



Marchmont Observatory

Leadership Development in Small and Medium Sized Enterprises

Phase 1 Report

December 2000

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1 Executive summary

Discussion with experts and a review of business and leadership literature reveals an urgent need to address leadership development issues in small and medium sized enterprises (SMEs). This research, based upon interviews with 20 SME directors, is the first part of a three phase programme and goes some way towards meeting this need by identifying the main challenges faced by SME leaders and a framework for the delivery of relevant training and support programmes.

Qualitative analysis of the interviews revealed that SME leaders face a range of challenges arising out of the need to survive in an increasingly competitive, fast-changing environment with limited resources. Although many of the difficulties experienced appear to arise from factors external to the organisation, there is a general realisation that solutions must come from within and, more specifically, through the improved management of human resources and the freeing up the leader to focus on strategic development.

The fact that SME organisational strategies tend to be driven largely by concerns for survival and operational needs, may often result in SME leaders placing a greater emphasis on the importance of leadership experience 'in-situ' and on-the-job training rather than formal education and qualifications. To this extent the SME director, him/herself, is rarely formally trained in management or leadership, rather learning through his or her own experience. Whilst this approach may well be effective for some, it may also pose a number of potential difficulties, most notably the effective development of future SME leaders and the diffusion of a congruous 'leadership culture' throughout the organisation.

An exploration of the research findings in a group workshop environment revealed widespread agreement that one of the primary leadership concerns in SMEs is succession management and that any leadership development programme should address this issue. A discussion of possible approaches highlighted a need for two types of provision: firstly, help for current SME leaders in identifying and selecting potential candidates; and secondly, offering a fast-track scheme for selected individuals to help them rapidly develop their leadership skills. Such an approach would require a variety of methods matched to the different needs of participants, although likely elements would include in-house and external facilitated workshops and seminars for current and future leaders.

In summary, the research has indicated a need for the provision of leadership development training/support tailored to the requirements and operating environment of SMEs. The Centre for Leadership Studies proposes piloting such a programme in the South West in early 2001 with a view to the eventual national implementation of outcomes.

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3 Acknowledgements

The authors would like to extend their gratitude to all individuals who contributed towards this research, especially the SME directors and experts (listed in Appendix 1) who were kind enough to spare their time to speak with us.

We would also like to acknowledge the significant contribution of other members of staff at the Centre for Leadership Studies including: Keith Bolden, Alan Hooper, Alan Wakelam, Ian Jones, Howard Betts and Sue Murch.

Additional thanks is also extended to the research funders and their representatives, namely: Graham Cheetham (DfEE), Liz Georgeson (SWRDA), Sean Fielding (University of Exeter) and Ben Neild (Marchmont Observatory).

Final thanks are offered to the representatives of organisations who were kind enough to endorse and support our work, including: Barry Warburton (EEF-Western and BEMA) and Tim Melville-Ross (IoD).

4 Glossary of terms and abbreviations

This report contains a number of terms and abbreviations, the main of which are listed below.

- BEMA Bristol and Western Engineering Manufacturers Association
- CBI Confederation of British Industry
- CLS Centre for Leadership Studies
- DfEE Department for Education and Employment
- DTI Department of Trade and Industry
- EEF Engineering Employers Federation
- EU European Union
- FSB Federation of Small Businesses
- H&S Health and Safety
- HRM Human Resource Management
- ICT Integrated Computer Technology
- IT Information Technology
- IIP Investors in People
- IoD Institute of Directors
- ISO9001 An international quality standard
- RDA Regional Development Agency
- SME Small and medium sized enterprises
- SWES South West Employers Survey
- SWRDA South West Regional Development Agency
- TEC Training and Enterprise Council
- UK United Kingdom

5 Introduction

5.1 Background

The last decade has seen a marked change in the extent to which leadership and strategic development are viewed as central to continued business success. The rate of this change is particularly well documented by the IoD survey in 1998 where leadership and strategic development were recognised as the most important Board issues, when they were not even listed in a similar survey in 1990. Further support comes from sources such as the DTI (DTI, 1995, 1997) who conclude that leading companies have “visionary leaders” who somehow manage to “unlock” the potential of their employees.

Over the years, a great deal has been written about the nature of leadership, with particular emphasis being paid to identifying the core traits and personal characteristics of effective leaders (see Bass, 1990 for an extensive review). Much of this work has involved contrasting leadership and management, with the general message being that management involves organising, planning and controlling the use of resources (finance, materials and staff) whilst leadership is more about motivating people. Another major difference between leadership and management is the relative formality of the role. Nearly all organisations have a clearly defined management level, with associated powers and responsibilities, but there is rarely a distinct leadership position. Leadership is more diffuse within organisations and more readily identified through behaviour. In a review of leadership thinking, Sadler (1997), concluded that important leadership behaviours include: developing and articulating a vision; listening; empowering; role modelling; problem solving; walking the job; demonstrating confidence; and representing and protecting the group.

It is not our intention in this report to enter into a semantic debate over the nature of leadership, as the prime concern of our research is to identify the needs of individuals placed in positions which will, more likely than not, demand a combination of leadership and management capabilities. It is, however, important to note that leadership can be defined by a series of abilities and behaviours, which whilst they can not strictly be “taught”, they “can be learnt, or rather, discovered, fostered and allowed to grow” (Handy, 1992) under the right circumstances.

Training and employee development are now recognised as powerful tools for addressing skills shortages and, as such, may be viewed as an essential response to the increased competition resulting from globalisation and increasing customer expectations. In the 1998 White Paper, the UK Government outlined their commitment to building the “knowledge driven economy” in which knowledge, experience and skills will become central to the country’s continued economic success.

“Successful modern economies are built on the abilities of their people. People are at the heart of the knowledge driven economy. Their knowledge and skills are critical to the success of British business. People are the ultimate source of new ideas. In a fast moving world economy, skills must be continually upgraded or our competitiveness will decline.” (DTI, 1998, p. 28)

Notably, the government’s manifesto has focussed on nurturing “entrepreneurship” and “innovation” in business and the role of the SME in driving economic growth finally seems to have been acknowledged. The past two years have seen the establishment of a large number

of government-led bodies and initiatives¹ aimed to address management skill deficiencies and the promotion of small business.

Given this environment, it is of concern that much of the training and support provided still does not seem to be reaching those who need it most. In 1998 the British Chambers of Commerce survey confirmed that “existing skills deficiencies in sales, management and administrative staff were adversely affecting competitiveness in almost one-third of small firms”. More recently, the Federation of Small Businesses survey of 22,000 British SMEs revealed that “only 9% of respondents stated that they were satisfied or very satisfied (1% with the usefulness of government funded business support services” whilst “49% were dissatisfied with the lack of suitable labour” (Carter et al., 2000). These findings seem to imply that current initiatives are failing to meet the requirements of small business in some fundamental way. This impression is further endorsed by Hyland and Matlay (1997) who indicated that although SME managers generally regard training in a positive way, they do not participate themselves, and also Sargent (1996) who concluded that SME owner-managers tend to feel that current training opportunities “lack practicality and are too academic in terms of their style of delivery”.

5.2 The current research programme

The current research programme was conceived following discussion with representatives of organisations such as the IoD, IIP and DfEE. It was realised that leadership training would be particularly beneficial to SMEs, offering them the means to make more effective use of their limited resources. Only through effective leadership and staff management can the “entrepreneur”, “leader” or “manager” - however defined - find a way of freeing themselves up from day-to-day operational concerns in order to focus on strategic development, and ultimately ensure the continued success of the organisation.

Considering the general reluctance of owner-managers to participate in training activities (and the fact that current provision through Universities, TECs, consultants, etc. tends to be either too inflexible, time-consuming and/or expensive) we considered that some preliminary empirical research would be required in order to identify the leadership needs of SMEs and the kind of learning environment in which they would like to address these. Following this, it would be possible to develop a pilot programme, evaluate its effectiveness/impact and ultimately to implement it more widely throughout the country. The current programme was therefore designed in three phases:

- Phase 1: research to identify the specific leadership needs of SMEs and how these could be addressed (July-December, 2000)
- Phase 2: a pilot of different leadership development approaches (January-June, 2001)
- Phase 3: the eventual national roll-out and implementation of a leadership development programme for SMEs (Autumn, 2001).

Due to the pressing nature of leadership development in SMEs and the practical orientation of this programme, it was decided that the research and pilot phases should be restricted to a period of six months each. Phase 1 is now complete and this report presents the findings of

¹ Recently established UK government supported bodies include: the Management and Enterprise National Training Organisation (METO); Management and Enterprise Council (MEC); Council for Excellence in Management and Leadership (CEML); Small Business Service (SBS); Small Business Research Initiative (SBRI); and Small Firms Enterprise Development Initiative (SFEDI).

this part of the programme and the implications for Phase 2. Two major questions were addressed:

- What are the real leadership issues for SMEs?
- What are the best ways of meeting those needs in terms of leadership development?

5.3 Structure of the report

This report is structured around the main elements of the Phase 1 research: preliminary work (section 6), research interviews (section 7) and workshop (section 8). Section 9 presents a summary of the main Phase 1 findings and is followed by a discussion of how these relate to previous research, and also the implications for the design of leadership development programmes (section 10). The report concludes with a brief introduction to the next stage of the research (section 11).

The main body of the report is followed by a comprehensive list of references and bibliography and a series of four appendices.

6 Phase 1: Preliminary work

In order to address the research questions, it was deemed that a qualitative method would be most appropriate. Only through such an approach could a sufficient depth of investigation be achieved to offer significant insights into the leadership challenges of SMEs and, more specifically, ways in which these challenges could be addressed through leadership development.

Phase 1 began with some preliminary work to identify the scope of the research and develop an appropriate research tool.

6.1 Literature review

The research began with a literature review to identify previous research and work on leadership development in SMEs. Attempts were made to limit searches to UK-based work targeted at smaller companies and published within the last ten years. The search was not intended to be exhaustive, but rather to highlight the main issues regarding delivering leadership and management training to British SMEs. A variety of relevant papers were identified, ranging from small-scale investigations of training programmes to wide-scale surveys of business practices and challenges.

Of particular note were two recent large-scale surveys. The first, the South West Employers Survey (SWES), was performed by Prism Research on behalf of the South West TECs and looked at business objectives and constraints in South West England (Prism Research, 2000). In total, 4734 companies took part and detailed analyses performed by region and sector. This work was further elaborated with a study of 1275 businesses, exploring training needs and demand for business support services (Enterprise plc and Prism Research, 2000).

The other key survey, not published when our research first started, was conducted by the University of Strathclyde on behalf of the Federation of Small Businesses (Carter et al., 2000). This study explored barriers to growth and survival in SMEs, obtaining 22000 responses nationally.

These two studies are described in greater detail in the discussion (section 10) and some of the key findings in relation to business constraints and barriers to growth are presented in Appendix 2. A full list of references, together with a bibliography is given later in the report.

6.2 Preliminary interviews

In addition to the literature review, attempts were made to help determine current thinking on leadership in SMEs by discussion with two world-renowned Leadership experts, John Adair and Meredith Belbin, and two practitioners, John Hunt and Roger Phillips. An open-ended interview schedule was used which, following a brief discussion on the research aims, asked the interviewee for their views on the most important issues and how they believed these could best be addressed through leadership development/training. Additional information and views were gathered through discussion with the programme funders.

All interviewees emphasised the importance of leadership in organisations of all sizes and a pressing need to address leadership development in SMEs in particular. They felt that much of the current leadership support from government and educational institutions fails to reach small firms, perhaps due to the differing agendas of the public and private sectors, and inappropriate modes of delivery.

The reluctance of senior SME managers to participate in formal leadership development programmes was discussed as was the potential problem that “the people that need leadership training the most are those who don’t think they need it” (John Adair). The primary concern within SMEs, it was stated, is keeping the company running on a day-to-day basis and, therefore, strategic leadership is not always high on the agenda.

Much discussion was given to the nature of leadership, with general agreement that an individuals’ ability to lead is dependent on their exhibiting certain core skills such as delegation, time management, working in a team and a capacity to motivate others. John Adair’s (1983) “Three Circles” model of leadership was mentioned which proposes that in order to be effective, the leader must address three levels of need: the individual, the team and the task. This model has been widely adopted throughout leadership education as a useful way of drawing attention to the main responsibilities of the leader without being too prescriptive in how these needs should be met.

All interviewees generally believed that leadership skills and capabilities can be learnt or “released” through appropriate education and experience, and that the essence of good leadership is common across all organisations, irrespective of sector or size (even if contextual differences may impact on the precise nature of the leaders’ role).

Both Adair and Belbin felt that the main barrier to growth in SMEs is a shortage of core skills and that wherever the deficiencies lie, there comes a point when the company must take steps to proactively address them.

“Research in SMEs shows that the main constraint on growth is staffing, and the main thing that stops you from growing the business is people, not ideas or technology.” (John Adair²)

“I think the need in SMEs really is for them to identify where their bottlenecks lie in terms of their growth possibilities of expansion... I think you need a programme that develops insights into potential weaknesses in SMEs because if that is done, these SMEs can expand... Stimulating criticism and removing complacency is what is important for them to expand and create more jobs.” (Meredith Belbin³)

The changing nature of the leaders’ role as his/her business grows was also discussed. When a company begins, it was proposed, it is often founded by an entrepreneur with the creativity to have identified a market need and a product/service to meet it. As the company grows, however, the bulk of this person’s responsibility moves from doing the job him/herself to managing/leading other people and developing a strategic, long-term plan for the organisation. The fact that a person is a good entrepreneur, however, does not mean that they will also be a good leader nor a good manager and they may find that as their responsibilities change they lose the flair and drive they once had.

“One of the major challenges as a company grows is how do you keep that entrepreneurial spirit, values and culture when you are moving into being an organisation.” (John Adair⁴)

The interviews concluded by asking respondents their ideas on the most appropriate method for the delivery of leadership development to SMEs. A number of different views were

² Quoted from research interview with R. Bolden at the Centre for Leadership Studies, 12/07/00.

³ Quoted from research interview with R. Bolden at the Centre for Leadership Studies, 12/07/00.

⁴ Quoted from research interview with R. Bolden at the Centre for Leadership Studies, 12/07/00.

expressed, with preferences either for an intensive leadership training course lasting 2-3 days, or an ongoing series of informal discussion forums.

Other common themes from the interviews included:

- The importance of persuading SME leaders to become actively involved in the programme, thus increasing their ownership and commitment and making the service better suited to their requirements.
- Offering an environment in which SMEs can develop the necessary skills and insights to help themselves, rather than attempting to provide them with all the solutions.
- The need for peer group interaction and the use of case studies and similar tools to facilitate discussion.
- The benefits of multi-disciplinary groups over those restricted by sector.
- The need to consider how the programme is funded, with a general feeling that such ventures should be, at least partly, financed from governmental sources.
- The importance of considering existing regional networks and initiatives and how the proposed programme will fit with and influence these.

6.3 Brainstorming session

The outcomes of the expert interviews and literature review were fed into a brainstorming session performed at the CLS in July 2000 to agree the precise focus of the current research project. The session comprised six members of the CLS staff (with varying levels of involvement in the programme) and the managing director of a local manufacturing SME.

Following the discussion a number of recommendations were made, including: not to use a precise definition or model of leadership, but to leave interpretation open to the respondent; to focus primarily on SMEs with between 10-200 employees; not to limit the research by sector, but to restrict it to private enterprises; and to limit the research during the pilot phases to the South West as determined by the RDA boundaries.

7 Phase 1: Research interviews

7.1 Method

Following the preliminary work, an interview schedule was developed to explore the following issues: organisational structure, strategy, barriers, location, role, staff, and training and development. It was intended that interviews should last no more than an hour, and a short written response questionnaire was also developed to collect relevant contextual and demographic information. The interview schedule and questionnaire are presented in Appendix 3.

Research participants were selected from the University of Exeter Business Relations Office database with additional contacts supplied by BEMA. Attempts were made to ensure a spread of company sizes, sectors, and locations.

In all cases, SME directors were contacted in writing by the researcher with follow-up by telephone to arrange visits and/or to contact non-respondents.

In total 40 SME directors were contacted of whom 20 were subsequently interviewed. Of those who were not interviewed, only eight refused, one had gone out of business and the remaining eleven failed to reply and could not be recontacted by the researcher⁵.

All interviews were performed by the same interviewer using the schedule in a fairly flexible way. They lasted between 30 and 90 minutes and in manufacturing companies, were often followed by a brief tour of the factory. Respondents were assured of confidentiality and each interview was recorded and fully transcribed. A second researcher, in collaboration with the interviewer, performed content analysis of the transcriptions. A range of themes were identified and coded.

7.2 Description of sample

The principle characteristics of the sample are outlined below.

- **Region:** Companies covered the entire South West region (from as far west as St. Austell, to Salisbury in the east and Lydney in the north). The majority (15/20) were based in Devon (8 in the Exeter area) and one each from Cornwall, Bristol, Gloucestershire, Somerset and Wiltshire.
- **Sectors:** The majority of participants (12/20) were from the manufacturing sector; of these, 10 were involved in the design and manufacture of products with a high engineering content. Other business activities included: architecture, accountancy/finance, environmental consultancy, marketing and communication services, software development, motor retail and tourism/leisure.
- **Ownership:** Nine interviewees were founder members of their organisation; four were family businesses; three were management buy-outs; and 15 individuals had a substantial

⁵ An interesting observation, made by the researcher, was that on follow-up, many people who had not replied claimed not to have seen the initial letter or had placed it to one side intending to get around to responding later. In many instances it was time-consuming and difficult to contact the SME directors by telephone, but once the researcher did speak to the right person, they were more often than not prepared to participate. The large quantities of unsolicited mail received by SME directors about training, consultancy and other services, leads them to discard letters on such subjects quite readily. However, once the researcher had an opportunity to speak with them about the research they were usually genuinely interested. Indeed, of those who refused to participate in the current study, many expressed their disappointment but stated that they simply couldn't spare the time.

stake in the ownership of the company. Only three of the 20 companies were not wholly British-owned and of the British-owned firms only one was a subsidiary of a larger organisation.

- Number of sites: Only half of the companies were entirely single site, but all interviewees were based at the principal UK site. The additional sites were generally small branch offices representing the company in other locations.
- Number of employees: Companies ranged in size from 8 to 366 employees. Two firms had under 20 staff; seven had 20-50; five 50-100; four 100-200; and two over 300. Only two of the 20 companies employed large numbers of temporary workers (due to seasonal or fluctuating nature of work); and only four had more than 10% part-time staff - elsewhere labour forces were fairly stable and well-established.
- Annual turnover: Annual turnovers were highly dependent on the nature of the business and company size and ranged from £250K to £80M. Two firms had a turnover of less than £1M; three £1-2M; four £2-3M; two £3-5M; four £5-10M; four £10-20M and one over £20M.

7.3 Interview findings

All interviews were recorded, transcribed and then analysed. Free-form content analysis revealed eleven broad themes, detailed below. A number of longer interview extracts are given in Appendix 4, to illustrate particular issues or challenges in context.

1. Competition

- Most recognised that SMEs find themselves in an increasingly competitive market.
- The impact of globalisation was most strongly felt within the manufacturing sector where only 2 of the 12 companies interviewed did not sell products outside the UK. Many commented along the lines:

“We operate in the global market, so we’ve got competitive threats coming at us in every direction.” (Co.3)

- A number of the companies competing in a global market felt they were not operating on a “level playing field” with regards to cost due to factors such as high labour and material costs in the UK and the strong Pound. This was especially felt in relation to other EU countries.

“It isn’t a level playing field in Europe. I mean the Euro’s weak, their [competitors in other EU countries] help is much more, they are much more government assisted they bend the rules or ignore the rules, so it gets very difficult sometimes, you are trying to do it on your own. It is tough.” (Co.20)

2. Managing change

- There was widespread agreement that ongoing organisational change is essential to securing an SME’s survival.

“Change is absolutely essential – if you don’t change you go backwards, there’s no doubt about that.”(Co.16)

- Employee involvement and developing a culture of change within the organisation were seen as key factors in successfully managing change. Although some difficulties may occur (such as initial resistance from employees) early employee involvement and

'ownership', together with effective communication and reward systems were perceived to contribute greatly to success.

“Change initially was very hard, because the employees were very suspicious: ‘ah yes, we’ve heard it all before, ah yes, this is the monthly management buzzword’. But [they have] begun to realise that we do need their help, they are part of the company and in fact, they are the major contributors to this company’s success.” (Co.4)

“It was the top and the bottom coming together and saying look guys, this is how we’ve got to organise. So people have been bought in to it. If you’ve actually been party to it, then at least you understand why it happens, and understand the benefits of it.” (Co.2)

- Although the vast majority recognised the importance of being proactive and planning for change, some said that due to the unpredictability of many external changes it was hard to be anything other than reactive.
- A number of respondents implied that the change process itself, however, is perhaps more important than the final outcome.

“I think the lesson that I’ve learned from the change process is that change doesn’t always bring benefits. It can sort of take you down a complete blind alley, but at least when you’ve gone down that blind alley, you know which is the right alley to go down.” (Co.2)

- Please see Appendix 4 for further examples of change management issues.

3. Current restrictions, barriers and weaknesses

- Increasing levels of legislation and regulation were viewed as the major barrier to growth and competitiveness by many SME leaders, especially those in the manufacturing sector.

“The business world is [getting] much more regulated and in a very unhelpful way. If we look at new labour legislation or environment legislation or health and safety legislation, all of it is adding a burden and cost and inflexibility and is eroding our ability to do things.” (Co.11)

- Where companies complained of over-regulation, it was generally felt that the government (both local and national) was doing little to help them.
- Other perceived barriers included:
 - Location: being distant from markets (especially problematic for service providers).
 - HRM: lack of appropriate labour in region, difficulty in finding and retaining good staff, lack of management resources, lack of new ideas/innovation.
 - Market: unpredictability of market demand, difficulty entering new markets, over-dependence on a few key customers, seasonal fluctuations in demand.
 - Competition: difficulty competing with companies supplying the “total package”, difficulty competing with companies with lower overheads.
 - Financial: increasing overheads, lack of funds to invest in ICT and development.
 - Loss of control: meeting the demands of share holders/parent company, fear of litigation.

- Supplies (specific to manufacturing sector): poor suppliers (in terms of response time and quality), fluctuations in the price of raw materials.

4. Potential threats and challenges

- The most widely recognised future threat was lack of succession, especially with regards to specialist technical skills and senior management (see Appendix 4 for further examples).

“I can't [replace a pattern maker who's retiring], there's nobody out there, there's nobody in Cornwall, in fact there's very few pattern makers left in the UK. So, we've had to cover that. And I'm still worried - that's a major problem for us. Now, I would think that applies in every section I've got that kind of skill-level, that kind of experience. And although I've got some strength in depth, it's nowhere near enough to cover our needs.” (Co.3)

- Related challenges were the recruitment of new staff and retaining existing employees.
- Many companies felt that growth is essential in order to retain current staff so as to offer opportunities for career progression and salary increases.

“So there's that challenge of a maturing company with people looking for a better remuneration package. You know, salary being one element, but, you know, a car or some sort of transport system, pension, you know, all the other elements that goes with good remuneration packages.” (Co.5)

“I think the minute your business doesn't grow you're dead and have to go. For your staff's well being, for instance, everybody who works here is going to want to earn more money next year, so therefore you have to sell more to stand still.” (Co.9)

- Other potential threats and challenges included:
 - Financial: threat of bad debtors, maintaining cash flow, investing in new equipment and machinery, increasing overheads and production costs.
 - Market: loss of core markets, market saturation, developing new markets.
 - Competition: increasing global competition especially in relation to cost.
 - Loss of control: increasing legislation, risk of being “bought out” by a larger firm, maintaining quality and control during rapid company growth.
 - Innovation: generating new products and ideas in a mature company.
 - HRM: poor people management due to lack of time and/or skills.

5. Company strengths

- The most widely cited strength in relation to competitors was the intellectual/technical capability and knowledge within the company.
- The next most important strength was the company's reputation for reliability and quality. Established companies generally saw great strength in their market recognition.
- Good customer relations and an in-depth knowledge/understanding of the market and what customers require was also seen as an important strength.

“You build your competition on your customer service. We have a high level of repeat business, we look after our customers, we look after people and you guard your reputation. A lot of our business is referral.” (Co.10)

- Other perceived strengths included:
 - Flexibility: fast response time, ability to make own decisions.
 - HRM: committed workforce, low staff turnover, teamwork.
 - Market: operating within a niche market, direct interaction between senior directors and clients (no middleman).
 - Location: local knowledge is beneficial when working in regional markets.
 - Financial: owning own premises, not having to repay bank loans, good internal housekeeping, low cost-base.

6. Strategy and the way forward

- Nearly all companies had some form of vision or strategy for the organisation and although most had a formal mission statement/business plan there were large variations in the degree to which working strategy was formalised or more flexible/responsive.
- The most commonly cited aim referred to company growth. In the majority of cases growth was sought through building the company and increasing profitability, rather than through acquisition or mergers.

“We don't have a documented strategy as such for all to look at, but I suppose in the back of our heads we want to... be the most profitable company [of our type] in the UK. We are profit driven we are not turnover driven. The strategy has to be to maintain what we have got and add to it, we want to grow.” (Co.9)

“It is not necessarily growth in terms of numbers and we don't have an acquisition plan or a growth development plan that takes us dramatically outside our existing areas of operation. Most of it is about driving in efficiencies into the process and through those efficiencies to develop profit.” (Co.8)

- Diversification of markets and extending the customer base and market share were seen as key priorities in many cases, but in general through the modification of existing products/services rather than by starting new product lines.

“On the commercial side we took a conscious decision about 5 years ago to try and diversify. Not because we want to get out of [our main market], but really because we didn't want to be dependent on one customer.” (Co.2)

- A number of companies saw keeping up-to-date with the most recent technology as a primary strategic concern.
- Manufacturing companies tend to be focussing on “lean manufacture” and the rationalisation of processes through the use of techniques such as Kanban, Kaizen and Cellular Manufacturing⁶.
- There is also a strong emphasis on increasing “value added” and sub-contracting less profitable operations. Customers are increasingly expecting a “total solution” and as such the SME needs to become a broker of services, forming links with suppliers and becoming responsible for the delivery of a complete product/service rather than just a component.

“You've got to maximise your added value.” (Co.1)

⁶ A variety of techniques for materials control, quality improvement and enhanced flexibility in manufacturing.

7. Human resource management

- Nearly all respondents recognised staff as their most important resource, yet very few had a designated HRM/Personnel Manager and those that did, shared this role with other duties. In general, HRM policies were informal and responsive to company needs.
- There were large variations in the degree to which staff training and development opportunities were offered. Manufacturing companies with technical/skilled jobs tended to run on-the-job training in an apprenticeship-type way, and professionals (architects, accountants, etc.) were expected to undergo a fair amount of formal training as part of their accreditation. Other than that, training tended to be informal focussing on job-specific skills. Training and development opportunities, however, were regarded as one way of rewarding and retaining good staff.
- A large number of companies reported problems recruiting. It was argued that it is difficult to attract people from outside the Region due to an inability to pay relocation costs and a general shortage of other suitable work in the area. Most recruitment efforts are targeted locally, with companies targeting local educational establishments and the local press. In addition to skills and experience, a lot of emphasis was placed on finding the “right person”, someone who would fit well in the organisation.

“It is very, very difficult to get someone to move down here and work for us because for whatever reason they don’t like their workplace and they want to move on, there is nowhere else to go apart from moving back to where they first came from, and that is a huge problem.” (Co.7)

“It all depends on the person, really. If we get the right person we can train them up.” (Co.12)

- Most respondents mentioned the importance of effective communication in the organisation, generally relying more on informal relationships than formal meetings and briefings.
- About half of the companies approached mentioned that they had, or were working towards, the Investors in People award. It was generally felt that this had been a useful investment although the process of gaining the accreditation was sometimes viewed as more important than the award itself. Other awards included ISO9001 and “preferred supplier” awards, seen as particularly useful in the manufacturing sector.

“A lot of the reasons why we embarked on IIP was again, a bit like you were saying earlier, the process was more important than the accreditation. The action that came out of it was that we had to develop a more focused training plan.” (Co.2)

- Generally the respondents viewed their staff as committed and loyal, being motivated as much by involvement and ownership as by money.

“There’s no bonus scheme, there’s no incentive, other than they want to improve the company. They want more stability, they want more security, and they want to be able to sell more [of our products], at a lower price and a better quality.” (Co.4)

“Job satisfaction, I think that’s much more than money. They need to feel that they’re valued and you’ve got to give them authority and responsibility, give them ownership and empowerment, that’s what people like, I think. In this country today, people very much gauge a person by what they do, and if you

feel you're getting somewhere and you're well thought of then that's the thing that motivates people, and of course, if you think you're doing something that's worthwhile." (Co.16)

8. Interviewee and perception of role

- When asked generally about their role in the organisation, nearly all interviewees saw their responsibilities as those of the leader. This role generally had two dimensions: pursuing a strategy and motivating/inspiring the workforce to achieve this vision.

“Leadership, that’s the big thing. You’ve got to manage, but you’ve got to lead and they’re often two different things. You’ve got to have a strong vision and be seen to have that vision, you’ve got to “walk the talk”. You’ve got to be seen to lead, you’ve got to be seen to be one of the lads but not laddish. You’ve got to be seen to be friendly but not over friendly – not too familiar. You’ve got to be strong, you’ve got to be fun, you’ve got to be fair, you’ve got to be firm, you’ve got to be first. You’ve got to have enthusiasm, energy, a sense of humour, that’s about it.” (Co.16)

- The most widely quoted skill required of the leader was the ability to delegate (cited by nearly all interviewees).

“As I've got older now, I delegate more, you become an expert at delegating, you have to be a delegater, you have to trust people.” (Co.3)

- Other important skills included: time management, flexibility, strategic thinking, monitoring, being a good listener and communicator, integrity/honesty and decision making ability.
- Most respondents who had been with the company for some time recognised that their role had changed, increasingly moving from operational to strategic and HR management (see Appendix 4 for an example).
- Most respondents attempted to use a participative leadership style whereby employees are involved and empowered.

“We don’t want them to just come here and leave their hearts, minds and souls at the gate and just be a number. We want them to be part of a family of workforce here.” (Co.4)

- Another important task of the leader tended to be the generation of new business through networking, marketing and client contact. The SME leader acts as a figurehead for the organisation and has the decision-making authority and technical knowledge necessary to agree contracts.
- All respondents were first and foremost technically qualified, generally learning their leadership and management skills through experience.

“So, I think that’s not an uncommon theme with business people, you start off with a technical skill, maybe just to start your business, and then you need to develop other skills. And that’s what’s been for me, really.” (Co.5)

“I think over the years I've been self-taught but I have [also] been sitting in some training sessions and obviously have a few ideas. A lot of lecturers come in and you pick up things - I think for everybody it's ongoing learning really. Don't forget that management 20 years ago was completely different, but you gradually get in to the groove of things and progress yourself.” (Co.12)

- There were concerns, especially amongst those leaders nearing retirement, about who would succeed them in the organisation. There was generally, a strong desire to keep the business running as an independent concern and to guarantee a future for the workforce.
- About a third of respondents expressed reservations about their own leadership skills and a desire to learn more about people management.

9. Leaders' information and training requirements

- Interviewees tended to keep up-to-date with changes in the business world through informal activities such as reading trade journals and the financial press, and through networking with colleagues.

“I read, watch TV, I talk to people like you, I go to various talks, I discuss with colleagues, I get out of the place – I travel a lot and see what’s going on.”
(Co.16)
- Seminars and conferences are seen as an important way of keeping abreast of market changes and the work of competitors.
- Formal training undertakings tended to be specific to meet developmental needs, for example, responding to market changes, new legislation, and IT, and according to formal training plans. Various professional bodies, institutes and associations, Prosper and Business Link, academic institutions, suppliers, and consultants were all cited as providers of formal training. Interviewees generally felt that training was a constant process, and actively sought out relevant training providers when it was deemed necessary.

“We are required to technically go on training ourselves as you know, so we look at appropriate courses to go on for our needs really. We go to a lot of seminars, conferences about our industry and you just work at it and you read and you talk, you learn, it is a constant process.” (Co.7)

- Generally, interviewees were quite receptive to training, and accepted the fact that management and leadership skills are often lacking.

“The one thing that they [graduates] don’t have at all is any management skills. As far as I have been able to see it is totally lacking in any [degree] course I have come in contact with. Little or no management content and little or no suggestion that if it is not acquired through tertiary education it is something that damn well needs to be acquired afterwards. Very much lacking.” (Co.8)
- However, generally, interviewees were less keen to consider attending formal management training, either because of time constraints or that they were not convinced of any tangible benefits.

“I am an old cynic when it comes to training people to be a businessman by teaching them basic techniques or whatever to determine a problem, it is actually working with someone who can actually troubleshoot and problem solve. You find out by that anyway, you can get all the bells and whistles and charge them money and sit them in a room for ages but there is no substitute for actually working with someone who can do it.” (Co.20)

- On-the-job development and mentoring were generally seen to be very effective, and the preferred mode of delivery for managerial/leadership training.

“I would say mentoring has got to be the best way. The best way to learn is to learn from somebody who’s got those skills already. So what you need to do

is to identify those people who you would deem to have good leadership skills, good time management skills and good discipline shall we say, and then let other people just follow them round and witness how they go about doing it.” (Co.6)

“I’ve actually benefited mostly from developing on-the-job in the last five years. I don’t think that I could actually identify any training that would be useful to me at the moment.” (Co.2)

- The majority of those interviewed did seek external business advice, and many had brought in management consultants during times of major change. Those who had used consultants often reported a positive impact on their organisation although in general attitudes towards consultants were negative. More regularly, legal, financial and other professional advice was sought directly from an accountant or solicitor.

10. Location

- Nearly everyone stated that they like living and working in the South West for the quality of life compared to elsewhere.
- Being in the South West does not appear to be a disadvantage when operating in a global market (e.g. manufacturing) where low volume, high value products are produced. It can, however, be a difficulty to those operating in a national market (e.g. services) as it is difficult (and expensive) for them to attend meetings. In addition, there appears to be a national perception of the South West as a backwater.

“Our geography is a barrier for us. We do work out of the region, we have got work at the moment in Birmingham, Swindon, Hitchen and other places, but the fact that we are pushed into a peninsula means that we don't quite have the credibility of a practice that might be in Bristol or Southampton or Birmingham.” (Co.8)

- There is a general feeling that employees in the South West are committed, hard working, relatively undemanding (in terms of pay etc.) but not particularly dynamic. Many respondents reported a rather parochial attitude and lack of understanding of the need to compete in a wider market place.
- There can be a difficulty in attracting more skilled employees and managers to the region although the quality of life considerations may well be the key to attracting such people. It is likely that such people are those who grew up in the area and want to return, or those that want to come here to bring up their family. The reasons for coming here are different from those for going elsewhere.
- Some interviewees said that the business and transport infrastructure in the South West was a difficulty, especially where they were expected to visit clients in the South East, but in general the strengths were seen to outnumber the weaknesses and few expressed a desire to relocate elsewhere.

“You know Exeter, although a nightmare to get in and out of, the infrastructure is not great, it is a pleasant part of the world to live, a relatively pleasant climate, and I like the attitude of people, they are good people, it is hard to describe.” (Co.7)

- A number of interviewees believed that local government could do a lot more to promote business development in the Region.

“I wouldn’t want to work anywhere else. Great area to work in. The Exeter area is a super place to work I really think that the RDA and people like that, if they really got their arse into gear, they could attract an awful lot of industry and commerce particularly internet and transport based – stuff that isn’t heavy industry and so on. That’s what we should be doing in this region. It’s a great place to live and therefore you’ll get quality people to come and work here. What you’ve got to do is to identify what jobs you need to provide, to attract those quality people who want to live in areas like this. We don’t have certain things in this area, so therefore we can’t attract heavy industry. We can’t attract the type of people who work in heavy industry ...The RDA should identify these issues and then go all out for them and not waste their time on other issues. Identify our strength, which is a lovely area to live in, and then go about developing it.” (Co.6)

11. Issues particular to SMEs

- SMEs differ from larger organisations in a variety of ways. Firstly there are far fewer functional divisions. This means that responsibility for dealing with issues which would be the responsibility of a whole department in a larger organisation (such as employment law and H&S) must be divided amongst the current workforce.

“I think the challenge running small businesses [is that] you're operating on such a broad range of skill sets. You need to be conversant with personnel issues, H&S, environment, your own technical skill areas, financial, legal. Sometimes, you just feel like a pie that's being sliced into ever smaller and smaller slices, whereas I think when a business gets beyond a certain size, I don't know what that size is, but you will have specialisation within the company.” (Co.5)

- SMEs are driven by economic concerns and the need to win business. Failure to gain a given contract or run to budget has much larger implications in an SME than a larger company. Ultimately, the SME’s primary concern is to retain clients and this may need to take priority over other concerns (e.g. training and development).

“All small or medium-sized businesses, as we are, are more preoccupied with work that earns money, than with our own strategy and running our own business. Your own internal worries and running your own business is secondary to doing work for the client.” (Co.6)

- The small size of the workforce in SMEs and the heavy demands placed on employees means that covering absence (for training, holiday or sickness) is much harder than in larger organisations.

“Now the difficulty is there is no space, no slack, if you have a day off you have to make it up... That is the challenge of small businesses and it gets worse the smaller you get because a chap who employs 10 people and one person goes on a course he has lost 10% of his workforce.” (Co.11)

- On the other hand, when a company is small it can act quicker and be more flexible than a larger organisation.

“I think we are more flexible than a larger competitor because they can't turn on a sixpence can they, whereas we can, and if we see an opportunity we make a decision very quickly that yes we are going to go for it or no we are not. We don't have to have a meeting about a meeting about a meeting. You know how

it is, can't make decision because Joe Bloggs is off on holiday or something. Here we are, we are here on a daily basis and if we need to change our direction then we make our decision very quickly.” (Co.9)

- The small size of SMEs can make it difficult for them to compete with companies offering a total solution to customers.

“I think in relation to the large [companies], they are clearly able to offer a wider breadth of services, so they can, at least in theory, provide a complete package of services that might be required on a project, whereas we would actually put together a team employing specialists that we don't have in-house.” (Co.5)

- SMEs are highly vulnerable to external influences (such as changes in policy, price of materials, market influences) and this can make it difficult to develop and adhere to a formal strategic plan.

“There are too many things that are externally influenced... to the point that we have actually said that even though we are growing the business we are not going to expand our manufacturing base in the UK. As we grow we outsource more and more.” (Co.11)

7.4 Results from the contextual questionnaire

The contextual questionnaire collected primarily factual information about the sample, much of which presented earlier in this report. Additional questions, however, revealed the attitudes of respondents towards company growth and their perceived position on a number of dimensions. The sample size was too small to perform much statistical analysis but results do offer further insight into the environment in which respondents find themselves.

Company growth

Firstly, comments from the interviews about growth were supported by the fact that over a half reported an increase in their turnover and size of workforce in the past year and nearly all expected turnover to increase in the following year (Figure 1). In general, expectations were for slow, but steady growth rather than rapid expansion.

	Large decrease	Small decrease	No change	Small increase	Large increase	TOTAL
Workforce_past year	2	5	1	10	2	20
workforce_next year	1	2	6	10	1	20
Turnover_past year	4	2	3	9	2	20
turnover_next year	1	0	2	14	3	20
Total	8	9	12	43	8	80

Figure 1 – Ratings of company growth

Company ratings

Interview findings were further supported by company ratings on a number of scales (Figure 2).

	very low	low	moderate	high	very high	TOTAL
COMPETITION FOR PRODUCTS/SERVICES	1	1	5	9	4	20
DEMAND FOR PRODUCTS/SERVICES	0	1	10	7	2	20
INNOVATION IN RELATION TO COMPETITOR	0	0	8	6	6	20
UNPREDICATIBILITY OF DEMAND	0	2	6	12	0	20
INVESTMENT IN R&D	2	6	6	4	2	20
FLEXIBILITY OF PROCESSES	0	1	7	9	3	20
INVESTMENT IN STAFF DEVELOPMENT	0	1	8	9	2	20
USE OF HIGH TECHNOLOGY	1	4	5	7	3	20
RATE OF COMPANY GROWTH	1	6	10	2	1	20
RISK TAKING	1	2	10	5	2	20
RECRUITMENT DIFFICULTIES	2	1	7	7	3	20
Total	8	25	82	77	28	220

Figure 2 – Company ratings

Of particular note is the following:

- Competition was classed as moderate to high by 18 of the 20 companies.
- Company growth was rated as low to moderate by 16 of the 20 companies.
- Recruitment difficulties were classed as moderate to high by 17 respondents.

Strategy documents

Finally, respondents were also asked about the types of written strategy documents they have.

Financial planning and control documents were most widely used, with cash-flow forecasts being used in all but one company and regular budgets in 17 of the 20 SMEs. Written business plans were present in 14 companies and mission statements in 12.

8 Phase 1: Workshop

Once the research interviews had been completed and a preliminary analysis performed, participants were invited to a half-day workshop at the CLS to explore how the work could be best carried forward and fed into a leadership development programme for SMEs.

8.1 Procedure

All interviewees were informed of the event and invited at the time of their interview, with a reminder beforehand. The aim was to explore the major issues raised during the preliminary research and to identify the most suitable approach for establishing a leadership development programme tailored to the needs of SMEs.

The workshop used a facilitated group format with the following elements:

- Introduction and presentation of preliminary research findings (30 minutes).
- Facilitated group work to identify: i) the key leadership issue for SMEs; ii) the best method of delivery for the pilot programme; iii) additional learning input to increase performance (90 minutes).
- Feedback to whole group (30 minutes).
- Discussion (30 minutes).

In total 20 people attended: 8 SME Directors; 4 representatives from partner organisations; 1 training consultant; and 7 members of staff from the CLS. During group work, participants were divided into three sub-groups each lead by an experienced facilitator. Group membership was determined so as to ensure a wide a range of backgrounds in each group, with particular attention being paid to distributing the SME directors evenly.

8.2 Outcomes of group work

Following group work, the whole group reconvened and a representative from each sub-group reported back the outcomes of their discussions. This was followed by a summing-up by one of the facilitators.

1. What is the key leadership issue for SMEs?

The first question attempted to identify the key leadership issue for SMEs. Each sub-group found themselves discussing this question for the majority of the time and two out of the three failed to reach a consensus.

The one group that did agree believed the central issue to be about “letting go” – the leader being able to hand over responsibility for operational issues so that he/she can focus on the strategic development of the organisation. Related issues included: building succession; understanding what “leadership” really means; determining whether you should develop a selected “leader” or “leadership” more broadly in the organisation; dealing with risk and what happens if you “let go” and it goes wrong; and how do you go about developing the attitudinal change necessary to develop and grow leadership at different levels within the organisation.

The fact that the other groups failed to reach a consensus implies that the “key leadership issue” is personal to each individual and/or organisation and although SMEs face similar challenges, the relative importance of each of these is dependent on the circumstances. Further issues raised, however, included:

- That leadership tends to revolve around “soft”, people skills, and how best to identify and develop the capabilities of the leader and workforce;
- There is a need to address both leadership and management issues together as the SME director often needs to fulfil both roles.
- It is recognised that there are different styles of leadership and sometimes difficulty in adopting and developing an appropriate style for the organisation.

2. What do you think is the best method for the delivery of leadership development in the pilot next year? And who should participate?

Although there was little consensus on the key leadership issue it was widely agreed that there is a need for leadership development opportunities tailored for SMEs. It was agreed that any effective programme should include a variety of elements to be selected according to the specific needs of the organisation. These elements include:

- Facilitated workshops for current SME leaders: these would give an opportunity to share experiences and explore issues with a multi-disciplinary peer group.
- Promotion of best practice: the programme should attempt to identify indicators of best practice in SME leadership and feed this back to practitioners and policy-making bodies.
- Addressing the needs of different levels: a range of techniques should be offered to meet the needs of different organisational levels, especially current leaders and potential future leaders. A “fast-track” scheme may be required for future leaders.

More specific issues raised by a single group are as follows:

- The provision should attempt to exploit and use existing networks and forums such as the Preferred Supplier Network.
- There should be an opportunity for role modelling, perhaps through the involvement of successful local business leaders.
- Attempts should be made to form alliances with national bodies, such as the IIP, to get leadership recognised as an important agenda item.
- An evaluation which helps indicate links between leadership and business performance would be very useful.

3. What extra learning input would improve your performance?

Only two of the three groups had sufficient time to discuss this question. They approached it in a way to identify some of the necessary criteria of an SME leadership development programme. Requirements included that:

- Participants should be involved from different levels of the SME: current leaders, potential future leaders and perhaps even other members of the workforce.
- The emphasis should be on the development of skills such as delegation, time management and team working.
- The programme needs to be delivered in a variety of locations, both in-house and external, to permit exploration of both specific and generic issues.
- The programme deliverers must be credible to participants (i.e. they must demonstrate leadership or other capabilities themselves that would be effective in the SME environment).

8.3 General discussion

Following the group presentations, the floor was opened up for general discussion. A lively debate arose which built upon the group work. The main points were summarised by one of the facilitators at the end and included the following:

1. Development of the next generation of SME leader

There was widespread agreement that a key concern within SMEs should be the development of potential future leaders. Due to the limited size of the workforce, difficulty in recruiting additional employees (and removing undesirable members of staff), lack of time and resources for staff development, and the potential negative impact of selecting the “wrong person” this is a particularly important issue for SMEs to get right, but one which is often overlooked and/or neglected. During the discussion it was said that there is “some leadership in everybody” but that the actual leader should have “more of it than other people”. Current SME leaders need assistance in the development of future leaders through help with:

- Selection and identification of employees with the potential to become future leaders (based upon leadership skills rather than technical ability);
- The fast-tracking of such individuals to help them acquire the necessary skills to become an SME leader rather than depending entirely on experience (acquired over a long time) as previously done;
- Exposing future leaders to situations where they can acquire the credibility necessary to be recognised by subordinates as an appropriate leader.

2. Addressing different levels of need

It was agreed that leadership development should be matched to the needs of different people within the SME:

- Present leaders should be offered opportunities for improving their skills and understanding so that they can find new ways of addressing their needs. As one participant said “don’t tell me how to run my business – give me the tools to do it myself”.
- Future leaders should be offered the types of opportunities discussed earlier and the current leader should be given aid in identifying and developing these people.
- Any models or approaches should address the dual needs of leadership and management (e.g. by equipping participants with the management skills necessary to free them up for leadership).

3. Commitment of training providers and participants

It was agreed that for any leadership development programme to be effective a commitment is required from both participants and providers.

- The SMEs’ commitment is to make candidates available and support and encourage them in this activity, recognising it as an important priority.
- The providers’ commitment is to deliver what they promise, such that participants are suitably motivated to continue attending.

There was also a general agreement that ideally any programme should be at least part-subsidised so that not all the weight and commitment to the programme is expected from the SMEs themselves.

9 Phase 1: Summary of findings

In summary, findings from the Phase 1 research can be divided into four main areas: strategic concerns, human resource concerns, leadership concerns and other issues.

9.1 Strategic concerns

Most interviewees viewed organisational change in a positive way and nearly all agreed that in order to survive they must embrace change within the organisation. The rate of change appears to be especially strong within the manufacturing sector where SMEs now find themselves competing on a global scale. However, regardless of organisational sector, external changes such as market fluctuations and new government legislation must be anticipated and reacted to. Many respondents indicated that they are responding to increased competition through enhancing their customer service provisions, quality systems and lead time and focussing on 'value added' processes whilst outsourcing others which are less profitable.

All companies expressed a desire for growth and see it as a key to long-term company survival. Where companies are not growing (or even shrinking) this is usually seen as a temporary set back in response to external pressures such as a decline in core markets. Most are looking to obtain growth through increasing productivity and turnover rather than through large-scale recruitment or investment.

9.2 Human resource concerns

Generally, most interviewees believed that they maintain a committed and motivated workforce and that the skills of their staff are key in dealing with change. However, parochial attitudes and regional difficulties in recruiting and developing skilled technical and managerial employees are a potential barrier to growth.

In-house training is often implemented to address the development of workers with technical skills, but the development of managerial-level employees is generally rather more ad-hoc. The tight operating environment of SMEs tends to result in lean management structures and a focus on financial and performance outcomes. As a result, management and personal development opportunities tend to be informal (on the job) rather than formal.

The SME leader, him/herself, is almost always technically qualified, with a good knowledge of the business and market. Leadership and management skills tend to be acquired through experience rather than training, and are often only addressed as the workforce grows. Many SME leaders nearing retirement, however, are now finding themselves in a situation where there is no one within the organisation who can replace them, and little chance of bringing in someone from externally. They find this of concern, as most hope for the long-term survival of their business after they leave.

9.3 Leadership concerns

There was a general recognition of the importance of leadership in SMEs, particularly with regard to developing a strategic outlook and the ability to cope with change. Due to the rate and nature of change there is an increasing need for SMEs in mature markets to look outwards, determining new opportunities and solutions. To achieve this, the leader must first find a way of freeing him/herself up from day-to-day operational concerns so that they have the time to consider strategic issues. The key to this, is seen to lie in the effective development and empowerment of employees.

The SME director needs to combine elements of both leadership and management in their role, and of the skills deemed necessary (such as delegation, planning, prioritising, problem-solving, monitoring and decision-making), delegation was considered the most important. The leaders' ability (or inability) to delegate impacts greatly on their capacity to manage time and ultimately to be freed up for strategic thinking and long-term planning. Delegation in SMEs is made difficult, however, by a perceived lack of appropriate staff to whom the leader can delegate. The shortage of trained/experienced individuals at an appropriate level within the organisation may result in the leader feeling unable to delegate many tasks and responsibilities. This problem is compounded by the increased impact of mistakes within SMEs, the leaders' own emotional investment in the organisation, the fact the leader may often be the best qualified person for the job and the initial time-investment required when delegating. Ultimately, however, a failure to delegate is damaging, resulting in the leader working excessively long hours, focussing on the short rather than long-term, and perpetuating the problem of there being no one to delegate to as the skills are not developed elsewhere in the workforce.

9.4 Other issues

A wide variety of other issues were raised which help shed light on the nature of running an SME in the South West region. Some of the main points are as follows:

- *Location*: nearly all respondents indicated that they were based in the South West because of the improved quality of life in relation to other areas. The relative geographic isolation of businesses in this region has only a limited impact on their ability to compete on a global scale. Main frustrations about working here, however, include poor transport infrastructure, difficulty recruiting staff, and not being taken seriously on a national level.
- *Awards and accreditation*: there were a variety of views in relation to the importance of awards such as IIP and ISO9001 but in many cases, the process of accreditation itself was viewed as more important than the actual award. In manufacturing industry 'preferred supplier' awards are viewed positively and seen as a way forward.
- *Information gathering*: in general, leaders tend to acquire their knowledge through reading (trade journals and financial newspapers) and networking (membership of trade organisations/associations, attending conferences and client contact). Quite a few also attend events run by bodies such as Business Link and Professional Associations.
- *External advice*: although most recognise the value of seeking external advice on particular issues they are quite selective about who they approach. In general, attitudes towards consultants are fairly negative as are views of 'academics' (except for activities such as design and prototyping). There is a feeling, however, that SMEs need to look beyond the confines of their organisation and share experiences in order to learn from others.
- *Legislation*: it is widely felt that increasing government legislation (such as employment law, health and safety and the environment) are placing a large burden on SMEs, making them uncompetitive in relation to larger and foreign organisations.

10 Discussion and implications

This research has revealed a wide range of findings on the nature of leadership in SMEs and how current and future SME leaders could be helped to develop their skills.

10.1 Growth orientation and perceived barriers

The general dissatisfaction with increasing legislation and the low availability of suitable labour supports recent findings from the South West Employers Survey (Prism Research, 2000) and Federation of Small Businesses (Carter et al., 2000)⁷. Likewise, increasing competition and the development of markets were found to be major concerns for small businesses.

The desire of respondents to grow their businesses in a steady manner also supports these two studies. The SWES found only 20% of respondents wanting to grow their business “very strongly” but 50% wanting to grow “gradually”; and the FSB reported similar findings, with 15% wanting to grow “substantially” and 53% to grow “moderately”⁸. In general, moderate growth is sought through process rationalisation, focussing on “value added” activities and improving relationships with employees and customers, rather than through large-scale investment in equipment, research or recruitment.

The importance of leadership/management skills in dealing with change and securing company growth and survival was also recognised by the FSB.

“The factor believed to be of most importance to the future survival and growth of the firm was the capabilities and skills of the owner.” (Carter et al., 2000, p. 7)

Our research indicated that one of the major perceived difficulties in regard to long-term company survival is the development of the next generation of SME leader. Such people are seen to be necessary for two main reasons: initially to relieve the existing leader of some of their day-to-day operational concerns and, ultimately, to take on responsibility for running the company once they retire. This is an issue which seems to have been overlooked in most previous research and also in many of the government led initiatives for encouraging entrepreneurship (which tend to focus on business start-ups and high growth/innovative companies).

There appears to be a commitment amongst current SME leaders to ensure the survival of their business as an independent concern once they leave, not particularly through a desire for money, but more out of a wish to keep their employees in work and an emotional attachment to the firm. The SWES found only 16% of respondents with a long-term aim of selling the business and even fewer (4%) wanting to make their fortune. On the other hand, 27% wanted to earn a “decent living” and 49% hoped to see the company “grow to its full potential”.

These findings, combined with the observation that many British SMEs have reached a state of business maturity, indicates that attention should now be directed as to how we can help these companies survive and find new ways to innovate and deal with change.

“Overall this profile is one of business maturity, with more than 20% of firms being over twenty years of age, and over a quarter (26.4%) between eleven and twenty years of age. Firms with this degree of maturity have moved beyond

⁷ See Appendix 2 for a summary of some of the main findings from these two studies.

⁸ Note that there is a discrepancy between the number of firms looking for high growth (15-20%) and those who actually achieve it (4%).

the start-up phase and the difficulties associated with business formation, and may be starting to address issues of market change and even business succession.” (Carter et al., 2000, p. 18)

10.2 Attitudes of SMEs towards leadership training and support

Our research indicates positive attitudes towards leadership training and support even if many of the respondents felt they did not have much need for formal training themselves. To a certain extent this supports Hyland and Matlay’s (1997) “training paradox” notion, but is perhaps more symptomatic of the way in which SME directors learn.

In SMEs a great importance is placed on informal work-based learning which, in many ways, hides the true amount of education going on in such companies (Matlay, 1998; Gibb, 1997). Vickerstaff (1992) identified that formal training poses a difficulty to SMEs in three main areas: resourcing the training effort (not only financially but also in terms of releasing staff, especially at a managerial level); finding suitable training opportunities (not only is much of the current provision inappropriate for SMEs but they do not have the resources either to search more widely for suitable courses); and in terms of managing the training effort (SMEs tend to have little in the way of formal training plans and needs assessments). He concluded that much existing training provision was seen to be too generic with too little emphasis on specific business concerns. He also, like us, found that many SME managers/directors are “home-grown”, with considerable company-based knowledge but limited formal experience of broader management competencies and it is these skills, particularly people management, that they would like to receive further training on.

The South West TECs training needs analysis discovered that, to a large extent, SMEs address their difficulties internally, rarely turning to external sources such as governmental business support, but that of all their training needs, the development of existing managers was the most likely area where they would look for help from outside the firm (Enterprise Plc and Prism Research, 2000).

Indeed, whilst it seems to be generally agreed that effective leadership/management is one of the keys of company success, formal training is perhaps not the best way of learning these skills. Raffo et al. propose that “business owners/managers regarded reflecting on context-specific work and real-time problem solving within and without a community of practice/practitioners in their sector as providing the richest vein of learning in operating their business successfully” (Raffo, O’Connor, Lovatt and Banks, 2000, p. 216).

The link between training and performance has proved elusive, with much of the current research being criticised for a lack of depth (DfEE, 1997), however, Cosh et al. (1998) did identify a significant relationship between training and company survival for firms with between 10-20 employees, and between training and sales growth for larger and smaller organisations. Similar difficulties have been faced for proving the link between leadership and performance although studies such as Patterson et al. (1997) have demonstrated a positive relationship between job satisfaction, organisational culture and HR practices (all of which bear a close link to how the company is managed/lead) and financial performance.

10.3 Leadership development needs in SMEs - Conclusions

Our research has led to the identification of a number of leadership development needs in SMEs and a context in which they can be addressed.

Contrary, perhaps, to initial expectations, there was a clear understanding of the importance of leadership amongst the research participants and an obvious display of many leadership

characteristics acquired through experience. There was a general realisation, however, that rapid change and increased competition are making it increasingly necessary to develop a strategic approach and plan for effective succession in the organisation.

The SME environment differs from that of larger organisations and as such, different requirements must be placed on training and support provision. Any programme targeted at SMEs should be flexible, have a strong practical basis, come from a credible source and have a measurable impact within the organisation. What's more, the SME leader must be motivated to participate through recognition and use of their existing skills and experience.

As such, leadership development provision for SMEs, rather than teaching current managers "how to lead", should instead build upon their current skills and prepare them for the development of the next generation of leader. An emphasis should be placed on the importance of skills such as delegation, time management and strategic thinking and training should be delivered through an informal, flexible approach.

It is likely that such an approach to leadership development will comprise several elements tailored to the requirements of users. These may include:

- Facilitated workshops: giving current and future leaders the opportunity to share experiences and explore issues within a peer group setting.
- Skill-based seminars: focussed on particular issues such as identifying and selecting leaders, team development, motivation and people management, for current and future leaders.
- Promotion of best practice: an identification and dissemination of indicators of best practice in SME leadership.

Other key considerations include:

- Participants: the programme should be delivered to meet the needs of both current and future SME leaders.
- Delivery location: the programme should be delivered in a variety of locations, both in-house and externally. This way the message can be carried effectively into the organisation, but participants are also given the opportunity of exploring issues outside of their usual work context.
- Programme deliverers: trainers and facilitators must have a credibility recognised by participants (i.e. they must demonstrate leadership or other capabilities themselves that would be effective in the SME environment).
- Management needs: the programme must be delivered in a way which acknowledges the management needs of SMEs and does not hinder the effective operation of the organisation.
- Commitment: for the programme to be effective it requires a commitment from both participants and providers. The SMEs' commitment is to make candidates available and support and encourage them in the activity; the providers' commitment is to deliver what they promise, such that participants are suitably motivated to continue attending.
- Funding: ideally the programme should part-subsidised as SME leaders will already be contributing their time to the project.

11 Next steps

The outcomes of this work will be used to devise a leadership development programme to pilot in the South West in the first half of 2001. The pilot phase will be important in determining the impact and effectiveness of any training/support provided and will ultimately lead into a national roll-out of the resultant programme, ideally in conjunction with a nationally recognised body.

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13 Appendix 1 – Research participants

The following people/organisations were kind enough to participate in the research:

John Adair, University of Surrey	John Lambert, Parkins Engineering
Meredith Belbin, Belbin Associates	Robin Lyon-Smith, The Packaging Company Ltd
Terry Bell, Svedala	John Mitchell, Allvoice Computing Plc
John Burton, Frank W Murphy	Geoff Myers, Exeter International Airport
Eric Dancer, Dartington Crystal Ltd	Roger Phillips, Action Resources Ltd
Ann Dempster, Handle With Care Ltd	Nick Postlethwaite, Marcus Hodge Environment Ltd
Ray Dillon, Renwick Group Of Garages	Rex Rozario, Graphic Plc
Jonathan Dixon, Handle With Care Ltd	Douglas Shopland, Stenner Ltd
Alan Hayman, J & S Marine	Carl Singer, Singer Instrument Co Ltd
John Hunt, Fulcrum Challenge	Martyn Swaffield, Albany Engineering Co Ltd
Paul Jackson, Beer Aplin	John Vine, Jordan Engineering
Paul Jarvis, Superwinch	Angela Wright, Crealy Adventure Park
Mark Kemp-Gee, Exeter Investment Group	
Peter Lacey, Lacey Hickie Caley Ltd	

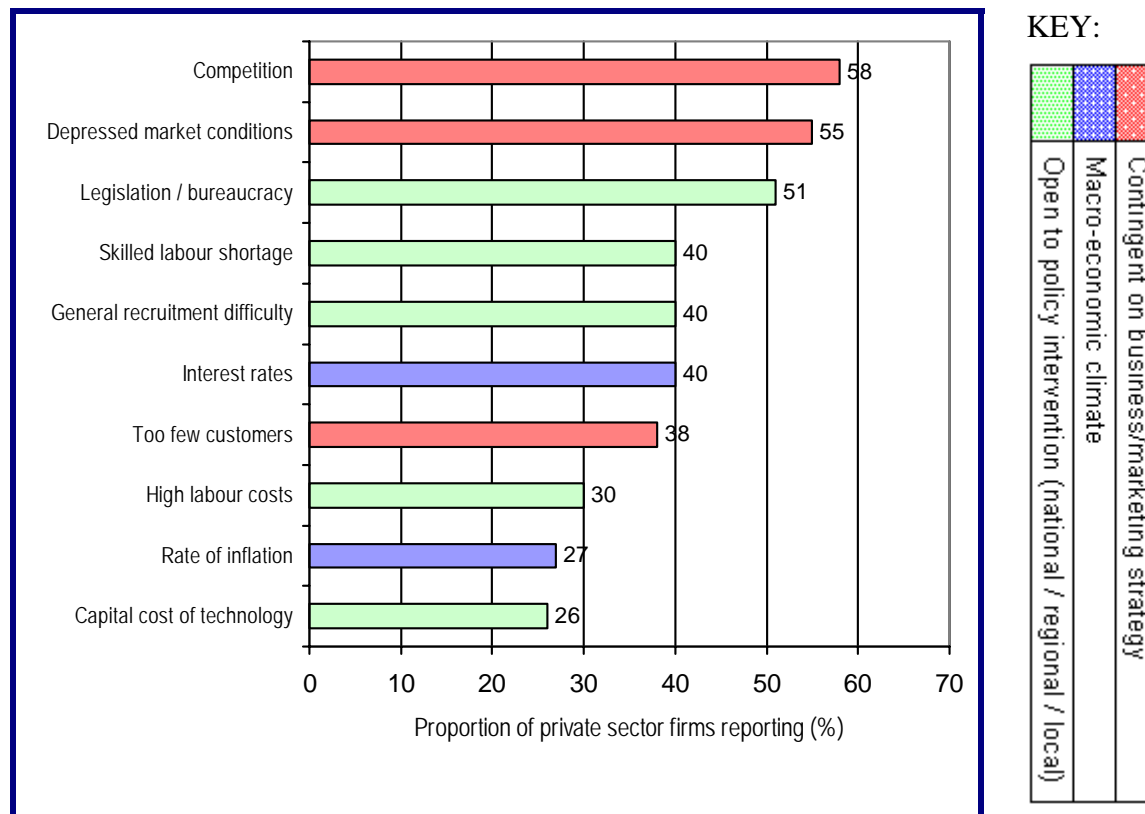
Although efforts were made to select a “representative” sample, it should be noted that the people who took part in the research may possibly differ in some way from the general population of SME directors. Firstly, most were already in contact with the University of Exeter and/or similar training bodies; secondly, all were prepared to spend time discussing leadership issues in their organisation (implying that they rate this sort of activity as important and are prepared to make time in their busy schedule to look at it); and thirdly, the respondents covered a limited geographic region and industrial sectors.

The researchers do not believe that these differences adversely impact upon the outcomes of the research, but would simply like to indicate that the responses in regard to openness to “leadership” may well reflect a best case scenario, with the true state of affairs possibly being considerably worse. In a way, if leadership is viewed as a journey, these people have already begun and are some way along the path; others may well not yet have recognised the need to move.

14 Appendix 2 – Barriers to growth identified in other studies

14.1 South West Regional Employers Survey

A survey of 4000 South West businesses to identify training and business support needs.



Source: Enterprise Plc and Prism Research Ltd (2000)

Figure 3 - 'Top ten' business constraints (South West Regional Employer Survey, 1999)

14.2 Federation of Small Businesses

A survey of 22000 members of the FSB to identify barriers to growth and survival.

	Uni important				5 important
	1	2	3	4	5
Government Funded Business Support	23%	3%	33%	11%	30%
Public Services	15%	4%	39%	15%	27%
Finance and Banking	5%	2%	18%	23%	52%
Education and Training	7%	2%	29%	23%	39%
Transport	7%	3%	30%	20%	40%
Legislation	6%	3%	27%	18%	46%
Your business's capabilities	1%	0%	9%	16%	73%
Business Advice	4%	2%	26%	24%	44%

Source: Carter et al., 2000

Figure 4 – Importance of factors on survival and growth (FSB, 2000)

15 Appendix 3 – Research instruments

15.1 Interview schedule

(Introductory briefing).

1. Introduction

Could you briefly tell me about your organisation and what it does?

How did you end up working for this company?

- *(founder, come up through ranks...)*
- *How long have you been in this post?*
- *What did you do previously? (work experience, qualifications...)*

2. Organisational structure

What is the management structure of the organisation?

- *If there is a management team: how many? What are the roles? How were they recruited? What is the decision-making process? Etc.*
- *If there is no management team: do they intend to develop one?*

3. Strategy

Do you have a clearly defined strategy/vision for your organisation?

- *How was this devised?*
- *How often is it reviewed*
- *How is it communicated to staff? (is there a distinct “culture”?)*

How do you see your business developing over the next three years?

- *(growth orientation, new products/services, globalisation...)*

How does your organisation tend to manage change?

- *Reactive vs. proactive*
- *Development and introduction of new products/services*

What are your main strengths relative to your competitors?

- *And weaknesses?*

4. Barriers

What are the main barriers you face in your work?

- *Day-to-day, short-term, long-term*
- *external vs. internal constraints*

How could these barriers be overcome/what are you doing to address them?

Could you give an example of where you have resolved a particularly challenging issue in your organisation?

- *Are there any issues you have been unable to resolve?*

5. Location

How do you find working in the South West?

Would your organisation consider relocating elsewhere? (why?)

6. Role

How do you see your role in this organisation? (key priorities, tasks...)

- *task, team and individual*

Has your role changed/developed since you started working here?

Which personal qualities do you possess which make you good at this job?

How do you ensure you have enough time to do your job adequately?

7. Staff

What is the general skills profile of your employees?

How do you go about recruiting staff?

- *skills gaps, region, pay, etc.*

What development opportunities exist for staff in your organisation?

- *on the job vs. off the job*
- *task related vs. personal development*
- *How are these funded and how are candidates selected?*

What do you think are the greatest motivators for people working in your company?

8. Training and development

How do you keep up-to-date with the changing world of business?

Have you sought external business advice/help in the past 12 months?

- *Who supplied this information and how satisfied are you with the outcomes?*

What is the most recent training you've done?

- *Were you to seek additional training what would it be?*

Were you to pursue further training, what would it be?

- *Preferred format? Content? Cost? Reasons for attending?*

Would you be interested in attending our seminar day on 3 November?

(Thanks and debrief).

15.2 Contextual questionnaire

1. Company Details

Name of respondent:

Job title:

Name of company:

Address:

Internet address:

Nature of business:

(Please describe)

Sector: **ABCE** (Agriculture, Fishing, Mining, Utilities) **D** (Manufacturing)

(Please tick one) **F** (Construction) **G** (Distribution)

H (Hotels & Restaurants) **I** (Transport, Storage, Communication)

J (Financial) **K** (Business Services)

LMN (Public Admin., Education, Health) **O** (Other Services)

Year founded: Number of years on present site:

Operational status: Single site Head quarters Branch (UK HQ)

(Please tick one) Branch (overseas HQ) Franchise Other

If your company has more than one site, how many are there in total?

Is your company the subsidiary of a larger organisation? Yes No

If the company is not British-owned what is the nationality of ownership?

2. Nature of workforce

Number of employees: (a) total? (b) managerial? ... (c) non-managerial?.....

What proportion of these positions are: (a) temporary?% (b) part-time?%

Has the workforce changed size in the past 12 months?

Large decrease Small decrease No change Small increase Large increase

Do you expect the size of the workforce to change in the next 12 months?

Large decrease Small decrease No change Small increase Large increase

At approximately what level of capacity are you currently operating?

100% 75-99% 50-74% Less than 50% Not applicable

3. Finance and business planning

What was the approximate turnover (at this site) in the last financial year?

Has your level of turnover changed in the past 12 months?

Large decrease Small decrease No change Small increase Large increase

Do you expect you level of turnover to change in the next 12 months?

Large decrease Small decrease No change Small increase Large increase

What is the average selling price of products/services?

How many main customers do you have (accounting for 75% or more of turnover)?

- Less than 5 5-10 11-50 50-100 Over 100

What is the average number of sales per month (at this site)?

What proportion of your products/services are sold overseas? (a) within Europe%
 (b) outside Europe%

- Do you have a written mission/vision statement? Yes No
 Do you have a written business plan? Yes No
 Do you perform regular cash-flow forecasts? Yes No
 Do you perform regular budgets? Yes No

4. Business environment

On a scale of 1 to 5 please rate each of the following (for your site):

	Very low	Low	Moderate	High	Very high
Competition for products/services	1	2	3	4	5
Demand for products/services	1	2	3	4	5
Innovation in relation to competitors	1	2	3	4	5
Unpredictability of customer demand	1	2	3	4	5
Investment in research and development	1	2	3	4	5
Flexibility of processes/methods	1	2	3	4	5
Investment in staff development	1	2	3	4	5
Use of high technology	1	2	3	4	5
Rate of company growth	1	2	3	4	5
Willingness to take business risks	1	2	3	4	5
Difficulty in recruiting appropriate staff	1	2	3	4	5

5. Training and development

Have you attended any courses, seminars or workshops in the past three years? Yes No

- if YES, please give details:

Have you ever completed a psychometric or personality profile? Yes No

- if YES, please give details:

Have you ever done any specific leadership or management training? Yes No

- if YES, please give details:

Were you to attend a leadership development programme what would be your preferred format? (formal training course, seminars, discussion groups, etc.)

6. Final comments

Do you have any additional comments you would like to make about this research?

16 Appendix 4 - Case studies

This appendix presents some more detailed interview extracts to highlight particular leadership challenges and their implications.

Please note that text in square brackets has been adjusted to aid clarity and/or to protect confidentiality. Suspension marks have been included where portions of text have been removed.

16.1 Maintaining the momentum of organisational change (Company 2)

Interviewee: “We started that [business improvement programme] in 1997, so it’s been running for 3 years, and it’s a bit like an emotional roller-coaster. There was tremendous hype within the organisation, we didn’t go as far as having [business improvement programme] t-shirts, but it was always quite high profile. You see some quick wins, you see some successes, and you’re really keyed up with it and then of course it slows down and people get frustrated, because things aren’t changing quickly enough. So what we’ve had to do recently is really sort of [re-evaluate it]. I won’t say we’ve got rid of the [business improvement programme] team, but we’ve now set up sort of business improvement groups. When we get together on a Monday morning, we focus in on a particular issue, we get them to solve that issue, come back with a solution by the end of the week, and then we set up another group. So we’re truly trying to sort of kick-start the thing again by re-focusing on it because it’s done the organisational bit. The organisation that I’ve presented to you was set up as a result of this [business improvement programme] activity and the beauty of it was, it wasn’t imposed from the top, it was actually bottom up. It was the top and the bottom coming together and saying look guys, this is how we’ve got to organise. So people have been bought into it. I’m sure you’ve been in situations where it’s been re-organised and you think, well why on earth has this happened. If you’ve actually been party to it, then at least you understand why it happens, and understand the benefits of it.”

[Short interaction between interviewer and interviewee].

Interviewee: “The process is more important than the result, I would agree with that. Change is always about people realising that if you don’t change you can’t improve. By definition, if you carry on doing things as you’re doing them at the moment, you’ll carry on doing what you’ve always done. But I think the lesson that I’ve learned from the change process is that change doesn’t always bring benefits. It can sort of take you down a complete blind alley, but at least when you’ve gone down that blind alley you know which is the right alley to go down. So, you know, it can often be sort of hit and miss. It’s all very well me talking at the macro level like this, it’s very easy for consultants to go in and say, we’ll do this and we’ll do that, but the proof of the pudding is actually going to be if people actually bought into it.”

“The other thing I was going to say about teams is that, we’ve recently... introduced some quite simple psychometric testing for our new recruits. I’m now actually introducing that amongst the teams. Because one of the problems we’ve got with some our teams is that they never get on with each other. You know, you can’t just put people in a room and say, ‘right, you’re a team now’. You know, if one of them supports Liverpool and the other one supports Everton, then you’re not. There’ll always be some sort of conflict between them. It’s those sorts of things that you’ve got to find out. So we are actually doing that quite sort of slowly, because it does take time. But we’re trying to resolve the best chemistry between teams as well, taking into account of course, the best skills. You know you’ve got to make sure you get the right mix of skills, but the chemistry is important as well.”

16.2 Problems of management succession (Company 11)

Interviewee: “The other thing I am seeing, which is worrying me enormously, is that younger managers are seeing people like myself and all the things we have to handle today and are saying ‘look I don't want it’. People are coming in to me and saying ‘I don't know how you do it, I don't know how you manage to handle the whole range of activities that you do, because I couldn't’. It is like a lot of things, you go into but I am seeing young managers saying ‘I don't want to’, and I think the way we are being overburdened is actually killing off the enterprise spirit. The worrying thing is that these things gather momentum and people will say ‘oh you know you will be in demand’ and I think I am. I mean, I am actually good at seeing those sorts of things and I can see a trend. People are saying ‘I don't want to work 7 days a week, I want to spend time with my wife and children, I want to take my holidays’, but being a director of the business means I can't do those sort of things. I only have one life and I have to take a decision and I think people are deciding to spend more time doing the things they enjoy doing. People do not come to work to as their prime objective in life. Work is only the means that provides the money, people do what they want to do with their lives and it is getting that work is just the provider of the wealth.”

16.3 Learning management/leadership skills (Company 15)

Interviewer: “What are the main sorts of barriers or difficulties you tend to face in your work here?”

Interviewee: “My overriding frustration is one of these things we are asking and not getting help with, and that is that we as a group of managers have not trained ourselves over the years, we are not as good as we should be. We have lived in our own little cocooned world and for many years have just kept doing what we were doing and it was wonderfully backed because we had tremendous capital, good profit, no harassment, but I think we should have been more pro-active in looking at improving... I think that would be my overriding day to day frustration where we haven't trained ourselves, where I have not caused improvements to take place by being satisfied with the status quo. Then you have got the catch up situation now because I haven't identified that as a problem and we have to move on.”

Interviewer: “Where in particular do you think that type of manager has been traditionally weak, what types of skills are you looking for?”

Interviewee: “We haven't been looking at tomorrow. We have been very much concentrating on today and reacting to what is going. I think it would appear to be that what we had there is a lack of vision, if you haven't had the vision then you haven't put any pro-active training or culture changes into place. That is the frustration that I have myself... that we should have done something two years ago, three years ago, four years ago, ten years ago...”

“I mean here I am, I have been in this job for twenty years, and how much training have I had in this job, how much exposure have I had to see new ways of doing things other than by reading and being interested. I went on one course three or four years ago, a leadership course for a week, which was absolutely wonderful, I learnt a lot. I think you are right... that there is a problem in small to medium enterprises in that the people like myself, my peer group, are very often ill equipped to take the business forward.”

16.4 Changing nature of role and preparing for leadership succession (Company 16)

Interviewer: “Do you think your role has changed since you started working here?”

Interviewee: “Yes, I've kind of got a lot more liberal in my attitude since I began the business. One of my personal goals is to enable myself to withdraw from the business by

degrees. I've seen so many small business go on quite strongly until the owner/proprietor decides to retire and usually what happens is the business gets sold and it's either sold to someone who's already working in the business or somebody outside and when it's the latter it often brings tears for the people who are in the company. So I'm not interested in doing that, I've got two sons... and either of them may or many not wish to come into the business at a later date. I don't want the company to stop operating as the company when I decide to do less and less. I want to do more and more of what I want to do and what I'm good at and less of what I don't want to do and what I will not be good at. The secret, of course, is to realise what you are not good at, so I'm trying to set things up so it becomes apparent to me what I'm not good at so I can get other people to do it before I become not good at it. So, yes, my role has changed and will change but I want it to change in structured way because only then will the company become worth anything. Because if the company if the company is a one man band, where the value of the company's vested in an individual like me that's poor - I don't want that. I want these young guys who work here to have a future, I'm talking to them about the future but if I don't believe they don't have a future, I have to come clean and say "look chaps when I leave here they won't be anything here for you" and that won't be the case I hope. I want this kind of German middleschtatt idea to prevail here so the company goes on in perpetuity."

16.5 Recruiting an Operations Director and "letting go" (Company 18)

Interviewer: "What are the main difficulties and barriers you face working on a day-to-day basis and on a longer-term strategic basis?"

Interviewee: "Our key, it is a very key step to us, is recruiting a person to sit between [my co-partner] and I. We are spending far too much time working in the business, making decisions. I spent an hour and a quarter this afternoon going through a detailed quote for a client... that shouldn't be my role. I am much better at taking a strategic view rather than dealing with tactical issues. [My co-partner] is much better at the tactical issues than I am but she is also extremely good at the strategic stuff too and we work very well as a team. So we need to get ourselves out of the day-to-day coal face type of work to identify trends that are happening in the market. What is happening in the area as far as marketing and sales are concerned [is that competitors are] nicking a lot of our work, and that will continue, so we have got to be doing that kind of stuff. The person that we put in must buy into what [my co-partner] and I believe the company should be about, buy into our ethos and share that ethos not just pretend to do it, and be capable of communicating that to the staff and maintaining standards throughout the organisation. That is a damn difficult role to fill because in many ways [my co-partner] and I are so closely associated with the business, I mean this is a part of us this business, we created it. We worked 18 hours a day seven days week for two years on the damn thing, I mean literally 6 a.m. to 10 p.m. It is very difficult for us to get somebody to do that job, it needs to be someone who has got the same passion, if you like, about it and can lead in the way we lead. That is the most difficult challenge that we face over the next year and if we don't find the right person it will restrict our growth without any doubt in the world."

Interviewer: "Is that because at the moment you are not able to delegate a lot of things?"

Interviewee: "I think one of the problems in small businesses is [the lack of resources]... When we started off we did nothing for 18 months and had no money at all, and then [a client placed an order which needed to be completed] in a week and we had no resources so [my co-partner] and I did everything. [My co-partner] and I can do everything in this business between the two of us, we can do every job of anyone in this business and can probably do it better than them. That leads to a very controlling situation that, combined with the way that you feel about the business, the sort of emotional engagement with it and the determination

that you are going to be the best at producing this work, can lead you to adopt a very controlling management style. [You find yourself] actually going around telling people that you should do it this way, do it this way, do this, do that, do the other and come back to me when you have finished. That demotivates people and it doesn't free you up from the coal face, it locks you very firmly to the coal face and it is difficult to step away from that. That is one of the benefits... of the IIP thing, its first benefit has been to focus [my co-partner] and my attention on our management style and trying to become empowering rather than controlling in the way we deal with people.”