

**Management Development and Learning in
Micro Businesses: a ‘missing link’ in
research and policy**

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policy**

**A report prepared for:
Research and Evaluation Unit
Small Business Service**

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Executive Summary

Introduction

This report has been prepared by the Policy Research Institute at Leeds Metropolitan University to inform policy thinking about learning and development in micro businesses. The emphasis of the report is placed on exploring management development in the micro business context however at the request of the SBS wider issues of workforce development are also considered.

Rationale and aims of the project

Managers within micro enterprises are particularly well placed to influence the development of their organisations as the roles of chief executive, line manager and chief allocator of financial resources are undertaken by one (or perhaps two) people. Developing the skills and raising the aspirations of these managers has the potential to have material effects on the development of the enterprise and its workforce. Managers of micro enterprises are unique in the sense that they do not have the career development paths of managers in larger enterprises nor the impetus provided through 'staff appraisals' to act as a stimulus for development activity. Understanding the needs of these managers and their learning preferences is a fundamental foundation upon which to build effective interventions.

The project seeks to identify, and where possible, address the information gaps associated with management development in established micro enterprises through a review of existing literature and data sources. The project

- consolidates research on the development needs and learning behaviour of managers in micro businesses (employing less than 10 people)
- develops a conceptual model to explore learning and external interventions in the micro business context
- considers the implications for research, policy and the design of interventions seeking to develop managers in micro enterprises.

An introduction to micro businesses

The research identifies the important contribution of micro businesses to the economy. Businesses with up to ten people employ approximately 3.8 million people (30% of all private sector employment). The analysis identifies the heterogeneity of micro enterprises and draws attention to the fact that established micro enterprises need to be recognised as a distinct entity in the development of policy. The typology of 'high growth' and 'lifestyle enterprises' often adopted by policy stakeholders is explored and found to oversimplify analysis. For example, the practice of multiple and serial ownership is identified as an issue which should be taken into account when discussing business growth and the challenge of succession planning is identified as an important factor in development and sustainability.

The analysis reveals micro enterprises as complex social organisations and managers as having a pivotal role in their culture and any change therein. It highlights the twin

policy challenges associated with encouraging the growth and development of micro businesses and their lack of investment in structured human resource management systems and external training opportunities currently on offer.

Learning and management in the micro business

The report identifies multiple views of the nature of management and learning which may be applied. It contrasts the view of the manager in control, drawing on a toolbox of skills and techniques within a structured environment with the manager struggling to maintain control and interpret events in a hectic environment. It highlights the different conceptions of learning and draws attention to the policy need for 'generative' or 'double loop' learning as a means of stimulating innovation, creativity and change and the contrast with the reactive, coping approach adopted by many managers.

However, the literature associated with the nature of management in the micro business context is very limited. Much management theory is based upon experience in large firms and whilst common managerial skills may be apparent it is the contextualisation of these skills within a specific business which is distinctive. Much of the literature emphasises the owner manager as the focus of analysis and their personal nature of their involvement in the business which often influences their behaviour. A limited empirical analysis of data (n=250) held in the Policy Research Institute suggests real differences in the development processes (external sources and succession planning) adopted by businesses employing under 10 and more than 20 employees. Furthermore, micro business managers are seen as a major contributor to, or inhibitor of, business growth.

Towards a conceptual model of learning in the micro business context

The conceptual models developed in the report have been drawn from analysis of the literature. Like all such models, they represent our best efforts to provide an explanation in abstract terms of a complex feature of the real world, i.e. management development and learning in micro-businesses. The conception of learning through transactions and relationships outlined in the models may be broadly applicable, however the characteristics of micro (as opposed to small) business managers themselves may inhibit the potential of such learning opportunities. The models therefore should still be considered as partial, to be tested in practice and subject to revision as new understanding unfolds.

The conceptual model highlights the need to develop relationships with both micro business managers and their existing networks. It suggests that unless interventionists are able to tune into the interests of individual micro business managers, their offerings will be seen as largely irrelevant and the problem will remain of engaging those managers not predisposed to learning. The models highlight the need for learning to be encouraged or facilitated by a 'close' or 'immediate' person within the micro business world. The development of trust, established through a range of dealings over time is necessary before influence can be achieved. However the relationship is not purely a means to an end and the establishment of an enduring relationship is often a prerequisite for influencing practice in the micro-business context.

Implications for public policy

The literature review and subsequent analysis highlights the lack of information exploring management development in the micro business context and the inadequacies of current policy interventions. It advocates the case for discrete interventions to support established micro businesses as part of a balanced support policy including start-ups, SMEs and larger enterprises. Those developing policies to support management development activities have largely ignored the micro business context or assumed that it is embraced by the term 'SME'. However the number of people employed in micro businesses (approximately 6.8m) provide a powerful argument for the inclusion of these businesses as a specific entity in policy formulation and implementation. The less formalised and more personal management practices in micro businesses mark them out from larger businesses (say employing over 20). There is a major supply side failure to mainstream offerings which reflect the interests of micro business managers and to present them in a coherent way. There remains a need to design, develop, deliver and evaluate offerings which are in tune with the interests of the micro business manager. The foundation of this process should be the interests of the managers themselves. Closer relationships between a flexible supply-side and the micro business manager could provide the foundation for improved access to learning opportunities amongst the workforce and improve the relevance of these interventions in the micro business context. However, only after a period of successful joint working on business problems and opportunities can micro business managers be expected to jeopardise the approach to management and leadership which has generally served their lifestyle in the past and, if the external environment permits, pursue the growth in their business employment and increased training activity that policy makers desire.

1 Introduction

This report has been prepared by the Policy Research Institute at Leeds Metropolitan University to inform the Small Business Service (SBS) about learning and management development in micro businesses. The emphasis of the report is placed on exploring management development in the micro business context however at the request of the SBS wider issues of workforce development are also considered.

1.1 Context

The development of management skills in the economy has gained prominence across government (DTI/DfEE 2001, HM Treasury 2000, PIU 2001). The government, along with other stakeholders such as The Council for Excellence in Management and Leadership (CEML), the Institute of Management and the Chartered Institute of Personnel and Development have all recognised the importance of good management skills to the economy as a whole and to the effective operation of individual firms and have commented on weaknesses in this area in the UK.

However there is a fundamental research gap associated with management development within the context of micro enterprises which account for 95% of all businesses in the economy and almost one third of all private sector employment. National reviews to inform the development of management education and learning have ignored the micro business context. For example, an Institute of Management Report titled 'A Portrait of Management Development' was based on a survey of 500 managers in organisations employing 100 to 1,000 employees (Thompson et al 1997). The Cannon Working Party Report 'Management Development to the Millennium' presented brief analysis by organisational size of organisations employing 20 or more (IM 1994). The Taylor Working Party Report drew on research with 1246 managers including those working in organisations employing less than 100 employees but did not present any data which took account of differences associated with the size of the business (IM 1994). A National Skills Task Force research report exploring Management skills (Johnson and Winterton 1999) drew attention to micro businesses as a distinct entity but presented no specific analysis. Implicitly management in the micro context was viewed as synonymous with management in the SME context. In a comprehensive survey of almost 4,000 small businesses, Thomson and Gray (1999) report the growth in the amount of small business management development in the last decade. However they found that considerably less activity is apparent in micro organisations. They conclude that micro firms do not generally have a management structure that requires any management development policy or system only a policy of self-development for the owner-manager.

1.2 Rationale and aims of the project

Managers within micro enterprises are particularly well placed to influence the development of their organisations as the roles of chief executive, line manager and chief allocator of financial resources are undertaken by one (or perhaps two) people. Developing the skills and raising the aspirations of these managers has the potential to have material effects on the development of the enterprise and its workforce. Managers of micro enterprises are unique in the sense that they do not have the career development paths of managers in larger enterprises nor the impetus provided through 'staff appraisals' to act as a stimulus for development activity. Understanding the needs

of these managers and their learning preferences is a fundamental foundation upon which to build effective interventions.

The aim of the project is to make a contribution to the development of thinking within the SBS, Government Departments and wider support infrastructure associated with a specific sub-set of small businesses, namely established businesses employing up to ten people. It will address the issue from a management perspective.

The project seeks to identify and where possible address the information gaps associated with management development in established micro enterprises through a review of existing literature and data sources. The project will

- consolidate research on the development needs and learning behaviour of managers in micro businesses (employing less than 10 people)
- Assess the extent to which there are differences in the learning behaviour of managers in established micro enterprises vis a vis smaller enterprises employing up to 50 employees
- develop a conceptual model to explore the learning behaviour of micro business managers
- consider the implications for research, policy and the design of interventions seeking to develop managers in micro enterprises.

1.3 Methodology and report format

The project is based on an analysis of a variety of secondary information drawn from sources of published material from the academic literature, government departments, consultancy reports and web-based material.

A preliminary literature search was undertaken to find what publications were available relating to the topics of 'micro business' or 'micro enterprises' published over the last five years. The Planning Exchange 'Planex' online database and the 'British Library Public Catalogue' (BLPC) were searched using the simple search strategy micro and (business* or enterpris*). The Planex search produced eighty hits and the BLPC search produced seventy-seven. This preliminary search provided some indication of available publications in the general area of micro business and/or enterprise although many of the references were not directly relevant to the issue of management development or learning in the micro business context.

Following the preliminary searches, a more extensive search strategy was developed that opened up the subject area to small businesses/SMEs and used a wider range of online databases. At the same stage, the strategy also incorporated terms such as management development, management learning or management, development or learning. In addition to Planex and BLPC, three journals databases were searched. These were Social Science Citation Index (SSCI), based on the Web of Science server, International Bibliography of Social Sciences (IBSS), based on the BIDS server and British Library Inside Web.

Documents were retrieved and reviewed. The conference proceedings from established small business conferences such as the Institute of Small Business Affairs (ISBA) Conference, the Small Business and Enterprise Development Conference, the European Small Business Seminar and the Research in Entrepreneurship (RENT) conference for

the past three years were also reviewed. References of particular relevance prior to 1998 were followed up, obtained and reviewed.

The analysis of literature provides the basis for this report. Section 2 of the report reviews the contribution of micro businesses to the national economy and explores the nature of micro businesses. Section 3 of the report introduces the nature of management, learning and development and explores the contribution of management to the growth and development of micro enterprises. Section 4 of the report draws on the existing literature to develop a conceptual model to explore the nature of learning and the problems facing agencies which seek to encourage micro businesses to develop and grow. Finally section 5 of the report examines the policy context and outlines some challenges facing the SBS and the wider policy community if they are to encourage learning and development in the micro business context.

2 An introduction to micro businesses

This section of the report introduces the contribution of micro businesses to the national economy and explores the nature of micro businesses. It outlines the policy challenge in terms of business growth and workforce training and development.

2.1 Micro businesses in the economy

The definition of a 'small business' has been subject to considerable debate since the Bolton Report (1971) first identified the contribution of this sector to the economy. At the beginning of the report the committee devoted some space to the question of definition. It concluded that a small firm has a relatively small share of the market, is managed by its owners in a personalized way and independent in the sense that it is free from outside interference in decision making. For practical purposes it was accepted that a statistical definition was necessary and that any boundaries in terms of size are necessarily arbitrary and relative. A mix of level of sales turnover (£) and the number employed was adopted together with other measures. The most common measure adopted in policy circles is based on the simple metric of the number employed (under 200) in the business. However this too is fraught with difficulty given the changing labour market and the greater use of practices including sub-contracting, temporary employment contracts and part-time work. Furthermore, international agencies such as the Small Business Administration in the United States use 500 employees as an upper limit for the definition of a small business and the European Commission use the same criteria as the upper limit for their definition of small and medium sized enterprises (SMEs). To add to the confusion, the term SME is sometimes used interchangeably with the term small business which in turn embraces micro enterprises.

Notwithstanding the uncertainty surrounding definition, the number employed remains the most common measure of business size in policy circles. The term micro business has gained currency over the past ten years as a distinct entity. Micro businesses are generally defined as those businesses employing up to 10 people (Stanworth and Gray 1991, Storey 1994, Johnson 1999).

National statistics provide an indication of the contribution of micro businesses to the national economy. Table 2.1 summarises the number of businesses in the economy over various sizebands and the employment associated with these enterprises.

Table 2.1. Number of enterprises, employment and employees in the whole economy by size of enterprise 2000

Size	No of businesses (000's)	%	Employment (000's)	%
0 ¹	2612	69.0	3014	11.3
1-9	973	25.7	3812	14.3
10-49	163	4.3	3123	11.7
50-249	27	0.7	2783	10.4
250-499	4	0.1	1319	4.8
500+	4	0.1	12707	47.5
Total	3783		26758	

Source: SME Statistics for the UK 2001 21/06/2001. www.dti.gov.uk accessed 11/12/01

It is apparent that businesses employing up to 10 people account for 95% of all businesses in the UK and 25% of all employment. There is little doubt that in terms of numbers of enterprises in the economy, micro enterprises are a major constituent. Their contribution to employment is also considerable although inevitably spread over a large number (3.6m) of enterprises in the UK. However the fact that large employers (employing over 500) account for almost 50% of the workforce reinforces the concentration of employment amongst larger enterprises² in the economy as a whole and provides an insight into why small and micro businesses are often relegated to the margins of policy making.

Analysis of *private sector employment* (table 2.2) reinforces the contribution of micro enterprises in terms of the number of businesses in the economy and their contribution to employment.

Table 2.2. Number of enterprises and employment in the private sector by size of enterprise 2000

Size	No of businesses (000's)	%	Employment (000's)	%
0	2591	69.6	2996	13.5
1-9	944	25.4	3697	16.7
10-49	154	4.1	2956	13.4
50-249	25	.7	2536	11.5
250-499	3	.1	1132	5.1
500+	3	.1	8814	39.8
Total	3722		22131	

Source: SME Statistics for the UK 2001 21/06/2001. www.dti.gov.uk accessed 11/12/01

Whilst micro businesses account for a similar proportion (95%) of all businesses their contribution to employment increases from 25% of all employment to 30% of all private sector employment. However, employment remains concentrated in large businesses with 0.1% of all businesses accounting for almost 40% of all private sector employment.

National statistics enabling the analysis of the contribution of micro businesses to the gross national product or other measures of economic performance are scarce. One measure that is available over different sizebands is the level of turnover (£).

¹ Sole proprietorships and partnerships comprising only the self employed owner-managers(s) and companies comprising only an employee director

² although the proportion of employment in larger enterprises has decreased gradually over the last decade

Table 2.3. Turnover: employment ratio by size of enterprise 2000

Size	Turnover (£b)	%	Ratio of Turnover:employment
0	151	7.4	5.04
1-9	313	15.4	8.46
10-49	292	14.4	9.88
50-249	282	13.9	11.1
250-499	145	7.13	12.8
500+	849	41.8	9.6

Source: SME Statistics for the UK 2001 21/06/2001. www.dti.gov.uk accessed 11/12/01

Micro businesses account for £464bn turnover in the economy, just under 23% of total national turnover. Creating a ratio of turnover to employment provides a proxy measure of productivity which reveals that micro businesses (particularly the smallest) have the lowest ratio of turnover generated per employee. Whilst only a proxy measure this raises alarm bells for policy makers who are interested in raising productivity across the economy as a whole.

This simple analysis has provided an introduction to the substantial contribution which micro businesses make to the economy. However it tells us little about the nature of micro businesses which make them distinct from other, larger enterprises and which provides the context for their management and development activities.

2.2 The nature of micro businesses

In the last decade industrial restructuring and changing corporate practices has swelled the ranks of micro enterprises. For example ‘downsizing’ and outsourcing have opened up opportunities in many service sectors of the economy. Micro businesses, in spite of their size and relatively simple organisational structures include organisations of considerable diversity including start-up businesses, the self employed, owner-managed organisations, distinct ‘social’ groupings (e.g. women, ethnic, family), franchises, hi tech and businesses with different legal status. Each of these have been treated as research areas in their own right and they are not mutually exclusive. For the purposes of this report they are briefly introduced below to illustrate the heterogeneity of micro enterprises in the economy.

2.2.1 Start-up

Whilst not the specific focus of this research, start up businesses are an important constituent of the micro enterprise population. In common with their established counterparts they face management challenges marshalling scarce resources, planning, controlling, coordinating and motivating, although the nature of these challenges may be different. Theories of entrepreneurship (e.g. Frank 1998) suggest that as the firm grows, the skilled entrepreneur, through experience learns rapidly, modifies his/her behaviour and learns to take a realistic approach to running the business. By contrast the inexperienced and/or less skilled entrepreneur is more likely to exaggerate the strengths of the firm and the individual whilst at the same time underestimating the businesses weaknesses and the threats posed by the external environment.

In common with many European countries, the number of new businesses created each year has stagnated, whilst the rate of business failure within the first five years has not diminished – currently half of all new businesses fail within this period. One of the reasons cited for this is that too many small businesses are launched with insufficient

preparation and an unstable financial basis and are therefore in trouble from the very first months of trading (Blewitt 2000).

2.2.2 Self employed

It is argued that the growth in SMEs is largely the result of the increasing number of micro businesses and more clearly the growth in the number of self employed particularly those for whom self-employment is a second job (Humphries 1997). The inclusion of those that may be classified as self-employed provides an illustration of the differing nature of businesses ostensibly employing the same number of people which fall under the scope of the micro sector. However, it is argued quite strongly that self employment should not be used as a synonym for micro business as the director of a company is not self employed and faces a myriad of differing issues (Langdon 2001). For the purposes of this review the issue of self-employment is more than a legal distinction with issues associated with the management of other people within a micro business context an important consideration.

2.2.3 Owner managers

Much of the literature emphasises the 'owner manager' as the focus for analysis of business performance and learning in the small business context. However this is also a multifaceted concept. For example, entrepreneurs may be deemed as part of this group which may also include 'hierarchs' or in effect salaried managers (Collins et al 1964). Craftsmen are also identified as a unique group who practice a trade but also happen to own and manage a business (Hornaday 1990). However, these typologies are subject to criticisms as for example, classifications are often based on subjective and relative judgements where principles for categorisation are unclear.

Shifting the emphasis of the analysis to the organisation, multiple owner-managers may be apparent in even the smallest organisations with associated implications for management and decision making.

2.2.4 Family, women and ethnic businesses

Historically, the micro business has been a hereditary family business selling special skills passed on through the generations (e.g. farmers, guild artisans). More recently craft skills (e.g. carpenters, fitters, mechanics) and retail outlets have passed through the generations.

Family businesses are increasingly recognised as an important constituent of the economy accounting for about 75% of all business enterprises (Cromie et al 1999). However it would be a mistake to view family and micro businesses as synonymous as research suggests that less than one third of family businesses are micro businesses. Other research notes different ownership models within the broad categorisation of family businesses and the maturity (average trading period seven years) of these businesses (Baines and Weelock 1998).

Researchers have used other conceptions of business to explore and develop different understandings. For example, the profile of ethnic minority enterprises has risen gradually over the past decade (Ram 1999, Fadahusi et al 1999, Ram and Smallbone 2001) and their growing importance has been recognised in policy documents. Women too have emerged as an important driver of business enterprise. However a review of issues associated with women in micro enterprises in the international context (Dignard

and Havet 1995) concluded that the domain remains under-researched. It is suggested that very little information exists relating to the specific nature of their problems, or what is being done to promote or develop their businesses. More recent research (Still and Timms 2000) explores the reasons behind womens' failure to grow their businesses concluding that certain barriers impinge more on women than men. This view is supported by Carter (2000) who suggests there are profound gender differences in both women's experiences of business ownership and the performance of women owned firms'.

2.2.5 Hi tech businesses

ICT entrepreneurs achieved high profile economic growth, peaking in the boom in the late 1990s. The influx of ICT based companies (often referred to as dot.coms) created a revitalised image for start up and micro enterprises. This raised the stature of micro enterprises and influenced policy makers and the business community more generally and despite the subsequent demise of many dot.coms, the legacy of micro enterprises acting as a driving force for a new industry remains.

2.2.6 Legal status

There are a variety of ways of forming an enterprise in the eyes of the law including sole proprietorship, partnership and limited company all of which have implications for the management of the enterprise. A further option is franchising which continues to be promoted as an opportunity to 'be your own boss'. However franchisees occupy an ambiguous position of being neither fully in control of 'their' business nor fully controlled (Stanworth and Stanworth 1999) and are thus in a different position to the independent owner-manager.

Changes to company law have made the limited company a more favourable option for more entrepreneurs. Compulsory external audits have been waived for companies with a turnover below £1m and more micro businesses are opting for lower taxes, easier borrowing and the safety of limited liability offered by incorporation (Langdon 2001). However it would be a mistake to view hi-tech incorporated companies as being representative of the micro business sector. Many micro businesses have turnovers below the VAT threshold and do not register for VAT. Those that work from home may not appear in any official statistics and those that operate in the grey or black economy may take steps to avoid being recognised as a business entity.

This brief review provides an insight into the different conceptions which may underpin discussions about the nature of micro businesses and it is important to recognise these differences and the complexity of the characteristics of micro enterprises as an aggregated, distinct entity.

2.3 The policy challenge

Key elements of the challenge facing public policy lie in the propensity of smaller businesses to grow and their lack of engagement in external training activity.

2.3.1 Propensity to grow and develop

A range of theories and models have been developed to explore and explain business growth mostly in the large business context (see O'Farrell and Hitchens 1988 for a review). Of particular interest may be the models which conceptualise the business passing through a sequence of growth stages which have implications for the

management and resources of the enterprise. However their practical application in the micro business is limited as the majority of micro businesses do not grow to any great degree. International comparisons (in Stanworth and Gray 1991) suggest that fewer micro-businesses in the UK, particularly in manufacturing, seem to expand upwards into the larger group of enterprises that are often embraced by the term small and medium sized enterprises (employing between 11-250). Furthermore research by Smallbone and North (1996) suggest that whilst younger businesses (those in existence for less than ten years) have a higher propensity to create jobs, a substantial proportion of mature businesses also realise this potential. Consequently the challenge for support policy for micro businesses is not solely one relating to business start-ups but also one associated with the development of existing micro enterprises at various stages of maturity. These businesses are continually adapting and evolving in response to a variety of internal and external drivers even if they are not growing to any great degree in terms of the number that they employ at a point in time.

A crude typology is often adopted to denote the nature of micro and SMEs more generally. This typology often identifies two types of SME namely 'growth' and 'lifestyle' organisations. The lifestyle business is set up to provide the owners with an acceptable level of income and comfortable level of activity. It is argued that these account for the majority of smaller enterprises where the overriding motivation that inspires small firms is the desire to be independent and support a preferred lifestyle (Gray 1998) along with a low or no-growth orientation (Perren and Grant 2001). Only a few small businesses are growth businesses with expansion as their ultimate business goal (Greenbank 2001) and may be viewed as 'entrepreneurial' (Gray and Allan 2000). Storey (1994) suggests that only a small proportion (4%) of business will grow to any considerable size and make a contribution to employment generation. 'Lifestyle businesses' are generally viewed as numerically dominant, with a small proportion of businesses classified as high growth.

This to a large extent represents conventional wisdom associated with the nature of micro enterprises. However others (Scott and Rosa 1997) note that the reliance upon the firm as the unit of analysis neglects the broader processes of ownership and control. They conclude that the practice of multiple and serial ownership in the small business context remains a rich avenue for further study.

There is some agreement overall that along with financial and other resource based obstacles to growth, there are deep seated social obstacles (e.g. Barber et al 1989, Clark et al 2001)

For example, research in micro enterprises provides an insight into the social complexities at play in small organisations (Kruse et al 1997). In-depth qualitative research focuses on the complex inter-relationship between the owner manager and the changing organisation in the context of organisational growth. It also contains an emphasis on familial aspects of micro enterprises. The research is based on the development of 20 case studies, fifteen of which employ 10 people or less. It notes the concentration of business strategic managerial functions on a single person who also has to oversee the production process and deal with customers. Kruse et al note

'the most essential differentiating feature is the role of the owner manager himself...he is the central force in it, he exercises the most important functions and 'lives' his enterprise extensively'.

The authors note that a micro enterprise can only be modernised successfully in the long run if the traditionally strong polarisation of the onus of work onto the owner-manager is changed in favour of a team-based approach. Few individuals have both the technical and commercial skills and knowledge necessary to build a successful company. Most successful organisations are built on teams of two or more individuals. Even the lone entrepreneur who starts with the intention of going it alone finds it necessary to build a team at some stage of development (Thomas et al 2001).

Kruse et al (op cit) draw attention to the critical decision point as the point at which the decision is taken to employ further staff in addition to the owner's family. This often involves relatively large investments of time and money and a degree of uncertainty. This has to be managed to effectively free up the owner-managers time to devote to other, perhaps more strategic activities.

There is a further challenge associated with sustaining existing businesses where owner managers are seeking to exit the business. The owner managers knowledge is frequently a key element of the SMEs human capital and must be transferred as part of a succession process but this is often neglected and difficult to achieve. It is estimated that in the EU 30,000 SMEs involving around 300,000 employees close each year through a lack of succession planning (Martin 2001).

2.3.2 Propensity to train

The development of skills and the sourcing of training are often a third order issue for management, behind questions concerned with competitive and product market strategies and second order choices about work organisation, job design and the people management systems needed to deliver them. Decisions about training and skills are taken within the wider context set by first and second order decision making. An influential study by Hendry et al (1991) adopted a qualitative study of HRD practices in SMEs (but excluded micro businesses) identified multiple drivers of training activity and revealed some of the complexity of the processes at play in the SME context.

In a review of workforce development for the National Skills Taskforce the authors concluded that we do not have a good picture of how much learning activity is actually going on or what form it takes (Stern, Sommerlad 1999). Research (Eraut 1998) suggests that informal learning may account for the bulk of workplace learning in the UK and it is an area which is in need of greater attention on the part of employers, policy makers and researchers (Ashton 1998). This situation is compounded in the micro business context given the lack of an holistic theory and associated empirical evidence.

Analysis of the micro business context is largely ignored in considerations of wider workforce development. Established sources of information such as the Skills Needs in Britain survey have until the last year excluded organisations employing under 25 people (IFF 2000). The literature search provided no illustrations of the micro business context based on analysis of other established sources such as the Labour Force Survey, the Manpower and Skills Practices Survey or the International Adult Literacy Survey. Where analysis of development activity by business size is undertaken, it is usually based on businesses employing more than 25 employees as opposed to micro enterprises.

Consequently there is a reliance upon bespoke and largely small scale surveys to inform policy. Research has tended to focus on visible, and to some extent measurable aspects of personal and organisational development. In a review of skills issues in SMEs for the

National Skills Task Force, Johnson (1999) notes that micro businesses are less likely to identify skills shortages and less likely to provide formal training than SMEs and larger organisations.

Typically, researchers investigate the existence of formal HRD practices or those with inputs or outputs which are relatively easily identifiable and measurable even though previous research suggests that most small business managers are unlikely to formalise their training practices (Vickerstaff 1992, Curran et al 1997). Planning is often seen as a key element of good HR practice (Harrison 1993) and forms the basis for much analysis of practice in the small and micro context. For example, Storey and Westhead (1997) found that the likelihood of a business having a training plan is positively associated with firm size with just under 16% of businesses with 1-9 employees having training plans as compared with 70% of those businesses employing 50—199. Curran et al (1997) concluded that while a small but not insignificant proportion of small firms have formal approaches to training based on an explicit plan or budget, most have a much less structured approach to training. In a survey of 200 SMEs, comparative analysis of micro businesses with SMEs reinforces the relative lack of formal HR systems in micro enterprises (Johnson and Devins 2001). Furthermore the survey suggests that managers of businesses employing between 25-49 are far more likely to perceive benefits associated with formal HR practices than micro enterprises.

The importance of the leader of the enterprise in the context of training and development activity in micro enterprises cannot be overestimated. Curran et al (1997) note that the Managing Director tends to be the person responsible for training in the smallest businesses with only firms with more than 25 employees tending to have a specialist personnel or training manager. Other research (Matlay 1999) notes that in micro businesses it is the owner manager who makes the decision as to whether to invest in training in all instances. Matlay (1996) indicates that the background of the owner are critical when making decisions to commission training and also in the way that it is used and spread throughout the organisation. Her/his values and experiences will affect the individuals approach to learning and development activity. For example negative perceptions of Higher Education (HE) are seen to translate into purchasing decisions associated with interventions provided by these institutions (Choueke and Armstrong 1998, Williams and Owens 1997, Pittaway 1999).

2.4 Section summary

This section of the report has identified the important contribution of micro businesses to employment and financial turnover in the economy. It has also identified policy concerns associated with the number of micro businesses which grow to employ more employees, the productivity of micro enterprises and the amount of external training they undertake. The analysis identified the heterogeneity of micro enterprises and draws attention to the fact that established micro enterprises need to be recognised as a distinct entity in the development of policy. The simple typology of 'high growth' and 'lifestyle enterprises' often adopted by policy stakeholders is explored and examples of broader processes of ownership and control (such as succession planning) are identified as important factors in development and sustainability. The analysis reveals micro enterprises as complex

social organisations and managers as having a pivotal role in their culture and any change therein. It highlights the key policy challenges associated with

1. encouraging the growth and development of micro businesses and their lack of structured human resource management systems and
2. the low level of take up of external training opportunities currently on offer.

3 Learning and management development in the micro business

This section of the report introduces the nature of management, learning and development before exploring the nature of management in the micro context and its contribution to growth and development.

3.1 Introducing the nature of management, learning and development

It is usual to make a distinction between leadership and management in organisations, and common way of differentiating these terms is to refer to leadership as activities that transform an organisation. This includes creating a vision and an idea about future trajectory (Bennis 1993). A transformatory leader can project a vision and empower others to take responsibility for realising the vision. Such a view would suggest some connection to another term, entrepreneurship and there is a suggestion of overlap and the potential for common training programmes (James 2001). Within organisations, the notion of intrapreneurship may be encouraged (Pinchott 1985). A study by Perren (2001) compared the conceptual building blocks in well-cited texts on leadership and entrepreneurship. It was found that leadership and entrepreneurship shared common conceptual building blocks of personal drive, innovation and risk acceptance. However, leadership was more associated with communication and social skills such as the ability to motivate, inspiring trust and team orientation. Entrepreneurship was more associated with the personal search for independence, toleration of ambiguity, belief in controlling events and identification of market opportunities. More connected with management is the idea of transactional leadership which involves dealing with operational issues, controlling and direction work as a kind of organisational 'technologist' (Kakabadse and Kakabadse 1999). In most small organisations, the work of the manager would inevitably combine leadership, entrepreneurship and management, although on a day-to-day basis all activities need to be managed and it is the term management that provides the focus for our analysis in this section.

3.2 Management

It has been recognised that different people at different times have different conceptions of what management is about. This inevitably shapes their view about the way managers ought to learn and be developed often giving rise to a number of contradictions and tensions.

There is a fundamental distinction to make between on the one hand the models theories, techniques and tools that underpin management in one context and, on the other hand, the day to day lived experiences of those performing management in organisations. The former view of management may focus on subjects such as accounting, finance, marketing or human resource management supplemented by skills or competencies such as time management, planning or problem solving. The latter view of management is far less structured and refers to what managers have to do in a particular place and at a point in time.

What managers do remains a source of conjecture and it is difficult to define at any but the most generalised levels. Traditional schools of thought have all emphasised the rational, controlling nature of the work managers' do. The classical view of Fayol was based on five management functions:

- forecasting/planning
- organising
- motivating
- coordinating
- controlling.

These attributes of management form the foundations of most formal management development programmes. However research (Mintzberg 1973, Stuart 1984) has illustrated that managers rarely work within neat, well organised boundaries defined by the classical school. Factors such as the organisation, the industry, the environment, the manager's personality and style all affect what the manager does. Mintzberg goes on to suggest that any generalised statement about managerial activities is likely to be, at least partially and possibly substantially incorrect.

It is with these starkly contrasting views of a manager, the first of a manager in control drawing on a toolbox of skills and techniques and the second of a manager struggling to maintain control and interpret events in a hectic environment that we discuss the nature of learning and development in the micro business.

3.1.2 Management learning

Learning is a multi dimensional concept which may include for example

- Self learning e.g. as a manager and a learner (Honey and Mumford, 1992)
- Learning with others to tackle complex problems, e.g. action learning (Pedler, 1991)
- Learning about the organisations interaction with its environment, e.g. strategic learning and knowledge management (Sanchez and Heene 1997)
- Learning about learning within an organisations and facilitating the learning of others, e.g. team learning and the learning company (Senge 1990).

Senge (1990) makes the distinction between adaptive learning, concerned with coping with situations and generative learning, concerned with creating. Argyris (1986) refers to a distinction between single and double loop learning where the former allows managers to identify and take corrective action on problems within current frameworks and the later changes assumptions. Argyris argues that managers can become successful with single loop learning but that this can stifle innovation and creativity.

Learning is seen as the core management skill of the future. It is argued that management skills should focus on the 'here and now' and generate knowledge with others to take the organisation forward. It is argued that in a complex and uncertain world managers who rely on standardised, routines, fixed and structured processes will find themselves unable to meet the demands of their role.

For entrepreneurs, it is also important to use strategic and analytical skills such as setting a vision, spotting market opportunities, setting goals and leading others through inspiring and motivating talk and clear communication. Such skills, it is suggested, are harder to develop than more technical abilities (Perren and Grant 2001).

Capturing, codifying and recording learning activity has been recognised as a considerable policy challenge (DfEE 2000) as there is a vast amount of informal, uncertified and unrecorded learning which takes place in the workplace (Keep 1999).

3.1.3 Management development

There is no all embracing definition of management development. There are a number of approaches and processes that are encompassed by the term. In some instances these may be planned and deliberate processes (e.g. IIP or academic courses) and in other instances they may be informal learning processes. The adoption of change management models (such as Total Quality Management, ISO 9000) adopting improvement projects as the force to drive the organisational learning process have been essentially based on the large company experience. However, they have been subject to criticism in their applicability in the small firms context (Hill and Stewart 1999b, North et al 1995, Wyer and Mason 1998) as the established learning behaviours of small businesses are often not consistent with these models of systematic change.

It is useful to differentiate four forms of management development activity namely manager training, education, development and learning. Management training may be defined in terms of short term activities concerned with specific areas of knowledge, skills or attitudinal development. Management education often takes place in Further and Higher Education Institutions and is linked to the award of a formal qualification. Education imparts skills and knowledge linked with a field or discipline rather than a specific job or task. Development may be viewed as an activity separate from either training or education although the boundaries are often fuzzy. Development equips managers with knowledge and skills to undertake tasks or develop opportunities but also encourages personal learning. A further conceptualization may be applied, that of management learning and particularly experiential learning (Kolb 1984). A further key dimension is to define learning as a process by which behavior changes as a result of the experience (Maples and Webster 1980).

Researchers in the small business context (Deakins and Freel 1998) argue that the small business manager is forced to alter behaviour through experiential learning. They argue that it is a largely cognitive, problem solving process centred on the acquisition, storage and use of knowledge in long term memory (Young and Sexton 1997). In this instance experiential learning has two dimensions, on the one hand as a process of making meaning from experience and on the other as a cognitive process of acquiring and structuring knowledge. Inevitably this is a dynamic process as the nature of learning continues to evolve. However it is often not undertaken alone and the positive aspects of interventions based on approaches such as mentoring (Deakins *et al.* 1999; Devins and Gold 1999) and non-executive directorships (Berry and Perren 1999) are being more generally recognised.

3.3 Management in the micro context

A National Skills Task Force research report (Johnson and Winterton 1999) investigated management skills in the SME context. The authors drew attention to the characteristics of management within SMEs which would appear to have particular resonance with the micro business context as opposed to, say, the medium sized business context, where human resource management structures and processes become more formal.

- The vast majority are owned and managed by a single person or by two people working in partnership (often family)
- A small minority can be said to be team managed
- Most owner managers are heavily involved with the day to day running of the business
- The owner manager generally has a significant financial stake in the business
- There is a limited internal labour market with prospects for supervisory/lower managerial staff progression minimal
- Although occupational standards have been established there is a lack of take up

Much of the current management theory is founded upon empirical analysis of managerial action in larger firms. These principles, no matter how much they are refined, cannot be applied directly to the smaller enterprise. Whilst common managerial skills need to be in evidence in many organisational situations the contextualisation of these skills to meet the requirements of the specific business operating context is distinctive. This leads researchers to suggest that management processes in small firms are unique (Jennings and Beaver 1997).

Much of the literature emphasises the 'owner manager'³ as the focus for analysis of business performance and learning in the small business context. However there is obviously a world of difference between a firm where the owner manager works at a trade alongside a handful of employees and one where she/he holds an executive position at the head of a developed managerial hierarchy (Goss 1989). Many owner-managers of micro enterprises see themselves as 'business people' rather than as professional managers (O'Dwyer and Ryan 2000) and this has implications for their development interests.

Marlow and Patton (2001) provide an illustration of the difference between the small firm owner-manager and the corporate manager.

Owner-managers have a very personal stake in the survival and performance of the firm. This stakeholding combined with their immediate and personal presence around the production process differentiates them from non-owning management. The owner's close proximity to labour facilitates a very personal input to the organisations of labour and a good deal of effort is made to manage the control process whilst maintaining positive social relations. This rather peculiar stance ensures that the authority of ownership is maintained whilst attempting to mask the reality of the power imbalance involved.

This context contributes to decision making within the small business and has led to the suggestion that owner managers in small firms (less than 50 employees) do not always display rational behaviour when issues of control such as delegation of decision making are at stake (MacMahon and Murphy 1999). This behaviour may be apparent in other decisions associated with for example recruitment and discipline or the pursuit of profit maximisation.

The literature examining the role of the owner manager specifically in the micro context is limited. One empirical analysis suggests differences in the conception and practice of

³ the term owner manager tends to be used in the small business context and not specifically the micro business context. Equally owner managers may be part of a wider team or relatively isolated individuals

the 'owner-manager' in the micro context. The research enables us to investigate the notion of the owner-manager in the start-up/emerging micro business context (Clark et al 2001). The analysis is based on a survey of over 250 small firms founded in 1985/86 in New Zealand. It investigated the extent to which the founders viewed their role as owner-operator, owner manager and owner director, where

- The manager spending most time making a product or providing a service is termed an owner operator
- The manager spending most time managing all aspects of the business (sales, Finance, production) is termed an owner-manager
- The manager spending most of the time in meetings/discussions with professional managers each of whom is responsible for an area of the business is termed the owner-director.

The analysis includes three sizebands of businesses employing 0-2, 3-5 and 6-12. The findings suggest that 70% of the very smallest businesses adopt the informal owner-operator structure. The owner-manager structure represents half of the 3-5 category and then dominates the 6-12 sizeband. Once employment numbers exceed 20 it is the more formal and structured owner-director structure which becomes most prevalent. When a business employs 5 it heralds the demise of the owner operator and the emergence of the owner-manager. This simple analysis provides some foundation for the notion that there are real differences associated with the nature of management in relation to the size of the business which need to be explored and taken account of in the design of policy interventions.

3.4 Learning and management development in the micro business context

Management development has traditionally been perceived as being the domain of large rather than micro enterprises with developmental issues normally being addressed by means of educational interventions (O'Dwyer and Ryan 1999). However micro business managers are unlikely to be interested in education and training for its own sake. The owner-manager of the small or micro enterprise is unlikely to see any gain in personal development divorced from the needs of his/her company, unlike the professional manager who has much to gain in career terms (Gibb 1983).

A review of the literature suggests that research exploring and illuminating learning and management development specifically within the micro business context is scarce. An exception is provided by reports by CEDEFOP (1998ab) which examine micro enterprises in the retail, car-repair and printing sectors of the economy in several European countries. In common with other studies set in the small firm context (e.g. Hendry et al 1991) the reports highlight the importance of the market / strategic positioning of the organisation and its relationship with the organisation of work and the training of staff. The authors identified the importance of informal or incidental learning. They identify five common ways of learning:

- Learning by solving problems by oneself
- Learning by solving problems together with colleagues
- Learning by asking for help/advice from an experienced colleague
- Learning by direct employee participation
- Learning new things under the responsibility of a boss or experienced worker

The authors highlight the importance of the way in which work is organised as a key driver of learning opportunities. It is also apparent that three of the five common ways of learning involve other people within the enterprise.

To begin to address the information gap associated with management development in the micro business context, a review of the data collected in the Policy Research Institute over almost fifteen years of research for Government Departments and enterprises such as Training and Enterprise Councils and Business Links was conducted. The review reveals a lack of attention to the issue of management development in micro enterprises. An exception to this, is the work which was commissioned by the South Yorkshire TECs to underpin the development of a sub-regional strategy for management development. This research is explored briefly below to examine differences in management practices and attitudes in the small and micro business context.

3.4.1 An initial empirical analysis

Businesses were drawn from three sectors of the economy namely the engineering sector, the construction sector and the information and communications technology (ICT) sector. A mixed methodology was adopted which included telephone surveys of seventy-five businesses in two of the sectors (engineering and construction) and one hundred businesses in the ICT sector. A report was produced providing an overview of each sector and their associated management development needs (Devins et al 1999abc). The statistics presented below illustrate some of the differences between management in micro businesses (with up to 10 employees), small businesses (defined here as having 11-20 employees) and medium to large businesses with over 20 employees. It should be noted that there are significant differences in size structure by sector, with the micro businesses being dominated by IT businesses and 90 per cent of the medium to large businesses being in the engineering or construction sector. The small size of the sample precludes undertaking detailed statistical tests to examine the impact of sector.

3.4.2 Number of managers

Figure 3.1: Number of managers by size of firm

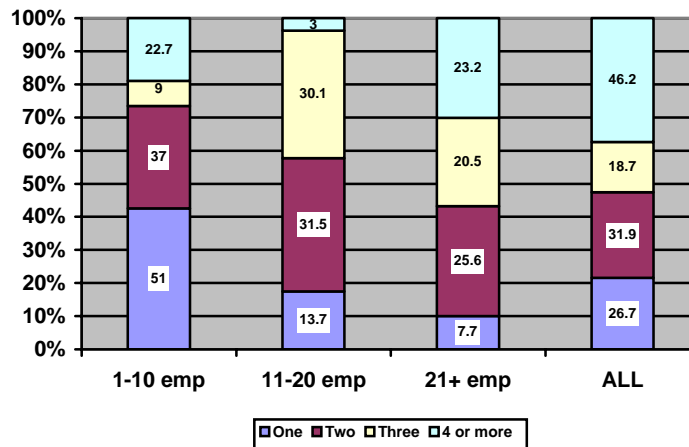


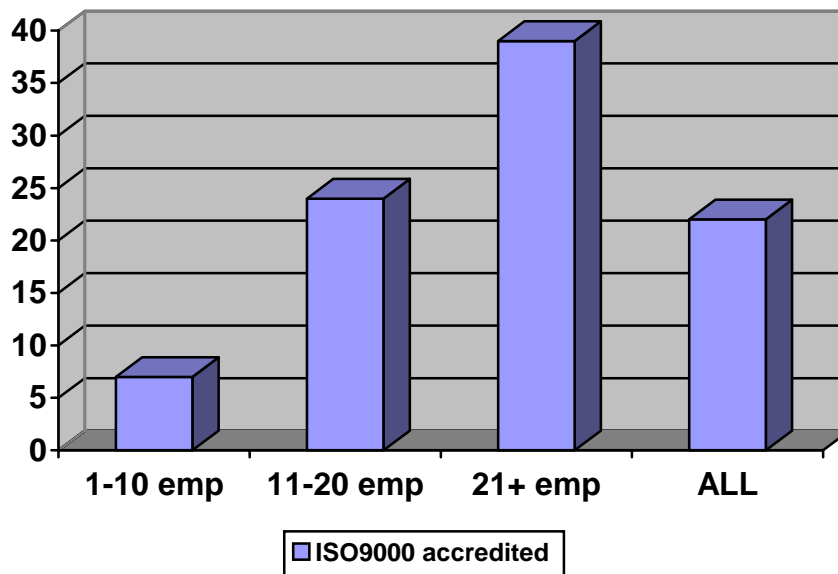
Figure 3.1 demonstrates that the majority of micro businesses (88%) have only one or two managers. However, it should be noted that a sizeable minority has three or more managers and conversely that considerable number of small and medium sized

businesses are managed by one or two people. Fifty two per cent of micro businesses with two or more managers felt that there existed a 'management team', compared with over 80 per cent for businesses with over 20 employees. This suggests that, even where a micro business has more than one manager, the concept of the 'team-managed business' is less prevalent than in larger organisations.

3.4.3 Systems and processes

In common with many other studies, the research suggests that smaller businesses are less likely to adopt formal processes than larger businesses. An example is provided in figure 3.2 where the likelihood of a business being accredited to the quality standard ISO9000/1 increases dramatically over the business sizebands and indicates that the variation is highly significant in statistical terms.

Figure 3.2: ISO Accreditation by Firm size



In terms of management development systems, the research suggests that just under one third of businesses in the sample (with 2 or more managers) stated that there existed some type of system for the co-ordination of management training and development. The equivalent figure for micro businesses was 21 per cent, although the difference is not statistically significant. Questions relating to the existence of training plans or personal development plans for manager development, regular reviews of management development needs revealed little difference between micro businesses and other types of businesses, with the figures for micro businesses being slightly – but not statistically significantly – below the average for all respondents.

Figure 3.3: Training and management development budgets by firm size

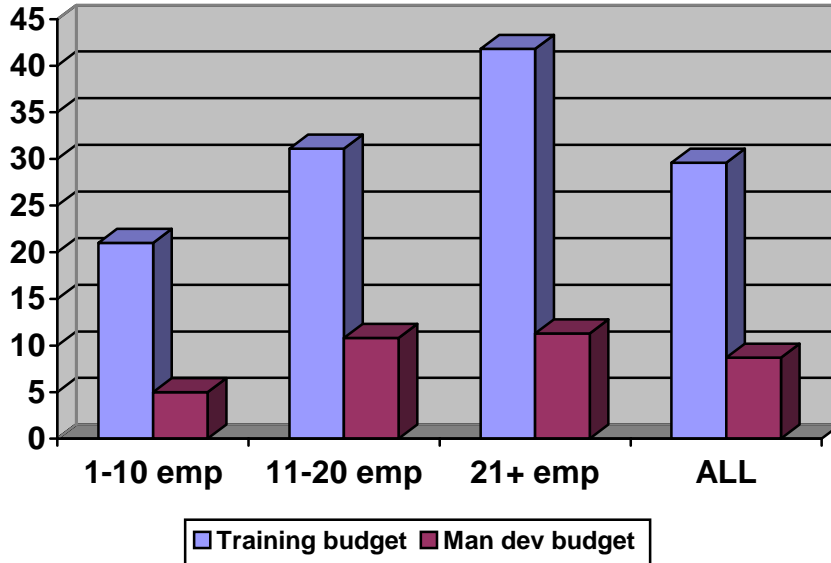


Figure 3.3 suggest differences between micro businesses and the rest in relation to the budgeting for training which are statistically significant. Organisations with over 20 employees are around twice as likely as micro businesses to possess a specific training budget. Under 10 per cent of all responding employers had a specific budget for management development. However, this may reflect the lack of formalised financial and budgeting processes in place in many micro businesses rather than a lack of funding for training or management development per ce as the majority (55 per cent) of respondents stated that they did provide some financial support for management development. The figure for micro businesses (53 per cent) is line with the overall picture and indeed slightly above that for small businesses with 11-20 employees (49 per cent).

3.4.4 Management development activity

Just under half micro businesses (46%) suggest that they encourage their managers to study for recognised qualifications. This is comparable with businesses employing between eleven and twenty but considerably lower than those businesses employing over twenty one, where 61 per cent of businesses suggest that they encourage their managers to study for recognised qualifications. Approximately one in five of businesses suggest that they encourage managers to study for management related NVQ's with little difference apparent in relation to the size of the business. Approximately 15 per cent of businesses encourage the development of management skills through MBA's or Diplomas with larger businesses far more likely (and statistically significant at the 5% level) than micro businesses to support this type of development activity than micro businesses.

Micro businesses are much less likely (statistically significant at the 1% level) to encourage the development of managers through external courses, seminars or workshops and less likely to arrange internal courses seminars or workshops, reinforcing the view of management development as a largely informal process in the micro context.

In terms of succession planning, micro businesses (22%) are far less likely to undertake succession planning than businesses employing more than eleven employees (47%)

denoting a highly significant statistical variation between succession planning and business size.

3.5 The contribution of management to growth and development

The role of the 'owner-manager' and more generally the manager or leader of small and micro businesses is seen as a major contributor to, or inhibitor of, business growth. Research has identified a difference in the performance of small firms relating to the characteristics of the owner (Birley and Westhead 1990, Ram and Sparrow 1993, Moran 1999). However the research generally investigates owner manager characteristics in terms of the small as opposed to the micro business context.

Management competence is cited as a major contributor to the high level of failure in start-up firms and it is argued that if managers are able to develop the necessary skills and competence more will survive. It is the abilities of the initial management team in terms of entrepreneurial and strategic management skills which determine the growth or lifestyle orientation of the business (Collins and Porras op cit). Strategic management practices are often put forward as a key reason for low or no growth of smaller enterprises. For example

The root cause of the inability to achieve and sustain a satisfactory level of performance is primarily due to poor managerial competence. However the direct attribution of cause and effect relationships is further complicated by the intangible invisible almost unconscious process of practising strategic management which exists in the majority of small businesses (Jennings and Beaver p 73).

Others note the positive contribution of managers to the growth of the business. For example Welch (1996) notes that the fastest growing firms prosper where others may not is due to their managers' skills and competencies. Furthermore, case study evidence demonstrates that even in extremely mature markets, dynamic managers can successfully stimulate the search for new business opportunities and that changes to organisational routines can help mature organisations become more innovative and improve competitiveness (Jones and Craven 2001). A further example is provided by Philp (1998) who in a survey of 124 micro firms operating in the food processing sector, concluded that, providing the external environment of the industry permits an export opportunity, the manager that is sufficiently committed to the task and is prepared to commit the firms resources can overcome most constraints.

Kitching and Blackburn (1997) contrast the attitudes and practices of owner-managers in the craft trades with those found in rapid growth SMEs. They conclude that managers in the overwhelmingly small craft trades tend to have weak management skills and marketing abilities and face particular problems in adapting to new product and process innovations. In contrast management in rapid growth SMEs is characterised by a particular attention to product innovation and associated marketing activities, quality issues and strategic planning/thinking. They do however admit that it is difficult to separate cause from effect (i.e. do business grow rapidly because of higher quality management or does growth lead to the recruitment and training of managers).

3.6 Section summary

This section of the report has identified the multiple views of the nature of management, learning and development which may be applied. It contrasts the view of the manager in control, drawing on a toolbox of skills and techniques with the manager struggling to maintain control and interpret events in a hectic environment. It highlights the different conceptions of learning and draws attention to the need for 'generative' or 'double loop' learning as a means of stimulating innovation, creativity and change. It also introduces different conceptions of development and highlights the importance of experiential learning.

However, the literature associated with the nature of management in the micro business context is very limited. Much management theory is based upon experience in large firms and whilst common managerial skills may be apparent it is the contextualisation of these skills within a specific business operating context which is distinctive. Much of the literature emphasises the owner manager as the focus of analysis and their personal stake influences their behaviour. It identifies the owner manager as having a key role in identifying training needs and sourcing training. Research exploring management development activity in the micro business context is limited. What research there is, points to development through largely informal processes and experience at work.

Management is identified as a major contributor to, or inhibitor of, business growth. In particular the ability to take a strategic view and implement appropriate practice is seen as a crucial management capability.

4 Towards a conceptual model of learning in the micro business context

In this section we draw on the literature to provide an initial conceptual model of the key features of the learning behaviour of micro-business managers and the implications for those seeking to provide interventions to influence micro business development.

4.1 The conceptual model

Due to the paucity of research investigating learning in the micro business context it is necessary to draw on the literature within the context of small business and owner manager learning and development in order to develop a conceptual model. Much of this literature appears relevant to the micro business context and informs the development of the model to explore the nature of learning and management development in micro enterprises and the implications of this for the provision of support.

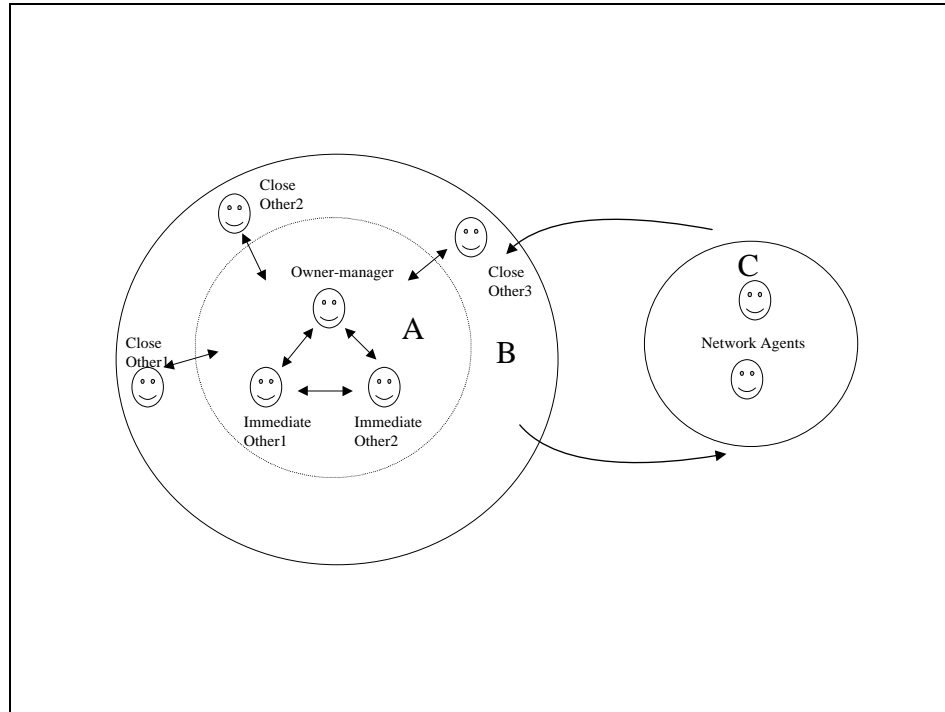
The model has three stages. The first stage presents a view of what we refer to as the micro-business world. This highlights the core relationships within a micro-business and the source of most of the learning about managing and leading. The second stage examines how interventions from outside may or may not affect learning. The final stage of the model presents a view of how such external interventions might have an increased chance of impact.

4.1.1 Micro-business world

Figure 4.1 represents the 'Micro-Business World'. An understanding of this world is the fundamental foundation upon which effective interventions are built. A key feature of this world, and one which makes it difficult for the application of generalized and decontextualised notions of management and leadership development, is that it is driven by the interests of the owner-manager and others with whom he/she interacts. This may reflect the growth orientation of the manager captured in the crude typology of growth and lifestyle enterprises. Equally it may reflect the current operating problems or opportunities facing the business or the long-term sustainability of the business. It reflects a dynamic environment with a complex pattern of interactions which emerge and make and re-make in each case the unique context of the micro-business.

At the core (A) of the business is an inner context composed of the ongoing and daily activities of the micro business manager and employees. It is the location where the interests and preferences of the manager are played out. Much of the literature supports the view that the motivation that inspires micro-businesses is based on the desire to be independent and support a preferred lifestyle (Gray 1998). This feeds into its orientation towards survival and organic growth rather than rapid or major growth (Perren and Grant 2001; Gray and Allan 2000; Greenbank 2001, Marlow and Patton 2001).

Figure 4.1: The Micro-Business World



Within this micro business world, learning is inextricably linked to the performance of work activities, solving problems and grasping new opportunities as they arise (Gibb 1996). Much learning occurs naturally in a non-contrived manner as part of an everyday process that moves the organisation in a direction that meets the desires and interests of the manager (Stuart 1984). Research (CEDEFOP 1998) set specifically in the micro business context reflects this ongoing, business-based nature of learning. Learning is largely informal or incidental, driven by the desires of those involved and seldom reliant upon formal or structured training (Matlay 1998; Perren and Grant 2001). Sometimes, micro-business managers create deliberate attempts to experiment to acquire new knowledge (Raffo et al 2000) but more often than not learning is the by product of a business process rather than the focus of the process itself. As work proceeds and learning accumulates, the meanings derived are shared among those who participate, forming the distinct culture of a micro-business which develops over time.

However, people other than the manager and the employees also provide the context for learning to take place (Curran and Blackburn 1994). Gibb (1997) conceptualised the small business as a learning organisation operating within a network inter-dependency of others including family members, friends, professional bodies and other stakeholders. Networks and networking are increasingly viewed as a major learning opportunity for smaller enterprises and they are seen as a crucial element of small business development (Down 1999, Hannon and Patton 1999, Chaston and Baker 1998, Theodorakopoulos & Dyer 2000, Ambrose and Koepke 2000, Cullen 2000).

Accepting that the network stakeholders will influence learning to a greater or lesser extent at various times and in various circumstances the notion of 'close others' can be applied. These 'close others' have a significant interest in the workings of the business but are not involved in its day-to-day operations, except perhaps on special occasions or

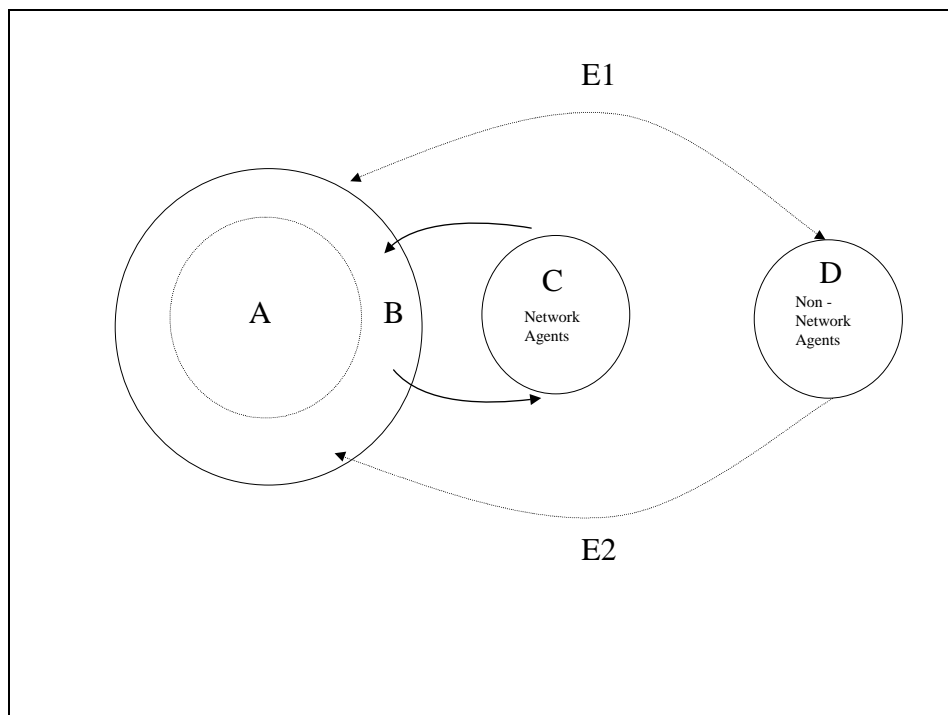
in times of difficulty. 'Close others' may include family or friends or other stakeholders such as particularly valued suppliers or customers. This group forms the outer context (B) of the micro business learning environment. In addition to specific help and assistance, 'close others' can provide informal learning opportunities through a sounding board (Devins and Gold 1999) or mentoring either at work or in a 'safe environment' (Perren & Grant 2001).

In addition to the inner and outer context, a micro-business by necessity has to interact with a range of other actors which may include professional service providers such as bankers, solicitors and accountants. These network agents (C) may influence practice within the business if they are in tune with the interests of the micro business manager at a given point in time.

4.2 External intervention

Figure 4.2 combines the micro-business world from Figure 4.1 with attempts to promote and supply external management and leadership development from beyond the existing network of inter-dependency (B and C). The key feature of such actions is that it is provided by 'non-network agents' (D). Government-backed agents such as Business Links as well as suppliers of training and development activities in the public (e.g. Further and Higher Education, Learn direct) and private sector will often be non-network agents.

Figure 4.2: Breaking into a different world



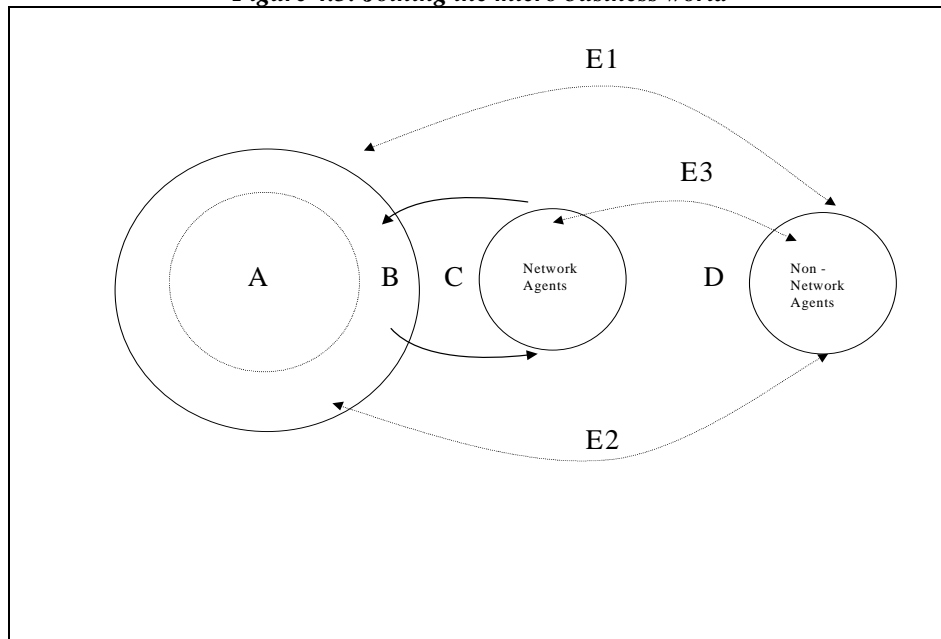
Activities emanating from non-network agents tend to be formal and driven by supply-side considerations (PIU 2001b). Fundamental changes to the education system are still required if provision is going to provide the multidisciplinary and holistic approach by businesses (Gibb 1997). Furthermore the rhetoric of lifelong learning being championed

by government departments and the training and educational infrastructure as the most effective route to improving business performance has some way to go to connect with the small and micro business world (Chaston 1999).

Existing products and services, often developed or adapted from the large firm context (e.g. Investors in People, Total Quality Management) are offered to smaller businesses. Route E2 shows that some of these may be acceptable to some small business managers and the non-network agents may be successful, in permeating the boundaries of the micro-business world. Furthermore, non-network agencies may provide offerings which lie outside mainstream provision but which connect with the small business context intermittently (Devins et al 2001). On the demand side, the phase of development facing the business at a point in time may be influential and research has suggested that those micro organisations seeking to grow may be more open to the offer of external interventions (Johnson et al 1998). However, there is much evidence (e.g. Matlay 1998; Johnson 1999, Curran and Storey 2000) to suggest a low propensity to engage with such provision, and offerings in general are largely ignored by micro business managers as illustrated by E1 in the conceptual model. The reasons for rebuttal are many and varied. For example, it may be based on a micro business manager's belief that further skills are not needed (IFF 2000) or that involvement will not benefit the business (Johnson and Devins 2001). It may be due to lack of awareness, cost or over-bureaucratic application processes (Maton 1999). Whatever the reason in specific circumstances, the reticence to get involved with non-network agents results in a low take up of services offered through for example Business Link and business schools (PIU 2001b). It is therefore suggested that a revised approach is required.

Figure 4.3 illustrates an adjusted model of External Intervention.

Figure 4.3: Joining the micro business world



To reduce the 'supply-side mentality', which frequently fails to engage with and meet the interests of small business let alone micro business managers, it is suggested that the

offerings of non-network agents need to be in tune with the learning preferences and aims of micro business managers.

This can be achieved through the development of interventions by non network agents which permeate the micro business boundary –following route E2. However, many such interventions are ignored by micro-business managers (E1). Therefore a further route, E3, is introduced to the conceptual model where interventions are developed which link to the business through an established network agent. The key idea here is that micro-business managers, many of whom fail to be aware of the need for training and development, still need to interact with network agents such as accountants, bank managers and solicitors. Therefore such agents can become the initiators of an awareness of the need for training and development. Network agents may then draw on the resources of non-network agents to meet identified needs as appropriate. Crucially such needs will reflect precisely and specifically the requirement of mico-businesses and its network agent.

The following examples provide illustrations of successful interventions adopting the E2 and E3 routes into the micro business world.

Example 1: The E2 route

The Micro Business Development Programme

This involved a direct intervention from the non-network agent (D) into the world of the micro business (Devins 1999). Two business advisors, drawn from the local business community to work with local micro businesses to encourage them to develop and grow. The advisors visited targeted companies regularly over two years (the funding period for the programme) and encouraged the business managers to talk about their businesses and to identify their own development needs. Close relationships were developed between the advisor and the business manager in some, but by no means all, businesses. Where advisors were able to develop sound relationships they were better able to understand the needs of the business and source appropriate support and could be seen to move through the network agent (C) to the close other (B) relationship. This resulted in high levels of customer satisfaction and greater use of the established support infrastructure.

Rather than supporting the direct development of a relationship between the non-network agent and the micro business, an alternative approach is to work through an existing network agent (C) to connect with the micro business world.

Example 2: The E3 Route

Influencing network agents

The Council for Excellence in Management and Leadership (CEML) suggests using the range of advisors that micro businesses have to work with to reflect on their management and leadership needs in the course of their normal business. This is what they have termed 'joining entrepreneurs in their world'. A diagnostic tool, the Business Improvement Tool for Entrepreneurs (BITE), has been developed and tested with business professionals such as accountants, managers or solicitors who are already involved with members of the SME community (CEML 2001). The tool is intended to be used with the micro business manager to help identify his/her own development needs and provide sign posting to a range of development opportunities to help the manager 'overcome the things stopping progress'. CEML have developed a web site to support BITE which provides links to a range of resources.

(See <http://managementandleadershipcouncil.org/bite/>)

Some micro business managers will engage in learning opportunities provided by network agents (C) or non-network agents (D) if they are aware and interested in them. Feedback via the intervention relationship (E2, E3) can provide the basis for further refinement of services or the development of new services if the supply-side organisations (C, D) are sufficiently flexible and resourced. The need for flexible suppliers to satisfy the management development needs is not new (Gibb 1983) but it has not successfully permeated mainstream provision to date. If the interventions are valued and appropriate offerings can be sustained over a period of time, the non-network agent may become an established member of the network agents (C) and may, in some instances, become a 'close other' (B) able to exert considerable influence on practice.

All too often however, it appears that even if non-network agents do connect with the micro business at a moment in time, they provide a specific service or deliver a specific programme but do not develop a long-term relationship for one reason or another. The Small Business Service consultative document (SBS 2000) highlights the fact that 'too many firms dabble in business support but without sustained commitment'. For example, an intermediary may signpost to a provider who then delivers a service which does not meet expectations. If the intermediary does not obtain feedback from the business, tensions in the relationship between the business and the intermediary may emerge and threaten the relationship. Furthermore the opportunity to improve a supplier offering is lost. Another common circumstance appears to be where an intermediary may be employed to deliver a specific service (e.g. a specific training course or product such as liP) but once this is delivered the intermediary moves on to other clients. Little effort is made to encourage the further development of an ongoing relationship with the small business customer or the passing on of the relationship to others in different agencies in the support network who might benefit the micro business.

It should be remembered that in most instances, the offerings of non-network agents (D) do not connect with the world of the micro business (E1). This is undoubtedly the case in relation to management development and the provision of learning opportunities to the wider workforce in the micro business context. The challenge is to find ways of developing a valued relationship with the micro business manager either directly (E1) or through the existing network agents (E2). There are inevitably a range of approaches

and methods which may facilitate the development of relationships which are grounded in the literature (see for example Ford et al 1996, Reicheld 1996, Chaston and Baker 1998, Hannon et al 2000).

Some agencies have recognised the value of this approach and have taken steps to develop appropriate provision. This is often resourced through relatively short-term pilot project activity. One such project provides the foundation for the example outlined below.

Example 3: An integrated approach

The Developing Manager Skills Programme (Sheffield TEC)

This three year programme aimed to join small business managers in their world and whilst at the same time influenced local provision (Devins and Gold 2000). The majority of the participating businesses were not undertaking training and development activities nor had they previously been involved with the TEC. Three business coaches worked with small business managers and members of their workforce to solve business problems over the period of the programme. Where the manager was receptive, they facilitated the development of a vision for the business. The coaches did not have specific services or products to deliver or sell but drew on their business knowledge and expertise and good linkages into the support network. A learning approach (as opposed to an advisor/consultancy approach) was encouraged.

At the same time a local consultant worked with private sector providers and the coaches to develop quality assurance and continual development processes. The supply side were encouraged to develop offerings suited to the needs of the small business managers and to tailor provision to address specific business interests. The participating businesses came to trust the business coach and several went on to source training interventions from the public and private sector. On completion of the programme, the TEC maintained the relationship with the businesses and several became involved in other programmes aimed to develop their business.

4.3 Section summary

The conceptual models developed in this section have been drawn from the analysis of literature. Like all such models, they represent our best efforts to provide an explanation in abstract terms of a complex feature of the real world, i.e. the learning and development of managers in micro-businesses. The models are informed mainly by literature associated with owner manager learning or learning in the small business context and this may limit their applicability in the micro business context. This conception of learning through transactions and relationships may be broadly applicable, however the characteristics of micro business managers themselves as independent or isolated individuals may inhibit the potential of such learning opportunities. There remain uncertainties about how the key relationships develop from initiation through to maturation and how they may be effectively shared or passed on to others. The models therefore should still be considered as partial, to be tested in practice and subject to revision as new understanding unfolds. The models nevertheless highlight the need for learning to be encouraged or facilitated by a 'close' or 'immediate' other.

The conceptual model highlights the need to develop relationships with both micro business managers and their existing network. It suggests that unless interventionists

are able to tune into the interests of individual micro business managers, their offerings will be seen as largely irrelevant and the problem of engaging those managers not predisposed to learning will remain. The importance of sustaining and developing relationships has been recognised by others (Lean *et al* 1999, Bennett *et al* 1999). The patient development of trust established through a range of dealings over time is necessary before influence in the learning processes of the firm is achieved (Kirk and Paterson 1999, Boocock *et al* 1999). A key factor to recognise is that the relationship is not solely a means to an end but that without the relationship, there is no long-term intervention and the opportunity for influencing practice in the micro-business context will be lost.

5 Implications for public policy

This section of the report provides a critical review of some policy instruments to encourage workforce development. It reviews the rationale for providing support for established micro businesses and the challenge of developing a customer driven approach to intervention.

5.1 The effectiveness of current policy instruments

There have been a number of policy instruments which have been adopted to encourage employers to invest in training and development. A selection is outlined below and some issues associated with their application in the micro business context are briefly discussed. Many of the instruments have been developed to encourage wider workforce development rather than management development per se, this in itself highlights a gap in provision. The Small Firms Enterprise Development Initiative (SFEDI 2001) suggest that current workforce development initiatives are not achieving the required impact or an optimum return on investment.

5.1.1 Financial assistance

The only direct financial assistance to SMEs to support workforce development has been the Small Firms Training Loan. However take up has been very low (PIU 2001a). Another incentive for employers to provide training is the ability to offset training costs against taxable profits for the purposes of calculating corporation tax. However this is not of benefit to the large number of micro businesses who do not pay corporation tax and will have a minimal impact on those paying at the lowest rate.

5.1.2 Investors in People

Investors in People has been a major policy instrument to encourage 'best practice' in terms of human resource planning and skills development in the workplace. Research has suggested that it is positively associated with the amount of training undertaken in an organisation (Thomson and Gray 1999) and that it brings with it business benefits (Hillage and Moralee 1996).

However there are concerns about its appropriateness in the small business context (Curran et al 1997, Ram 2000). Penetration of the small micro business market has been low (Kitson and Wilkinson 2000) and the standard has been subject to review and revision. In June 1997 the Government launched an initiative to develop innovative approaches to increase the achievement of the Investors In People Standard among organisations with 10-49 employees, thus excluding micro enterprises from participation in the intervention. The programme evaluation (DTZ Pidea 1999) noted a tension between reducing the time from commitment to recognition which was typically achieved through working more intensively with businesses and the greater costs this entailed which undermined efforts to improve the efficiency of delivery of the service.

5.1.3 Skills for Small Businesses (SFSB)

SFSB was an initiative for small businesses (employing less than 50). It supported the development of local approaches to encourage the development of training plans in smaller enterprises through the development of a key worker. The programme evaluation (GHK Economics 1997) noted the success of the programme in encouraging

training needs analysis in smaller firms and raising awareness of the net benefits of training, so reducing cost as a barrier. The evaluation uncovered a programme of considerable heterogeneity, with a variety of local objectives and delivery models. It concluded that SFSB was a cost-effective route to achieving a more formalised approach to training and development but that progress was slower than had been expected. Furthermore, few beneficiaries were attracted by the formal qualifications associated with the intervention and there remained opportunities to improve the quality of delivery.

5.1.4 National Vocational Qualifications

National Vocational Qualifications form a cornerstone of government policy in terms of monitoring progress through the National Training Targets. An emerging skills standard movement has begun to develop skills classification systems which focus on generic and cross job competencies. These skills standards reflect the needs and vision of predominantly large multi national corporations and do not reflect then needs or behaviours or interests of small employers (Cullen and Matlay 1999). Specific courses for SMEs have been developed but owner managers rarely appear interested in vocational qualifications as a development or learning mechanism.

Of the 3,090,505 NVQ certificates awarded across all occupational sectors at 30 September 2000, the Owner Manager category 'Business Management and Development' accounted for 68 awards and Business Planning accounted for 3452 (level 3) awards (Merris-McDonal 2001). In the context of about 3 million micro businesses these figures reflect the challenge that business support agencies and training providers have in engaging SMEs in management development of this type.

5.1.5 Information and communications technology based delivery

ICTs are viewed as fundamental drivers in the development and delivery of learning opportunities. The Government of England and Wales, in 'The Learning Age' (DfEE 1998), pursues an agenda which places 'learning', however defined, as central to social and economic improvement. Within this directive ICTs are seen to have a central role to play in the development and delivery of learning opportunities through the provision of information and the development and distribution of learning opportunities through mechanisms such as University for Industry and Learn direct. The SBS consultation paper emphasises the potential of ICT but there are appear to be considerable issues to be addressed in the micro business context.

Data from the Information Society national benchmarking study (DTI 1999a) suggests that there may be barriers to the application of technology-based learning in smaller businesses. As one might expect there is a difference in the take up of ICT technologies related to the type of technology and the size of the business. The data suggests that micro businesses are far less likely to employ computer and telecommunications technologies. Perhaps the most striking difference relates to the difference in connection to the Internet between micro enterprises and their larger counterparts. This appears to be particularly marked in the UK and should be of concern to policy makers seeking to encourage e-learning in the micro business context (Devins and Petrie 2000).

Furthermore, many training professionals are extremely doubtful about the effectiveness of new technology based training methods, scoring them far below traditional methods such as on-the job training and coaching and mentoring (IPD 1999). The PIU report

(2000a) notes the development of web based support for small business managers (SFEDI, Learn Direct) but comments on the lack of data relating to assessments of the utility of such learning. An evaluation of the ADAPT Round 3 projects piloting Ufl interventions highlighted the difficulties experienced by providers in engaging SMEs in this type of activity (Hillage et al 2001). Blackburn and Athayde (2000) discuss the potential of the Internet in the small business context. However they are sceptical of its potential to make a significant contribution if it is linked to 'formal' NVQ type materials.

5.2 The case for support for micro businesses

Much of the discussion surrounding micro enterprises and their contribution to local and regional development is located in the business formation and start up literature (e.g. ESF 1994, SBS Corporate Plan 2000/1-2002/3). The policy arena is further influenced by the notions of entrepreneurship and enterprise, concepts which are often couched in terms of new business formation rather than being seen as a broad based activity practiced by individuals in a variety of commercial and social roles.

There is a persuasive argument to focus support on start-ups namely that the seeds of success are planted in the initial stages of establishment (Collins and Porras 1994). However, the propensity for small business failure in the early years is well documented (e.g. Storey 1994, Stanworth and Gray 1991) and during the 1990s there was an emphasis on targeting support on established businesses with the greatest potential for growth in order to use public funds most effectively. This approach was adopted by the DTI and impacted on the provision of services through Business Links and other agencies. However there are multiple internal (e.g. financial resources, management skills) and external (e.g. macro economy) factors which affect the development of an enterprise and which make identification of those businesses most likely to contribute to job creation fraught with difficulty. Furthermore there is a counter argument which suggests a high level of dead-weight associated with the use of money to support those who are most likely to grow without public assistance. The changing policy agenda has seen a shift in emphasis with a renewed interest in business start ups both through the DTI (1998) and in pursuance of the social exclusion agenda and regeneration agendas.

Whilst the potential contribution of start up businesses and high growth organisations is well recognised in policy circles, there is a danger that established micro businesses remain largely unrecognised by policy makers. However if the increased emphasis on business start ups is to provide a sustainable measure for alleviating social exclusion, a large proportion of the businesses will have to survive and prosper. Furthermore, can a government committed to widening access and encouraging lifelong learning continue to ignore a section of the business community which account for in the region of 95% of all businesses and 30% of all private sector employment? An additional consideration is that micro businesses also appear to face problems associated with achieving levels of productivity commensurate with other businesses (SMEs) which should be of concern to those seeking to improve the competitiveness of the national economy.

5.3 Supporting management development in micro enterprises

There has been some discussion associated with the rationale underpinning the use of public money to support training interventions for managers in small firms. Storey and Westhead (1997) argue that

if the low rate of management training reflects ignorance on their part (SME managers) associated with the benefits of training then this is a market failure which can/should be addressed by the provision of public subsidies to encourage more structured/formal training in small firms. Alternatively it may reflect efficient markets in which one group of firms (i.e. small firms) purchase, for whatever reason, less of a product or service (i.e. formal management training) than others i.e. large firms. Here, there is no case for the provision of public subsidies to encourage more formal structured training in small firms (p61).

Notwithstanding the argument put forward by Storey and Westhead, encouraging the development of the skills of the workforce (and that of managers) has emerged as a major priority for government policy (DTI/DfES 2001, PIU 2001b). Active labour market interventions have been implemented in response to government concerns related to competitiveness and lifelong learning. The rationale for intervention is twofold. On the one hand it is based on the premise that improving the skills, attitudes and aspirations of those in work will alleviate their propensity to become excluded from the labour market if they should be subject to redundancy or job loss. On the other hand it also has the potential to contribute to economic growth through the development of a more skilled workforce able to compete more effectively in a global environment.

However two fundamental questions remain. Is there a market failure associated with the provision of training and development opportunities for the managers of micro and enterprises and is the nature of management sufficiently distinctive in the micro business context to require an alternative approach? An unequivocal answer is not possible given the current literature and the lack of research set specifically in the micro business context, however given current understandings the issues are briefly reviewed below.

5.3.1 Market failure or perceived gap?

It may be argued that the market functions efficiently in that businesses which wish to invest in management development and more general learning activity can source offerings from a variety of providers. The fact that many small and micro businesses do not do so reflects their choice not to engage in structured training.

However the public policy emphasis on the development of skills in the workforce more generally suggests a need for public intervention to develop offerings which are appropriate for the small and micro business context. We would argue that there is a major supply side failure to develop and 'mainstream' offerings which reflect the interests of the small and micro business manager and to present them in a coherent way. Whilst there are illustrations of approaches and offerings which have effectively engaged small and micro businesses in learning activities, the fragmentation and funding of the supply side often leads to discrete timebound offerings. Furthermore most micro businesses do not choose to engage in the structured training opportunities which dominate the publicly funded supply side. Whilst recognising the potential of ICT to provide a vehicle for learning, current usage of ICT in micro enterprises and the requirement for contextualised knowledge suggest that the provision does not reflect the interests of the small business managers they seek to address. Recent research examining demand/supply side issues identifies a gap between individual needs and available provision in the East Midlands which is likely to be apparent nationally (Centre for Enterprise 2001).

5.3.2 Is management in the micro context distinctive?

The literature search and review has revealed a limited body of research associated with management in the micro business context. It is reasonable to suggest that many of the characteristics of management which are taken for granted in the SME context are, if anything more applicable to the micro context than to businesses employing say 50 or more people. These businesses tend to have at least rudimentary management structures and human resource management processes. The analysis in this report highlights the personal, often informal nature of management in the micro business context and the potential that micro business managers have to effect changes on both the organisation and workforce development within it. As such managers in micro enterprises are particularly difficult to engage in structured development activity because they often have commitments to a variety of aspects of operational business activity as well as responsibility for its strategic development. Furthermore the broad based nature of management in the micro business (and the absence of specialist in-house functional teams) re-enforces the need for holistic approaches to problem solving and development.

If the vision, aspirations and the skills of 'lifestyle' micro business managers can be developed, they can champion change to facilitate business development and wider workforce learning with benefits which extend far beyond the individual business enterprise. However the approach and process enabling the development of the necessary vision may be uncertain and lengthy.

5.4 The challenge for policy

The National Skills Task Force set out a series of recommendations about how to modernise the education and training system which are re-stated in the PIU Report (2001a) on workforce development. The report summarised the case for action needed to

- Raise the supply of skills
- Raise the demand for skills
- Develop management skills to ensure that managers can adopt changing strategies

The report stressed the fact that all three need to be actioned to ensure that newly acquired skills are used to the benefit of the individual and the organisation. This reinforces the need for a holistic approach to be adopted combining improved business strategies, support for innovation and expansion and strong leadership and management. This will provide the basis for the training and development necessary to escape a low-skills trap and help to address policy concerns associated with basic skills.

5.4.1 The supply side

The public sector creates a divide between training (DfES) and business support (DTI) which is of little relevance in the micro business context as they are often one and the same. The emphasis of DTI support remains on the development of capability associated with business issues such as exporting, environmental management, innovation and business planning. The DfES agenda emphasises skills development and lifelong learning. The role of leadership, management and learning to create competitive advantage in a knowledge driven economy is an example of the common agenda shared by DfEE and DTI (DTI/DfEE 2001, CEML 2001).

There has been significant institutional change associated with the provision of training and business support with the advent of the Learning and Skills Council, Regional Development Agencies, University for Industry (Learn direct) and the Small Business Service. Drawing together the myriad of learning initiatives and ensuring that the needs of the regions are met falls under the auspices of the Regional Development Agencies and their equivalent agencies in Scotland and Wales (DLTR 1997). Their remit includes the development of a strategic approach to business support, training and other labour market activities at the regional level. The DLTR emphasis is placed on 'people development' and encouraging the development of an educated and skilled workforce that is inventive and adaptable. The recent urban (DLTR 2000a) and Rural (DLTR 2000b) White Papers reinforce the Departments commitment to partnership working, raising educational attainment and targeted small business support.

Whilst there is some evidence of 'joined up thinking' between the Departments (DTI/DfEE 2001) the concept of a 'one stop shop' for government funded support remains elusive (Lowe and Talbot 2000). Previous research and evaluation studies have identified fundamental problems associated with information sharing and sustaining customer relationships (GHK Economics 1997) which are likely to remain evident within the new infrastructure. Under the present regime most but not all Local Learning and Skills Councils will contract workforce development to local Business Links. For example, advice on IIP accreditation for smaller businesses will be contracted to Business Links, with LSCs delivering to large companies. A memorandum of understanding is to be developed in ten or so areas where Business Links will deliver to all businesses and the practical efficacy of the different approaches will need to be examined closely. Other major players such as Higher Education and Further Education Institutions collaborate and compete for resources and small business customers at different times and to varying degrees. Most providers (including the private sector) tend to concentrate on areas of greatest demand and reward in the large corporate sector.

5.5 Towards a customer driven approach to design and delivery

The achievement of the goal of a coherent, customer focused supply side infrastructure appears to be some way away. Interventions still tend to be designed, developed and delivered in accordance with the interests of the suppliers rather than their small business clients (Lean 1998, Devins et al 2000). There is a generally low level of demand for business support not because micro business managers are unaware of the services but because they have negative attitudes towards them (Johnson 1998). Furthermore there are sections of society (e.g. ethnic minorities, women) who make even less use of the services available (Ram 1999). There remains a supply-side mentality and much of the confusion is caused by the overlap of government department agendas (Perren and Grant 2001). In a review of employers attitudes to training for the National Skills Taskforce the author concluded that the chances of the average small business being able to be aware of, absorb, understand and become involved in the array of apparently uncoordinated activities are close to nil (Keep 1999).

However, policy documents are beginning to articulate the problem of engaging and supporting smaller businesses more clearly. An example is found in analysis paper underpinning the Workforce Development Strategy (PIUa)

SMEs have distinctive needs which may not be addressed by the standard business qualifications available within HE. The need for training will be closely

related to the business lifecycle, the changing size of the organisations and the need to address immediate business problems.

The PIU report notes that a critical success factor in WfD is the quality of development provided, both in terms of formal **and** informal learning. A key element in this is the need to ensure that policy and business support interventions 'mimic' the informal learning that managers prefer (Perren and Grant 2001). The quality of current mainstream provision is highly variable (PIU 2001) and a long way away from delivering the holistic, business oriented learning micro managers require. If the needs and interests of small and micro businesses are to be met there needs to be a fundamental change to the way in which interventions are designed, delivered and evaluated.

In order to move towards a customer driven system, micro business managers themselves need to become more discriminating and demanding customers. In order to do this they need to know what they want and have a good idea about what they are seeking to achieve at an individual and a business level. Helping micro businesses to recognise a need or opportunity is a fundamental element of a demand-led process which has been recognised by others (e.g. CEML 2001). Rather than the provision of technical skills and knowledge, interventions need to reconcile the tension between working with existing management practices and the promotion of a re-evaluation of existing business assumptions.

If micro businesses are to be encouraged to grow and/or undertake training and development, funding needs to be adequate to develop interventions on a long term basis, adopting an incremental largely ad hoc approach which builds trust, confidence and credibility. Interventions need to have the flexibility to respond to the needs of individual businesses and not be reliant upon selling generic products which have little relevance to the business context. Like others, we recommend that risk taking and innovation is encouraged (GHK 2000). It is not a question of better signposting to current offerings, telling businesses that 'training is good for you', nor improved access to existing training courses. Fundamental change is required. There are clearly issues associated with funding such an intensive approach outlined in this report and a clear view of the cost-benefit/cost effectiveness of various models should be undertaken. Equally there are major issues such as targeting of provision (see for example Atherton and Lyon 2001) and universal access which need to be resolved.

5.6 Section summary

This section has discussed some of the implications of the analysis contained in this report for public policy. It has highlighted the inadequacies of current policy interventions in the micro business context and outlined the case for interventions to support established micro businesses along as part of a balanced support policy including start-ups, SMEs and larger enterprises. We argue that there is a major supply side failure to 'mainstream' offerings which reflect the interests of small and micro business managers and to present them in a coherent way. There remains a need to design, develop, deliver and evaluate offerings which are in tune with the interests of the micro businesses and that the foundation of this process should be the interests of the managers themselves. Only after a period of successful joint-working can micro business managers be expected to jeopardise the approach to management and leadership which has generally served them sufficiently in the past.

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