

Management Development from the Perspective of Small Firm Owner- Managers

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**Acknowledgements: Findings from study commissioned by
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Presentation

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Introduction

Context: in New Zealand relatively high entrepreneurial start-up rates, but comparatively low proportionate numbers of high growth firms (NZ Treasury, 2008; MED, 2009).

Theoretically, one potential cause could be seen as resource-based; more specifically a lack of management development capability in SMEs¹ (NZ Treasury, 2008).

Hence, specific interest in NZ in the notion of SME management capability and how to improve it (Massey, et al, 2005; MED, 2009).

1. Note the Centre has adopted the following definitions:
Micro < 0 -5; Small 6 – 49; Medium 50 – 99 employees



Relevant Literature and Previous Evidence

SME owner-managers lack managerial knowledge and skills (Jayne, 2007; Redmond & Walker, 2008).

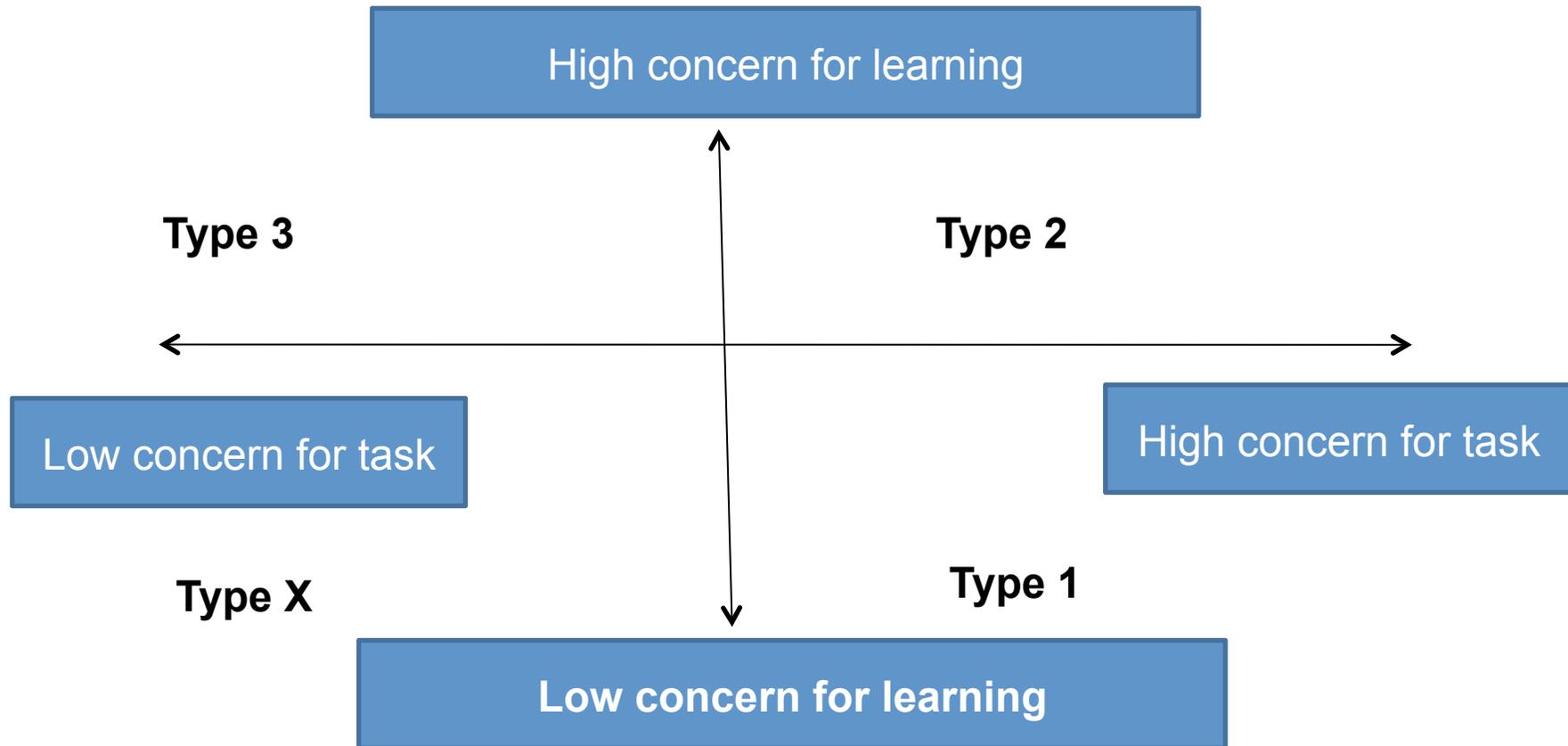
Take up of formal management training is known to be lower in SME managers than those from larger firms (Kitching & Blackburn, 2002; Gray, 2004)

Financial and opportunity costs of formal training is high for owner-managers from SMEs (Fuller-Love, 2006).

Informal learning models more appropriate for SMEs (Coetzer, et al 2009)

Limited research internationally that contributes to a more contextual understanding of SME management development, especially in NZ

Theoretical Typology for SME Owner-Managers



Source: Mumford & Gold (2004, p 117) adapted by Coetzer, et al 2009

Adapted Typology

SME owner-managers characterised by experiential types of learning

Experience can influence orientation to learning and concern for task

SME owner-managers may attend structured formal training but find it difficult to apply—this may lead to Type X orientation

Previous qualitative study indicated Type 1 preference by SME owner-managers (Battisti, et al 2009)

Study and Research Objectives

Ministry of Economic Development commissioned NZSMERC to assess sources of management capability and development in SMEs, utilising Centre's annual survey of SMEs, the BusinessSMEasure.

Builds upon earlier (2008) qualitative study undertaken by the Centre with growth-orientated SMEs (Battisti, et al, 2009)

Research objectives:

- to understand how SME owner-managers assess their development needs and how they meet these needs**
- to assess the extent to which SME owner-managers have participated in management development**
- to assess the perceived impact of management development on their business**

BUSINESS **S m E** ASURE™ 2009

Stratified sampling frame	4,165
Usable respondents	1,447
Response rate	35%

Firm Size by employees (FTEs)

Micro (0-5)	768	58%
Small (6-49)	534	40%
Medium (50 – 99)	26	2.0%
Total	1328	100%



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Selected Business Demographics

Sector

Services	496	39%
Manuf.	263	20%
Other sectors	527	41%
Total	1286	100%

Gender

Male	1097	78%
Female	307	22%
Total	1404	100%

Location¹

Main urban	977	69.7%
Satellite urban	61	4.4%
Independent urban (rural)	302	21.6%
Rural	61	4.4%
Total	1401	100%

1. Definitions as per Statistics New Zealand categories

Selected Business Demographics

Age of the Firm (yrs)

5 or less	48	4%
6-10	162	13%
11-20	420	34%
21 plus	604	49%
Total	1234	100%

Age of owners

30 & younger	5	<1%
31-40	90	7%
41-50	360	26%
51-60	553	40%
61-70	323	23%
71 & older	53	4%
Totals	1384	100

Firm Performance in Innovation and Exporting

Innovation in:	No of Firms	Per cent
New products or services	405	30%
Operational processes	378	28%
Organisational processes	447	33%
Sales or marketing	578	42%
At least one innovative activity	846	61%
Exporters: by percent of turnover		
1% to 10%	149	11%
11% to 25%	35	3%
26% to 50%	24	2%
51% to 75%	14	1%
More than 75%	30	2%

SME Strategies

Reported main source of competitive advantage

Main source of competitive advantage	Per cent of firms
Established customer relationships	36
Product/service quality	26
Product/service uniqueness	17
Price	9
None – no specific advantage	5
Location	4
Speed of response	3

Developing Managerial Capability

Developing managerial capability is a key factor in my firm for:	Agree ¹	Neither	Disagree
survival	79%	17%	4%
growth	83%	15%	2%
performance	86%	13%	2%
solving problems	84%	14%	2%
implementing business strategy	83%	16%	2%
responding to market demands	82%	16%	2%
developing competitive advantage	81%	17%	2%
competing in business awards	24%	60%	16%
personal development	74%	23%	3%

1. Note: Likert scale from strongly agree to strongly disagree

Sources for Identifying Development Needs

Source	Agree ¹
Getting feedback from my peers	69%
Getting feedback from my employees	66%
Looking for gaps between current capability & business needs	75%
Encountering business problems that highlight lack of capability	69%
Conducting a formal self-appraisal	52%
Getting advice from accountant or bank manager	64%
Getting advice from a business mentor or coach	44%
Joining a group of business owners discussing current issues	36%
Getting advice from CoCs, EDAs or industry associations	32%
Studying brochures on mgt training courses	26%

1. Note: Likert scale from strongly agree to strongly disagree

Importance of Sources for Developing Managerial Capability

Activity	Importance (%)
1. Reviewing what I did and thinking about how to do it better	81
2. Carrying out everyday managerial activities	78
3. Discovering what does and doesn't work	74
4. Learning from suppliers & customers	61
5. Getting advice from accountant and/or bank manager	58
6. Learning from other people running a business	56
7. Reading (books, journals, internet)	53
8. Attending occasional off-site training courses	40
9. Getting information from business events	35
10. Being mentored or coached	29
11. Learning from family and/or friends	27
12. Getting information from government agencies	26
13. Joining a group of business owners discussing current issues	23
14. Getting information from CoCs, EDAs or industry associations	22
15. Studying university/polytechnic courses	14

Further Analysis¹

Factor analysis was undertaken and three 'clusters' of factors found to be important:

1. Incidental learning (from practice-based sources)

Activities: 1, 2 & 3

2. Informal learning (from proximate sources)

Activities: 4, 5, 6 & 11

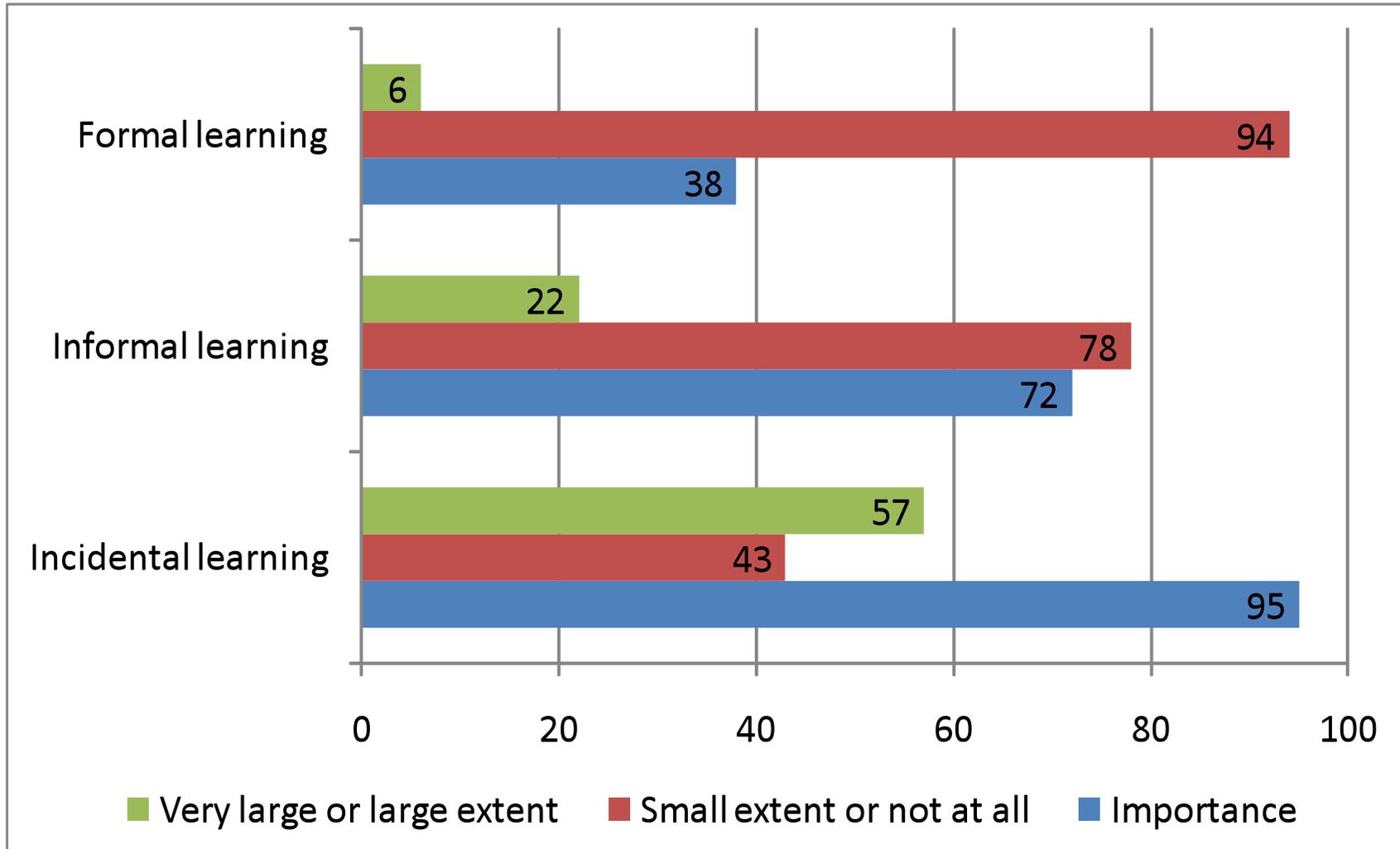
3. Formal learning (from distal sources)

Activities: 7 to 10, 12 to 15

1. Discriminatory factor analysis

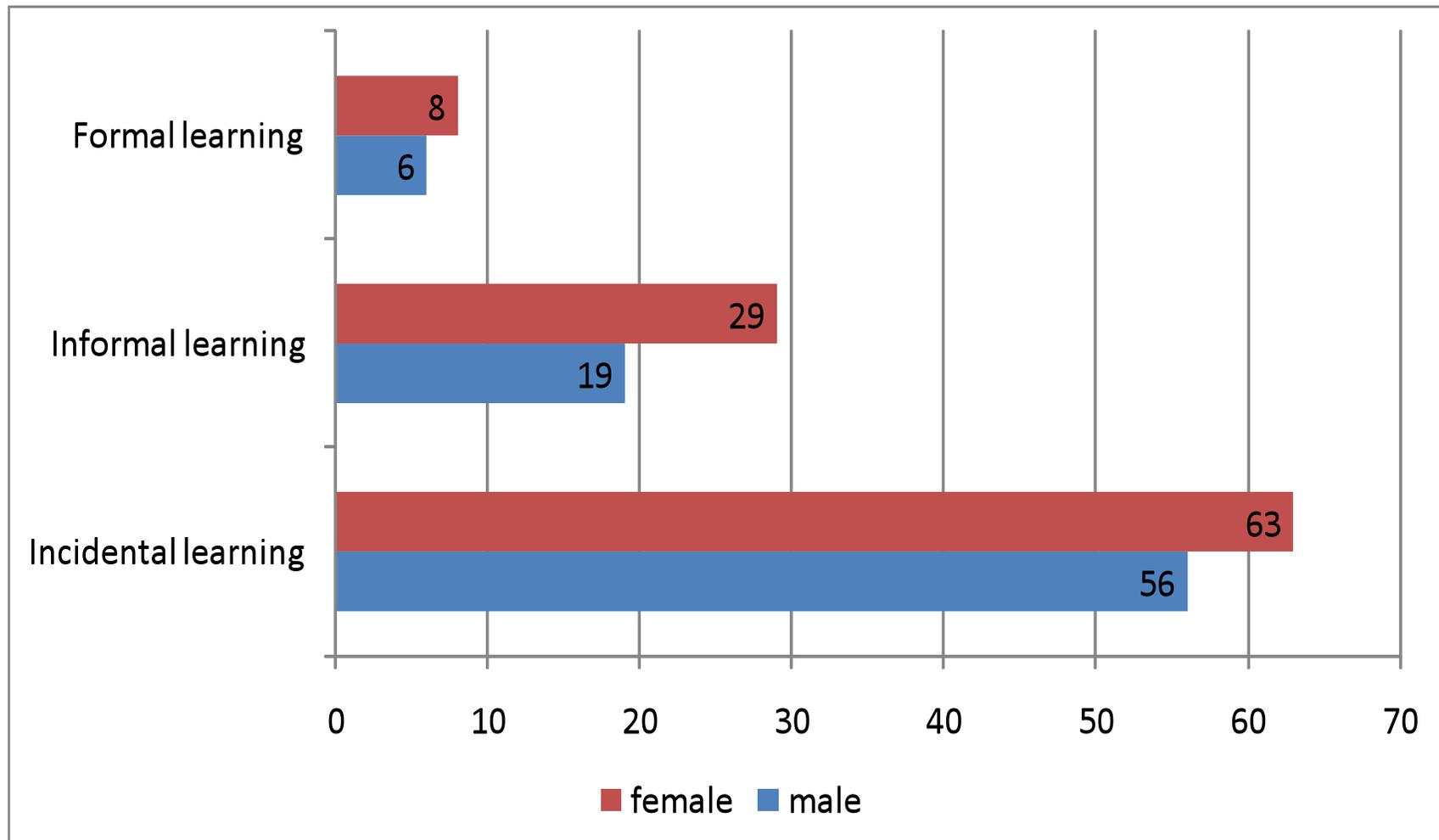
Importance of Clusters of Sources

Percent



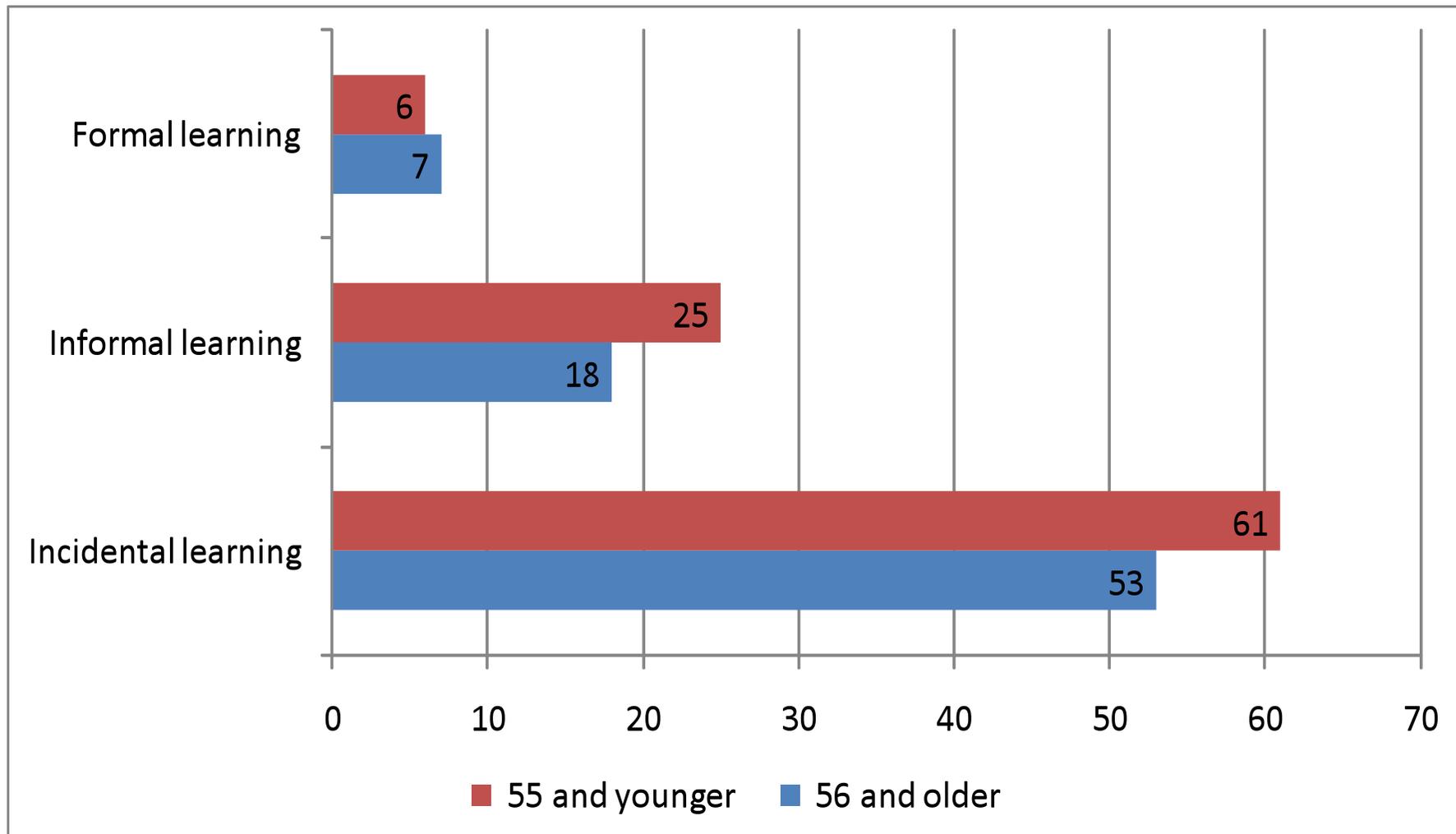
Drivers of Management Development

Participation by gender (percent)



Drivers of Management Development

Participation by age (percent)



Learning Orientation and Belief in Self-improvement

Respondents with a positive belief in self-improvement were more likely to engage in any type of management development

Respondents with a positive orientation towards learning are more likely to engage in any type of management development

Hence, more likely to be associated with Type 2 orientation in our earlier typology

Other Drivers

Significant relationship between firm size and engagement with incidental learning (at 0.05% level)

For example:

Micro firms – 53% of respondents engage in incidental learning

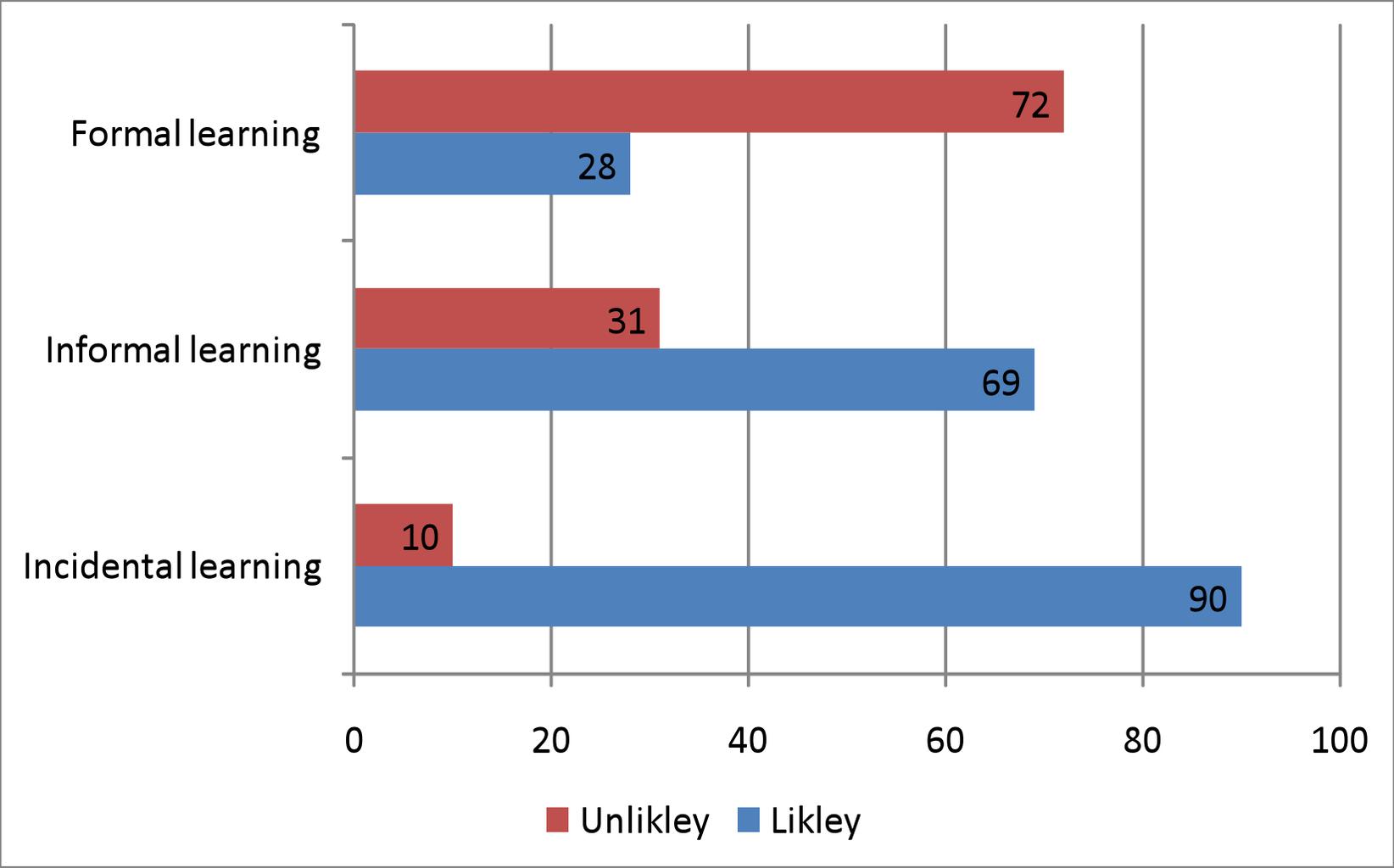
Small firms – 62% of respondents engage in incidental learning

Significant relationship between innovative activity and management development:

- firms with at least one type of innovative activity were more likely to participate in all three types of learning

Future Intentions

Percent



Conclusions and Implications

Although SME owner-managers are disconnected from formal training & learning programmes, they are not disconnected from other forms of learning and management development

Importance of incidental learning in SMEs from practice-based sources, followed by informal learning from proximal sources

Low levels of engagement with formal management development practices

Low participation in business groups, despite reported benefits from interaction with other business

Conclusions and Implications

Important drivers of management learning and development were associated with the characteristics of owner-managers including: gender, age and psychological constructs such as the degree of belief in self-improvement and learning orientation. Hence Type 2 orientation more likely to engage in management development

Need to make management development programmes relevant to reality of owner-manager learning in SMEs, this may mean a refocusing of programmes

Policy implications: --need for informal learning programmes building on preferred styles and learning orientation in SMEs

Role for expanded mentoring programmes---perhaps alongside more formal management training