

30<sup>th</sup> September 2002.

Australian Senate - Employment, Workplace Relations and Education Reference Committee.

### **Inquiry into Small Business Employment.**

#### ***“The SME Management Education Challenge”.***

*Submission from Tim Atterton - Director, Entrepreneurship and Business Development Unit [EBDU] at Curtin Business School, Perth, Western Australia and Chairman of the Western Australian Small Business Development Corporation.*

Dear Senators,

Thank you for the opportunity to present this submission, which has been drafted with the specific intention of stimulating discussion at the public hearing on Thursday 10<sup>th</sup> October 2002. At the end of this paper, I have taken the liberty of listing a number of Policy Recommendations, based upon international best practice in the area of SME management education, that the Committee may wish to consider.

#### **Summary.**

This submission argues that there are many existing small enterprises across Australia that have the desire and potential to grow in terms of both employment and wealth creation. In particular, there is significant but, as yet, unrealized growth potential within businesses that are “stuck” at an early growth stage<sup>1</sup>. Frequently, these businesses find themselves in the position where they are working harder [as demonstrated by increased sales] but making less money [as demonstrated by stagnant or even reducing profitability and disproportionately high working capital requirements] i.e. they are firmly entrenched in the proverbial “*busy fool*” syndrome! Critically, their growth ambitions are frustrated by a lack of appropriate management capability. Simply, they do not possess the management skills and experience required to take their businesses to the next stage of development. **Unfortunately, the provision of management education and training for existing SMEs in Australia is woefully weak and underdeveloped in comparison with international best practice.** Fundamentally, the management education community does not possess the necessary insights or understanding of the SME situation to respond to the challenge; nor, in some cases, does it appear to be motivated to develop new capacities and competencies required to service this vital component of the Australian economy. There is a compelling case for modest Government intervention that responds to a situation of temporary market failure by building “*delivery capability*” with a view to establishing a vibrant and dynamics management education sector that both excites and services the specific need of dormant SMEs and unlocks dormant growth potential.

The issues raised in this paper are not based upon one particular piece of research but, rather, reflect a body of knowledge relating to barriers and impediments affecting small business development gathered over a period of twenty years in more than forty different countries<sup>2</sup>. However, this submission does draw substantially upon a paper<sup>3</sup> commissioned by the United Kingdom’s Management Charter Initiative on behalf of the [UK] Department of Education and Employment and [UK] Department of Trade and Industry to undertake a review of high growth small and medium enterprises [SMEs] and, in particular, the role of management development in the growth process. This Report has been made available to the Senate Inquiry Secretariat. Also, the submission reflects strong empirical evidence gathered through the day-to-day activities of the Entrepreneurship and Business Development Unit [EBDU] at Curtin Business School.

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<sup>1</sup> Broadly, these businesses are still owner-managed and, probably, in the turnover band \$400K to \$2 million.

<sup>2</sup> The author [Tim Atterton] was Executive Director of the prestigious Small Business Centre at Durham University Business School [DUBS] in the United Kingdom from 1990 to 2000, prior to moving to establish the Entrepreneurship and Business Development Unit at Curtin Business School in June 2000.

<sup>3</sup> “*Management Development In High Growth Small And Medium Sized Enterprises – The Gap Between Needs and Provision [The Scope for Action]*”; Durham University Business School, 1997.

The EBDU at Curtin Business School is believed to be unique in that it is the only organization of its type in Australia established specifically to provide management education and business development support to the owner-managers of premium [growth orientated] SMEs in Western Australia. In this capacity, the Unit has close interaction with over 120 premium SMEs each year and an alumni of approximately 300 of Western Australia's most dynamic growth businesses.

### **Background and Context.**

By most definitions, Australia is an “*entrepreneurial country*”, with one of the highest rates of business starts ups in the World and one of the highest rates of small business ownership. However, there is compelling evidence to support the view that “*entrepreneurial behavior in Australia does not run deep*”.

The GEM Australia Report, 2001<sup>4</sup> suggests that the businesses we create “*are small, getting smaller, and dying younger*”. The reasons for this are complex, varied and include *inter alia*: -

- Low social legitimacy of entrepreneurship, especially of entrepreneurs with high growth ambitions
- A deeply conservative banking sector that lags behind other developed economies in terms of the sophistication of their SME financial services products and SME relationship management skills
- Limited availability of early stage [development] capital, and
- A lack of management skills within the SME sector and, in particular, skills and competencies relating to the management of sustainable and profitable growth.

The remainder of this submission focuses on the “*SME Management Education Challenge*” and, in particular, the substantial opportunity that exists for stimulating both wealth creation and employment growth within the SME sector by improving the provision of contextualized training and contemporary [proven] approaches to management development.

### **Management Education and Development within the Early Growth Business.**

Many owner-managers of small firms wish to grow their own businesses but the majority simply do not possess the skills and management competencies required. For example, all-too-often, they pursue strategies of sales growth rather than profit growth; frequently under circumstances of under capitalization and inadequate working capital requirements. As a result, they inadvertently damage the very businesses that they have carefully nurtured during its formative years. Few understand the concept of controlled and incremental growth and the underlying necessity to build Balance Sheet strength. The vast majority are more interested in tax minimization than retained earnings.

Insight into one, and perhaps the most influential, cause of the lack of growth in the SME sector is provided by examining the life-world and management styles of the typical owner-manager. Entrepreneurial personality, behavioral patterns and associated management styles have been the focus of research for some time, primarily in the U.S. and Europe. This research provides some interesting insights into possible barriers to growth within the SME sector and how these may be overcome.

Broadly, entrepreneurs demonstrate “*Type A*” behavior patterns, sometimes referred to as “*social deviancy*”! Characteristics and manifestations of entrepreneurial management styles include the following:

- *High levels optimism*
- *A reluctance to read and write*
- *A strong tendency to “learn by doing”, and by making mistakes*
- *A desire for independence, and high “locus of control”*
- *Great difficulty in analyzing their own businesses and an inevitable tendency to “treat symptoms of problems, rather than root causes” leading to...*
- *Constant pre-occupation with operational management and “fire-fighting” rather than adopting a strong strategic orientation that helps them to realize the full growth potential of their businesses*

<sup>4</sup> Global Entrepreneurship Monitor Australia 2001 produced by Hindle and Rushworth at Swinburne University of Technology.

As a result, they have an overwhelming tendency to “*intoxicate themselves with work so they won’t see how they really are*”<sup>5</sup>. Experienced and empathetic SME management educators, of whom there are few, appreciate that the “driver behavior” and personal characteristics that push entrepreneurial people to establish their own businesses are frequently dysfunctional and present real barriers to achieving future growth and development. Owner-managers of SMEs with demonstrable growth potential need help to adopt a much stronger strategic orientation to business growth that enables them to step back from day-to-day operations, analyze the current performance of their business with a view to establishing a sound platform for future growth and develop clear strategic horizons and goals for their businesses. Fundamentally, this is the often cited but rarely achieved imperative to work **ON** their businesses, rather than **IN** their businesses.

Compelling evidence exists, world-wide, to support the view that building managerial competence is the key ingredient in the process of unlocking the potential of the SME sector. It ranks equally as important as issues relating to the enabling macro-environment [e.g. de-regulation, taxation and availability of finance]. Unfortunately, and despite clear insight into the way to proceed, it is a challenge that the Management Education Sector has largely failed to respond to. Developing supply-side capability in terms of SME management education as a national Policy Priority is a relatively low-cost and high impact action, and one that deserves serious consideration.

### **Defining Management Development in the Small Firm’s Context.**

In the SME context, a clear distinction must be made between *manager* development (which is the focus for MBA programs and most conventional management education) and *management* development (which has a clear focus on business improvement and links management performance substantially to the achievement of company objectives).

Thus, SME Management Development is:

*“Not formal training per se, but the process by which managers - usually owner-managers – within the business learn and embed this learning within the business with a view to taking their operations to a new level of development.”<sup>6</sup>*

### **Successful Management Development in the SME Sector.**

Fundamentally, it must be recognized that there is a close relationship between business development, organizational development and management development in the SME. Owner-managers and key managers will develop by a process of problem solving and opportunity seeking within their own businesses on a “*need to know*” basis as they are more open to change and external influence when they are facing a step change in their operations.

The keys to successful management development within the SME include recognition of: -

- The importance of building the core entrepreneurial skills of the owner-manager
- The importance of developing strategic thinking and planning capability
- The importance of analyzing current performance and introducing management actions that improve the foundations of the business with a view to sustainable and profitable growth
- The fact that process skills [“*how to’s*”] is more important than functional knowledge
- The importance of focusing upon developing new market opportunities
- The importance of relationship management as a critical success factor in SME development
- The importance of team building and development
- The importance of learning from peers.

In stimulating latent demand for management development in the SME sector, it is important for providers to build their training “offer” around natural drivers for businesses to seek external assistance. These drivers will include: -

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<sup>5</sup> Aldous Huxley, as quoted in “The E Myth Revisited” by Michael Gerber.

<sup>6</sup> Professor Allan Gibb OBE, Durham University Business School, 1999.

- The existence of a problem or opportunity within the business
- Pressure from competitors to improve performance
- Major changes in the operating environment
- Sheer frustration with the inability to progress the business
- Stakeholder pressure for change and development
- Pressure from succession within the family business
- Pressure from within the management team to fulfill ambition or achieve personal goals
- Pressure from the wider community in terms of the status or image of the business
- The necessity to attract new resources into the business to achieve a step change in operations.

It is vitally important for providers of SME management education and development to build upon these natural stimuli and use them to make the training offer more attractive and relevant.

### **The Challenge to SME Training Providers.**

The above presents a number of key challenges to the providers of SME training if they are to both stimulate demand and deliver training of perceived value. These challenges include: -

- The need to segment the SME market in a more sophisticated fashion that leads to more meaningful training needs analysis
- The need to ensure that the training offer is presented distinctly in terms of providing “know how” in terms of problem solving, opportunity grasping and overall business improvement
- The need to demonstrate that training serves to “bring forward the future” in terms of business development and helps to alleviate future problems that may occur
- The need to highlight best practice approaches into the vision of the business as a trigger to development
- The need to help SMEs to benchmark their performance against peers
- The need to establish partnerships with a variety of stakeholders in the SME environment (e.g. bankers, accountants etc.) with a view to promoting learning in both directions, and reduce transaction costs if possible.
- The need to build programs around development poles, clusters and supply chains
- The need to build programs around sectoral groups that work together on common issues
- The need to integrate practitioners into programs as effective management development educators
- The need to improve overall business performance through succession programs and internal team building.

Overall, there is an urgent requirement for management educators to review their marketing strategies, fundamentally re-design their programs and re-visit their training methods so that they provide future gateways that enable SMEs to anticipate the future, and prepare themselves for it.

### **SME Management Development – The Gap Between Supply and Demand.**

Clearly, there is a mis-match between the supply of training to the SME sector and actual demand. A plethora of myths and supposed truisms have emerged in respect of SME training and development. These include tacit acceptance that small firms will not pay for training and that they are too busy to attend training courses! To a large extent, these myths have been exposed but, on the whole, the management education sector has been slow to adopt new, more appropriate approaches that are SME friendly. This is hardly surprising as most Management Education Institutions derive their prestige and the majority of their revenues from the Corporate Sector and perceive small firms training to be a high-volume, low-margin market opportunity at best. Within the management education community, there is a strong tendency to blame the customer [!] for not taking advantage of existing training opportunities. However, it is apparent that, once the training “offer” has been customized and contextualized to be SME friendly and appropriate, issues of recruitment and even payment cease to be a significant problem.

In general, there are a range of specific “supply-side” problems that need to be addressed if the provision of management education to the SME sector is to be improved. These include: -

- The need to configure Training Organizations in a more entrepreneurial manner. There is substantial evidence to support the view that organizational effectiveness is dictated by the degree to which an organization reflects its task environment.
- The need to move away from the conventional subject / functional focus of management education to an approach that is contextualized to the problems, opportunities and, indeed, context of the SME that is outcomes based
- The need to develop skills for more detailed and meaningful training needs analysis within the smaller firm
- The need to develop a clear definition and understanding of the core entrepreneurial skills
- The need to develop capacity to focus on business development processes
- The need to stimulate discussion and debate on appropriate SME pedagogies that respond to the learning styles of SME owners and managers
- The need to develop, test and disseminate good training practice in terms of programs, case studies and other materials
- The need to encourage dedicated Centers of Expertise that will pioneer new management education approaches that excite the SME community
- The need for Government, at all levels, to recognize the importance of the SME management development imperative.

**Suggested Policy Actions to Mitigate the SME Management Development Problem: -**

The SME Management Education and Development Sector in Australia is significantly underdeveloped in comparison to most countries of a comparable nature; in particular, the provision of management education for premium growth-orientated SME with demonstrable potential for sustained and profitable growth. There is a strong argument for initial Government intervention to alleviate a problem of temporary market failure. Action might focus on two critical areas of intervention: -

***“To Stimulate Demand”-***

- Focus on developing innovative ways to identify drivers [“triggers”] to management education and business development in a sustained national campaign to stimulate interest in a wider range of growth-orientated SMEs
- Actively seek SMEs involved in a significant change in product, market or technology who are at a threshold of development that requires new skills and competencies
- Develop approaches to SME management competence that focus on business improvement and development processes, rather than functional management
- Establish SME Management Development Programs that take advantage of experience exchange, existing knowledge and peer group interaction as a vehicle for learning
- Ensure that SME Management Development approaches are designed to focus upon problem solving and opportunity seeking and linked to critical incidents in the stages of SME growth
- Promote innovative ways to stimulate SME Management Development by involving the SME stakeholder environment [bankers, accountants, advisers etc.] and external inter-dependencies using relationship management as a vehicle for learning and development
- Ensure that marketing approaches for SME management development programs are linked closely to partnerships with trade, sector and membership organizations
- Focus on the potential for promoting group management development schemes on a sector basis that incorporate training needs analysis
- Integrate more conventional approaches to training with the provision of in-company support e.g. coaching, mentorship schemes and peer support

- Ensure that formal approaches to training and management development such as National Competency Standards and Investors in People are carefully adapted to suit the limitations and differentiated circumstances of small firms.

***“To Stimulate Effective and Appropriate Supply” –***

- If possible, agree a definition of high growth SMEs as a guide for future policy direction and support intervention
- Explore the potential for establishing a nation-wide network of dedicated entrepreneurial delivery organizations to work exclusively with high growth SMEs
- Support the creation of a number of dedicated Research and Development Centers of Excellence responsible for the design, development, testing and wide dissemination of high quality and conceptually sound SME training and management education initiatives to an approved national network of training providers
- Invest substantially in a national program for the training of trainers for the SME market, and establish national standards for SME trainers.
- Establish a national focal point for identifying, storing and disseminating best practice models in the area of SME management education and training
- Encourage training providers to be more closely embedded in local and regional SME stakeholder networks and reward SME training initiatives that are advanced in partnerships and strategic alliances
- Endeavor to help build [much] strong institutional capacity in the SME training arena over time
- Focus upon parallel initiatives that aspire to transfer high quality human resources into the small, growth-orientated firm [e.g. graduates or re-settled managers].

**Note:** Substantial international experience and existing best practice models are available in respect of all the above recommendations. These could be imported into Australia quickly and relatively cheaply with a view to rapid local adaption and wide dissemination.

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