a short step. Jones *et al* (2010), for example, note that for SMEs to be successful there is a need for them to recognise the value of quite different kinds of capital such as the financial, human and social dimensions which also include the quality of an SME's leadership. It is leadership that is one of the least understood. And so to the importance that must be placed on development practices that deal effectively with the manager in the context of the firm. Such practices must help or facilitate managers to make sense of problems that are often complex and roughly defined (Gold *et al* 2010) and enable them to think outside their current context (Cunliffe 2002). Anderson (2007) suggests that they also need to be able to reflect, often critically, on the actions and decisions they have taken. A variety of learning environments where this activity can take place have been proposed by Anderson and Gold (2009) and Clark *et al* (2006) and include, for example, Action Learning methods, by which individuals come together to challenge their practice and take action but work on problems that concern them and that if not resolved will affect the development of their organisations. Such approaches also embrace the social dimensions of learning and help owner-managers to learn from the social influence of others.

If most learning in an SME is informal, what does this suggest about more obvious forms of learning such as formal programmes, seminars and courses? Many SME managers are prepared to attend events such as these if they are attracted to them and if it serves their interests and desires. This would suggest a need for flexibility in approaches to learning for SMEs. Figure 12.3 shows the possibilities.

Figure 12.3 Dimensions of learning in SMEs



Approaches to learning range from one extreme of highly informal to another extreme of highly formal. Between these poles is a raft of possible approaches. The preferred approach to learning will be affected by a number of factors which, according to Gold and Thorpe (2008), include:

- *place* – where the learning takes place
- *problem* – the time period over which the problem needs to be solved
- *sociality* – the social setting and who is involved
- *impact* – how quickly the results must be made manifest.

For example, where the preferred approach for development is mainly informal, it might suggest that coaching and mentoring would be more effective. This would allow situated work with SME managers, usually on a one-to-one basis, on issues of immediate concern which need a solution with immediate impact. Research evidence suggests if SME managers use external advice, it is valued because of the “soft” (relationship-building and marketing) benefits which help them cope with problems or improving the ability to manage (Ramsden and Bennett 2005, p.240). Approaches such as coaching and mentoring, working mostly informally, is what the Council for Excellence in Management and Leadership (CEML 2002) saw as joining managers ‘in their world’ by providing support that reflects their personal aspirations and ambitions and enables managers to take ownership of their own development.

12.2 REFLECT – CONCLUDE – PLAN

Do you think an MBA would be of value to an SME manager?

How could a formal off-the-job programme be of value to an SME manager?

Use the Internet to find out about MBA programmes for SME managers.

PERFORMANCE AND LMD PROVISION IN SMES

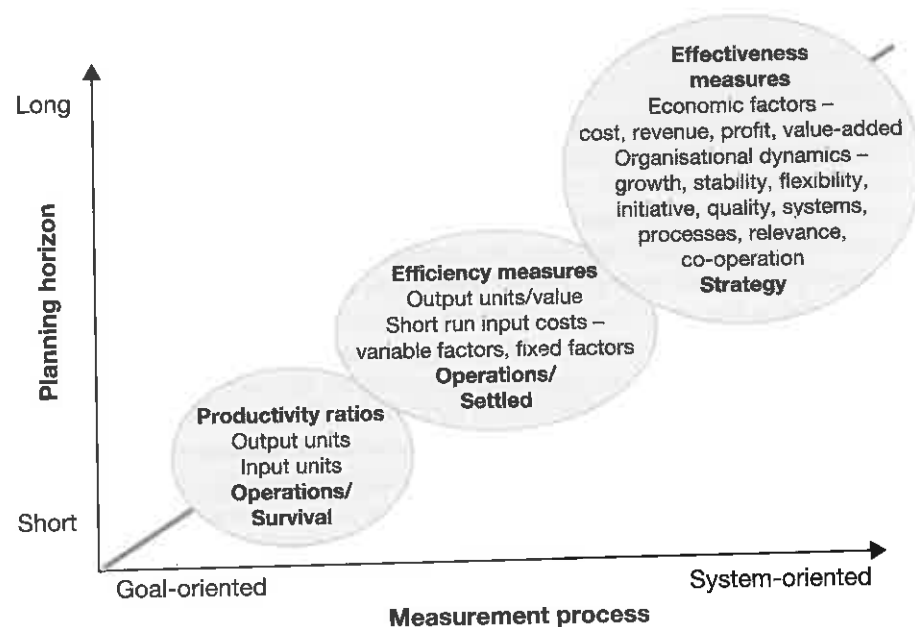
Growth in the SME sector is seen by many external agencies to equate to the growth of capital or the generation of employment. Such a view can be both inaccurate and misplaced. Many managers wish simply to consolidate their businesses, and rather than grow into large oak trees, want no more than to remain little bonsais and survive.

Understanding managers and SME owners from the way they construct their reality and adopting a problem-centred and learner-centred approach to their development requires that those undertaking the development also have an understanding of how those managing and leading in small firms view performance. Garengo *et al* (2005) have shown how difficult it is for SME managers to find time to participate in projects even when they are of immediate importance to their development. When they do take an interest, the projects on which they embark are often unfinished. Perhaps most important of all, they also found that the measures SME managers use are often very narrowly focused, with a preference for the use of financial data to the exclusion of some of the more qualitative matters equally important for organisational success – for example, securing a pool of new, young, talented employees who take the business forwards. Often the use of financial data serves to focus on past performance and activities as opposed to more strategic issues. As a consequence, many of the measures used are short term and reflect the pressures the managers face from day to day. What is often not appreciated by business development advisers is that for many SME managers, performance is an idiosyncratic concept (Thorpe 2006) that can only be properly understood through understanding the motivations and aspirations of the manager, and if the manager’s horizons are limited, so too will be the ambitions he or she has for the firm. For many the idea of standing back and thinking strategically about the business is anathema, and this in its turn dictates the performance measures used by SMEs – which often reinforces how managers think about their businesses, the opportunities that might be possible and the nature of any LMD undertaken. To collect a wider set of data requires managers to be able to stand back from the hurly-burly of the day-to-day and reflect. As argued by Thorpe *et al* (2008), they need to be able to create ‘space’ for themselves, so that they can think ahead and reflect on the context of the business and the opportunities that might exist for change. This shortage of time to undertake a proper analysis of performance usually means that even when more formal procedures are used, implementation tends to be incomplete. Thorpe *et al*’s (2008) study, conducted in the north-west of England, has been helpful in our understanding about how SME managers lead their firms through crisis and manage to adopt a more strategic orientation. The research highlighted how informal learning, past experiences, systems and engagement with others are central to this strategic learning process, but that actual practices between firms differ. In other words, the research suggested that it is not the adoption of ‘best practice’ that is key to a firm’s success, but rather that a firm’s actual learning and leadership activities are largely unique, and that where some firms are more successful than others, it is when they manage to create the resources, time and ‘strategic space’ (Jones *et al* 2007) to lift their attention towards a more

distant horizon. Effective managers in these organisations are able to stand back from day-to-day activities and consider long-term issues which impact on their businesses.

Figure 12.4 illustrates the way performance management thinking might move from something that is short term, partial and operational to something that is longer term, strategic and systems-based.

Figure 12.4 Performance management thinking in SMEs



The horizontal axis represents a range of approaches to the evolution of performance, from rather limited short-term goal-based approaches to those at the other end of the axis that increasingly take account of a range of variables and systems in operation within the firm. The vertical axis indicates the planning horizon associated with the use of the measures. Many SMEs depend on achieving a certain weekly turnover for their survival. These measures do give managers information that is key to their survival but they fail to take into account important qualitative considerations that point to a wider context. It is this context that might offer the manager insights into how and where the business might develop. Movement along the diagonal line involves moving from a short-term planning process towards a more long-term process and considering a more complex and system-oriented measurement process.

These insights from Figure 12.4 are important because they form part of the special and rather different context that makes SMEs small and influences the way in which LMD has to be introduced. For example, if survival is the current priority, managers will be concerned to meet short-term operational goals

12.3 REFLECT – CONCLUDE – PLAN

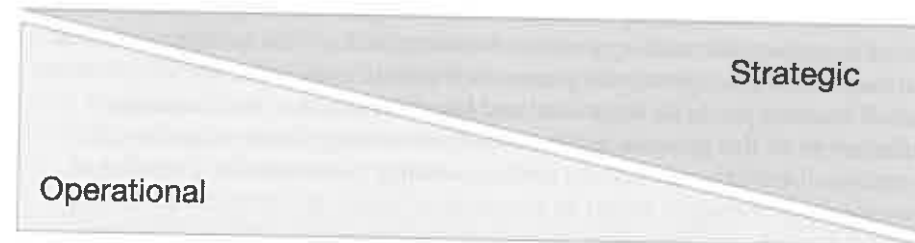
Does this figure explain why so many managers in SMEs fail to grow?

What do you think is needed to help an SME manager adopt a longer-term planning horizon?

What measurement tools could be used for an effectiveness approach?

against clear measures of the 'bottom line.' As a result, LMD needs to respond to the concerns of managers but also to seek to move towards measurements that allow a longer-term and more strategic view to be considered. The challenge is to demonstrate a connection between the immediate pressures faced by a manager while at the same time motivating them to explore new possibilities and discover how the business might develop in the future. These two possibilities can be presented as dimensions along a continuum of provision of LMD, shown in Figure 12.5.

Figure 12.5 A continuum of provision of LMD in SMEs



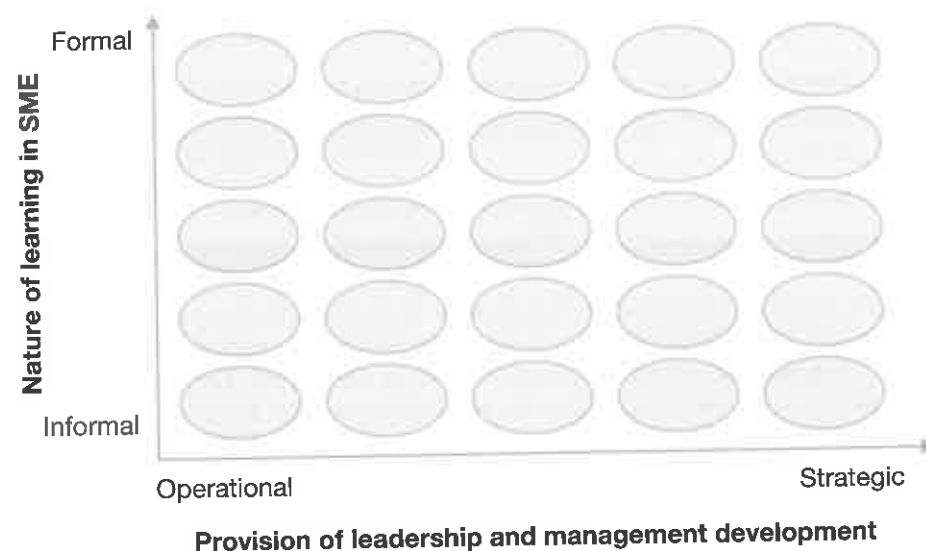
LMD provision can vary from highly operational to highly strategic. Gold and Thorpe (2008) suggest that the kinds of factors a provider will need to consider are:

- *time frame* – how long it will take for the intervention to impact on the manager and the organisation
- *horizon* – how the provision offered might broaden the thinking of the manager
- *measurement* – how performance will be measured
- *ownership* – who owns the problem
- *cost* – how the costs will be justified.

Combining the two dimensions from Figures 12.3 and 12.5 provides a grid showing possible approaches to learning and provision of LMD for SMEs. This is shown as Figure 12.6.

The grid suggests 25 possible combinations of learning and provision, or (following the CEML 2002) 25 SME 'worlds'. This is an over-simplification, since

Figure 12.6 Approaches to learning and provision of LMD for SMEs



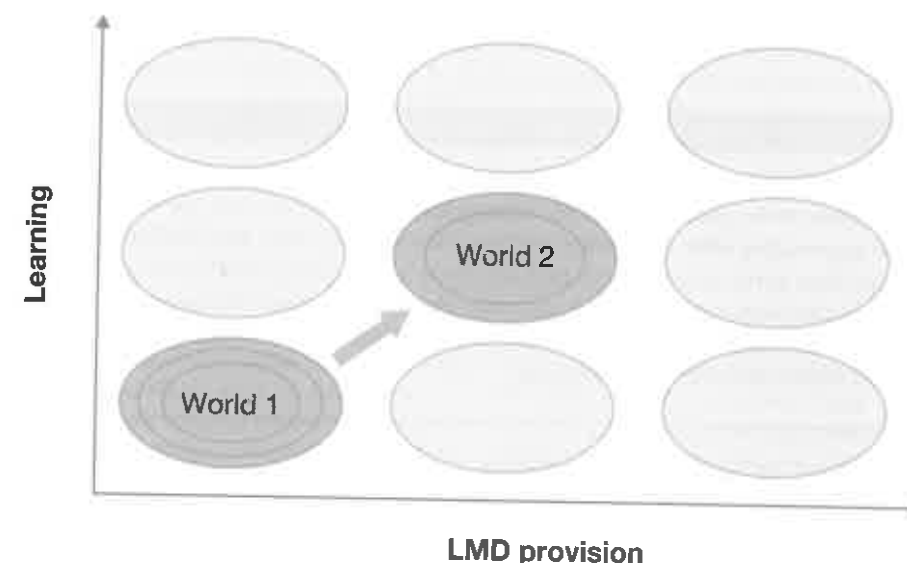
all SMEs can be considered unique in some way. However, it does provide some possible ways of considering LMD for SME managers. For example, the lower left corner is perhaps the starting position for many SMEs – this is highly informal learning and highly operational provision. Survival is the main way of operating, and all learning has to be situational and based on practice. Some managers can move from this position and become more strategic by moving along the operational/strategic axis but not perhaps seeking to increase the formality of learning. Such managers might be prepared to ‘boldly go’ forward, developing their businesses and themselves as ‘mature entrepreneurs’ without help from external agencies (Thorpe *et al* 2006).

We could contrast such a move with managers who might be prepared to learn from a training course in order to consider small improvements to make their organisations more efficient. However, as we have suggested, most SME managers become trapped in the lower left position on the grid, so the crucial decision is how to engage with them and move them from that position through LMD.

STRETCHING THE HORIZONS OF POSSIBILITIES FOR THE SME MANAGER

If each point in the grid shown in Figure 12.6 can be regarded as a ‘world’ of the SME, what is important in SME development practice is for those engaged in working with individuals within a firm to begin their development initiatives in the context of each person’s current capabilities, and having established what those capabilities are, to enlarge the person’s horizons, initially to the outer boundary of their current world (World 1) and then into a new position on the grid (World 2). This ‘stretch’ is illustrated in Figure 12.7.

Figure 12.7 Stretching SMEs



The idea here is that based on some ‘early successes’ within World 1, and importantly through the establishment of trust, the manager can be engaged in considering World 2. Once some ‘safe’ interventions have been successful in this domain and the opportunities that emanate from this new World have been established in the mind of the manager, new capabilities appropriate to the new circumstances and opportunities they find themselves in can be exploited through further development (Vygotsky 1978).

For any developer to consider such ideas, initially there has to be a process of engagement – and as we have seen, many SMEs do not undertake formal LMD. While the cost of training is one factor, others relate to the practicalities of the time many managers have available to engage in development activities of any kind. Devins and Gold (2000) have referred to these managers as the ‘hard to reach’ or the ‘tough nuts to crack’, where engagement is not easy and awareness of what training and development can offer is limited. Their work and the work of others suggest, however, that even the ‘hard to reach’ managers can be attracted to development, particularly through intermediaries and brokers (Thursfield *et al* 2004). For example, Gold and Thorpe (2008) report on the work of a group of brokers who they refer to as ‘door-knockers’. Such brokers were particularly adept at drawing ‘hard-to-reach’ SME managers into a conversation. Most striking was the skill at sustaining this conversation, sometimes over several weeks, before the relationship was established which allowed the broker to provide the possibility of support for the manager based on needs identified. Because managers were often suspicious of any approach from an outsider, the brokers had to work to reassure managers and remove the perception of threat to their businesses and the fear of being burdened with excessive paperwork (which often accompanies funding for support provided by the government). If these perceptions can be removed and a good relationship established with a manager, a broker may then be able to help

in the formulation of a plan for LMD, based on identified needs, and introduce recommended providers who could help the manager implement the plan.

PROVIDING LMD IN AN SME CONTEXT

The methods that appear relevant in meeting the requirements of SME managers would seem to be coaching and mentoring and other one-to-one methods. These approaches offer significant potential for working with the SME managers because they serve to help them find solutions to the immediate problems they face and can then move them on and offer the 'stretch' which we indicate as desirable for them to consider new possibilities and ways of working. The *LMD in Practice* below provides one example:

MARK MEETS HIS MENTOR

Mark Riley is a well-known hairdresser in Huddersfield, but for many years his views about learning and development were typical of many SME managers – he was highly sceptical of the benefits of such initiatives.

He agreed to meet Brian Wadsworth, a specialist mentor of SME managers, 'over breakfast in a café'. Importantly, through a series of such meetings, Mark's needs and desires became more evident, and he emerged as no longer 'stuck and struggling' but 'a man with a plan for change', which he agreed to implement with Brian.

Working with Brian, Mark soon identified 'major inefficiencies' in current operations that were causing cash-flow problems. Indeed, the business was 'a mess'.

One change needed was a supervisory infrastructure which would allow Mark more time to focus on operational and financial performance. He could also take time away from 'cutting hair' to meet with Brian to think strategically and talk business. Part

of this talk was to articulate Mark's special vision of the 'Mark Riley Experience', based on a 'journey of well-being for customers' and growth of the business to over 10 salons across Yorkshire by 2010.

This vision would also need trained staff who could enact the values that went with the vision. So it was not enough that trainees went to college to get their NVQ in Hairdressing – it was also important that trainees understood and worked with Mark's notion of the 'journey' and the experience of 'well-being' for the customers. One way to ensure this was to do more training in-house, rather than at the college. So with Brian's help, a partnership deal was struck with Brighouse College to allow Mark to establish an academy for 20 trainees, with a forecast to expand to 50 as the business grew. As a result, Mark can select trainees against his criteria of quality which reflect his aspirations for growth.

Also important as vehicles for SME development are those that foreground the social aspects of learning – for example, networking. We are aware that many managers find it useful to discuss their problems and learn from other managers (Zhang and Hamilton 2006). We know too that local networks, forums and business clubs also provide opportunities for this to happen, and

although managers may not regard the activity as learning while they are there, new knowledge is passed on and retained in a tacit manner. Action Learning programmes are also popular because they provide many of the ingredients discussed earlier (Clark *et al* 2006). In Action Learning there is informality and challenge between peers, but learning has a more central place in the process. The *LMD in Practice* below provides two examples from Action Learning.

LMD IN PRACTICE

MANAGER 1

'I was appointed MD two months before the programme and wanted help to gain the confidence to change the company. This programme has really been invaluable. I have now increased the level of promotional and PR activities – we produce newsletters and ask for referrals. I now give staff briefings to keep them all informed and we

are starting to document our procedures. I am now working on a culture change to create a more open style of management and increased staff empowerment. I have found the group feedback sessions really useful in helping me to develop my ideas. Thank you!'

MANAGER 2

'I joined the programme after it had started but soon found it very helpful. I had not been in this role long and was having problems. I am now being appreciated as a leader. I have delegated almost 80% of my old roles and people are now coming to work earlier, probably as a result of changing my style. I seem to be more approachable – people are asking me for help with their problems instead of hiding

them. The point of the course seems to be about dealing with *you*, not the shop floor. I have been able to remove my self-made blocks. The business has benefited from reduced wastage and improved production. The programme has really helped me to gain the confidence and achieve these changes.'

Source: *Success Stories*, All-Sector Management and Leadership Skills Development

Other possibilities are to combine coaching and mentoring with Action Learning, and to introduce further inputs such as lectures, masterclasses and seminars that seek to open further the managers' horizons and desire for growth, and to make use of genuine 'strategic space'. For example, a programme has been championed at Lancaster University which incorporates coaching, mentoring and peer learning, as well as strategic workshops led by experts. The evaluation of this programme revealed the importance of the 'soft aspects' of formal provision, including acknowledging the need for affirmation and growth in confidence, principally achieved by building relationships and supported by reflective and peer learning. Finally, the concept of 'strategic space' proves to be a key finding from the research literature that suggested that SME managers and leaders crucially need space to think strategically away from the day-to-day, so that new ideas can be considered and absorbed into normal work.

As a conclusion to this chapter, we include seven principles of good practice for those working within the SME community in relation to LMD practice. These

principles are based on the evidence collected by the Northern Leadership Academy (Thorpe *et al* 2009) in which we participated. Because they have emerged from evidence of practice, they serve as a guide to both policy-makers and practitioners.

1 ENGAGE WITH THE IDENTITY AND INTERESTS OF THE MANAGER

For managers in SMEs, learning becomes meaningful when it is strongly related to their concerns, problems and desires. It is important to explore their situation and how it has come about.

2 UNDERSTAND THE CONTEXT AND BUILD ON IT

The experience of the SME manager both shapes and is shaped by the context of the organisation, so it is important to understand this before any activity can be provided.

3 RESPOND TO THE TIME-FRAME AS APPROPRIATE

It is important to understand a manager's thinking about time-frames. The reality is that most SMEs have extremely short planning horizons, and order books that barely last more than one or two months at a time.

4 DETERMINE THE MEASUREMENT AND WHAT IS VALUED

How SMEs measure their performance is strongly connected to the managers' response to what they learn. The measures that managers use can constrain and limit learning, especially as research suggests that most SMEs find it difficult to participate in performance-measurement projects due to lack of time for anything other than operational activities.

5 STIMULATE ENTREPRENEURSHIP AND STRETCH

SME managers are generally concerned with present interests, seeking to repair or improve current ways of working. It is important to assess existing capacity and capabilities, and to explore the potential for making an advance.

6 DEVELOP COMMUNITIES OF PRACTICE

Learning by managers in SMEs most often occurs naturally by completing work and solving problems as part of an everyday process. Such learning is the by-product of a work process rather than its focus, and is shared with everyone involved in the process. The accumulation of such learning over time, and the meanings attached to what is done, become accepted by everyone connected to the organisation. SME managers also like to learn with and from others who have similar concerns and face similar issues.

7 ENHANCE BELIEF, CONFIDENCE AND AWARENESS

Any attempt to provide support for SME management and leadership development requires space to attract managers into a conversation. Development intervention must recognise the need for appropriate language and learning contexts (often the manager's own or other businesses') and for pedagogy that is premised on exchanges of experiences and ideas.

SUMMARY

- SMEs are now seen as playing an important role in contributing to the gross national product, in that new business starts and small business growth provide one of the solutions to unemployment, and in that entrepreneurial development creates new products and services.
- There are difficulties in defining an SME but a small business is small if the manager or entrepreneur may be described as isolated and lonely.
- Entrepreneurship draws from management and leadership orientations and extends behaviour towards innovation, networking, visionary commitment and risk management.
- The development of SMEs is in many ways synonymous with the development of their owners or managers.
- Most learning in SMEs is informal and takes place at work, outside formal educational settings such as universities and colleges.
- Performance measurement and management has a key impact on LMD in SMEs.
- LMD provision can vary from highly operational to highly strategic.
- Engagement is an important process to attract hard-to-reach SME managers into development.
- The main approaches to LMD in SMEs are mentoring and coaching, Action Learning and joining networks of other SME managers.

QUESTIONS

For discussion

- 1 Why isn't LMD for managers in large organisations appropriate for SME managers?
- 2 How do SME managers learn?
- 3 Do SME managers consider themselves leaders?
- 4 What skills are needed to persuade SME managers to undertake LMD?
- 5 If an SME manager does not wish to grow the business, is LMD needed?
- 6 How can 'hard-to-reach' SMEs be attracted into LMD activities?



GROUP ACTIVITY

Get together in a group of three.

Between the three of you, taking one website each, visit the following websites to explore the specified organisation's policy and view on how to provide support for managers in SMEs.

The Federation for Small Business, at <http://www.fsb.org.uk>.

Business Link at <http://www.businesslink.gov.uk>.

The Institute for Small Business and Entrepreneurship at <http://www.isbe.org.uk/>.

Share your findings with the others in your group.

NOTES

- 1 At the start of 2008, the latest reported figures, there were 3.5 million enterprises with no employees and 1.3 million with 1–9 employees.



FURTHER READING

ANDERSON, L. and GOLD, J. (2009)

'Conversations outside the comfort zone: identity formation in SME manager action learning', *Action Learning: Research and Practice*, Vol.6, No.3: 229–42

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STEWART, J. and BEAVER, G. (2004) *HRD in Small Businesses*. London: Routledge

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