

# Research Note

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## Leadership & Management Skills in SMEs

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- **Deficiencies in Leadership and Management Skills (LMS), and not implementing management best practices, are a key constraint on business performance in the UK,** especially in the case of SMEs; and are a particular factor in the UK's lower productivity compared to other European countries and the US <sup>(1,2,3)</sup>.
- It has been estimated that as much as £19 billion is lost to the UK economy every year due to deficiencies of leadership.<sup>4</sup>
- To provide evidence of how LMS influence the adoption of best practice and how they may shape business performance, the **Department for Business, Innovation and Skills (BIS)** commissioned the **Enterprise Research Centre (ERC)** to undertake research involving 2,500 English SMEs. The research report, '*Leadership and management skills in small and medium sized businesses*' is available [here](#).<sup>5</sup> Invest NI was provided with an opportunity to include a sample of 300 supported **SMEs** within the study.
- The research demonstrated a clear link between LMS and the implementation of management best practices by SMEs, and showed that:
  - LMS with the most significant influence are **entrepreneurial and leadership skills**.
  - Management best practices in **strategy** and **human resource management** are associated with measures of business growth.
- The findings also reveal a **low up-take of management best practices** such as strategy formalisation and strategy responsiveness, and 'high performance' human resource practices such as information sharing, participation in decision making, training, variable rewards, and employee ownership.

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1 HM Treasury. Fixing the Foundations – Creating a More Prosperous Nation (2015). Available at: <https://www.gov.uk/government/publications/fixing-the-foundations-creating-a-more-prosperous-nation>

2 CIPD. Annual Learning & Talent Development Survey Report (2012)

3 Bloom, N et al. "Management practices across firms and countries" *The Academy of Management Perspectives* 26:1 (2012)

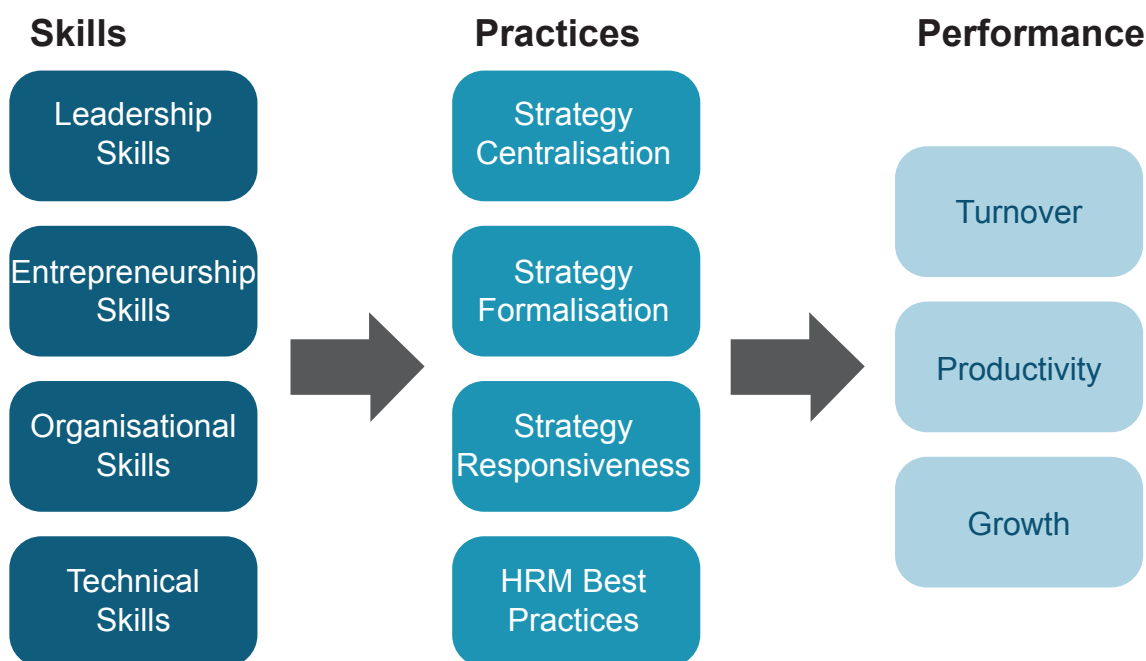
4 CMI. Management 2020, Leadership to Unlock Long-term Growth (2014)

5 BIS. Leadership and Management Skills in SMEs. BIS research paper 211 (2015). Available at:

<https://www.gov.uk/government/publications/leadership-and-management-skills-in-small-and-medium-sized-businesses> for English results

## A Framework for Skills, Practices and Firm Performance

The UK SME sector is very diverse and the different skills sets and best practices most relevant to individual businesses vary according to the nature of the business and the context in which it operates. To accommodate this broad scope, the research considered four widely relevant dimensions of management and leadership skills and four sets of management practices. These skills and practices were related to the three measures of firm performance: turnover, productivity and employment growth, as set out below:



### LMS Skill Set

- **Leadership** – motivating and influencing others and delegating work.
- **Entrepreneurship** – identifying customer needs and/or technical or market opportunities, and pursuing these opportunities.
- **Technical** – expertise in a technical or functional area, developing technically superior solutions.
- **Organisational** – organising resources, coordinating tasks.

### Management Best Practices Skill Set

- **Strategy formalisation** - the extent to which there are formal processes in place for planning and setting strategy.
- **Strategy responsiveness** - the extent to which strategic planning is adaptive in response to new information from a wide variety of sources including employees.
- **Strategy centralisation** - the extent to which strategic planning is conducted by a small group or an individual.
- **Human Resource Management (HRM)** - the extent to which training; performance appraisal; selective staffing; variable pay and employee ownership; information sharing and participation are used.

## Key Findings

The research found that skills levels and the adoption of best practices are uneven across the SMEs sector and that there are many businesses with poorly developed skills, and which do not use management best practices. The research also showed that variations in LMS are associated with variations in SME performance. Overall, the study demonstrated that:

- The skill sets most consistently and strongly associated with good management practice and SME performance are **entrepreneurship skills** and **leadership skills**.
- Across all business types and contexts, **entrepreneurship skills** are positively and significantly associated with turnover and productivity.
- **Leadership and entrepreneurship skills** are positively related to strategy formalisation and responsiveness – key drivers of performance and growth.
- **Strategy formalization** is positively associated with turnover while **strategy responsiveness** is positively associated with business growth.
- **Best practice strategic management** is also related to the implementation of best practices in **human resource management** (HRM) - which are in turn, positively and significantly associated with turnover and productivity.
- **Skills differences are more important than structural (e.g. industry sector) and contextual factors (e.g. ownership, age and size)** for explaining variation in implementation of best practices.
- The overall impact of LMS on firm performance tend to be particularly strong for firms with between five and nineteen employees.

## Focus on Entrepreneurship Skills<sup>6</sup>

- **There are significant numbers of small businesses with relatively underdeveloped entrepreneurship skills** and that there is a positive association between entrepreneurship skills and key measures of business success.
- **There are distinctive set of ‘entrepreneurship skills’** that are associated with competence in the identification of opportunities, the ability to capitalise on opportunities and a range of skills associated with developing and implementing business plans to enable such opportunities to be realised.
- **Entrepreneurship skills can be taught, but it is crucial to understand how** - the most effective approaches to developing entrepreneurship skills involve experiential learning based around task-oriented development focused on real business problems.

## Conclusions and Policy Implications

- The evidence indicates that under-developed LMS and an associated failure to adopt management best practices may be constraining the performance and growth of a large number of UK SMEs.
- The results indicate that skills matter, but not all skills matter equally. Given limited resources, especially time, SME owner-managers may benefit most significantly by focusing on the development of their entrepreneurship skills and leadership skills.
- Owner managers should understand the fundamental benefits of a formal approach to strategic planning, communication, and adaptation, as well as being able to connect HRM practices to the strategic planning process.
- The research also informs thinking about the possible policy options available. It demonstrates which aspects of LMS are the most important in terms of improving firm performance, which practices are influential, and which categories of business might achieve the greatest benefits from enhancing skill sets. These include:
  - **direct investments in knowledge and skills with respect to strategic management**, or investments in more **general understanding of entrepreneurial processes** such as opportunity recognition, business modelling and market development are expected to be beneficial;
  - **providing training for entrepreneurship skills** - entrepreneurship education is becoming widespread and is accessible not only within schools, further education and higher education institutions, but is also accessible through established sources of business support. However, it is important to note that the most effective approaches to developing entrepreneurship skills involve **experiential learning based around task-oriented development focused on real business problems**;
  - **targeting of key groups** (such as young and/or female entrepreneurs) may help programmes reach those most likely to have underdeveloped entrepreneurship skills. Similarly, **spatial targeting** may be appropriate to address low levels of entrepreneurship skills in more peripheral areas of the UK.

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