

Skills, management practices and productivity in SMEs

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Public policy related to the performance and growth of existing small firms has focused on improving access to finance and more recently on reducing regulatory burdens. However, there has also been an increasing recognition of the importance of management knowledge, skills and the adoption of best management practices. In this paper we match survey data on management skills and practices in a large group of SMEs with longitudinal data on productivity to examine the causal links between skills and management practices in 2014 and productivity performance in 2017. Our focus is on a group of firms led by a single entrepreneur or owner-manager.

Key findings

We contribute to our understanding of the relationship between Skills, Management Practices and Productivity by matching data from a large-scale survey of firms' management skills and practices conducted in 2014 with longitudinal data on business performance from the Business Structure Database (BSD) in 2017. Based on PAYE and VAT data the BSD provides information on the turnover and employment of all UK firms. This allows us to identify causal links between skills, management practices and firms' subsequent performance. Three key conclusions emerge:

- First, we affirm the important of management practices for productivity such that an additional HR practice adds around 2% to productivity over three years.
- Second, we show that management skills relate strongly to management practices.
- Third, we show that Strategic Practices are most important for firms with fewer than 50 employees and that HR practices are more important for the performance of larger firms.

Overall our research suggests a symbiotic relationship between management skills and management practices.

Authors



Bo Peng
Department of
Management, Birkbeck
University
b.peng@bbk.ac.uk



Kevin Mole
Enterprise Research
Centre and Warwick
Business School
Kevin.mole@wbs.ac.uk

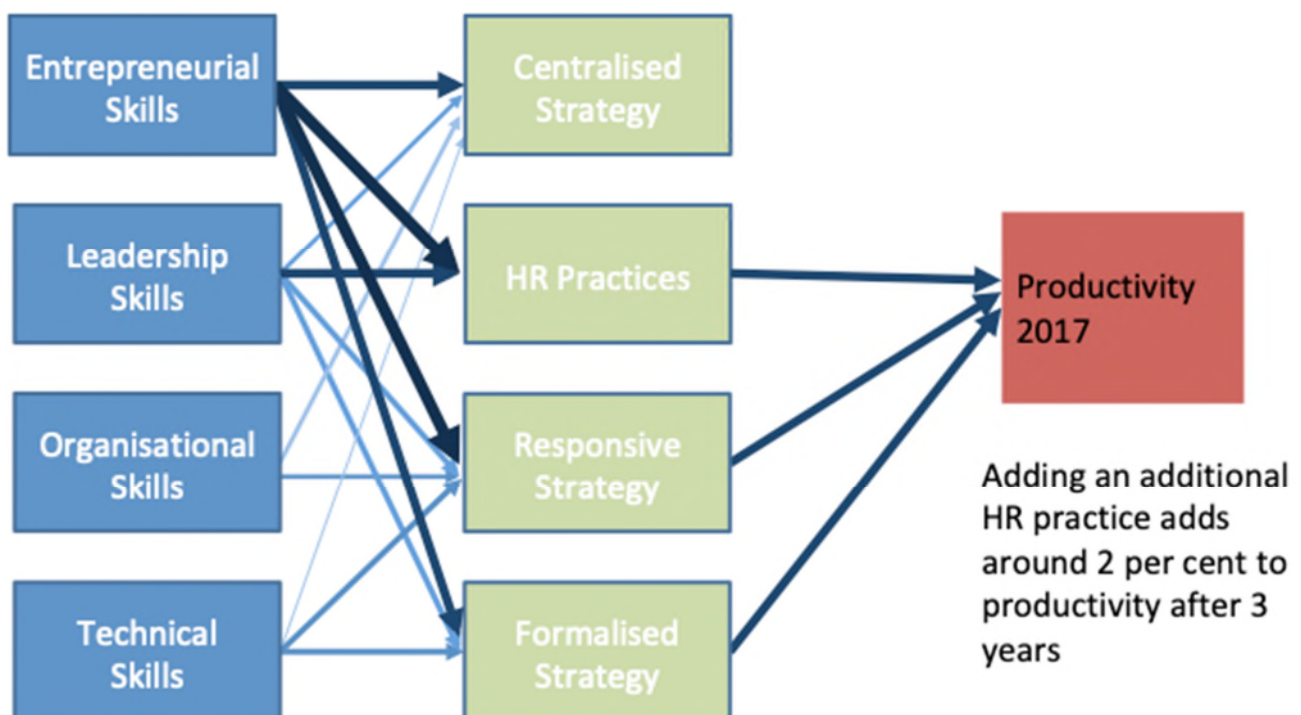


Stephen Roper
Enterprise Research
Centre and Warwick
Business School
stephen.roper@wbs.ac.uk

Skills, Practices and Productivity

The quality of management has often been related to firm size. Smaller firms may experience greater constraints on their managerial capability. Consequently, fewer management practices are likely to be employed in small firms and also those firms that are closely held (i.e., those owned by just one or a few individuals, including family firms). Whilst most existing research demonstrates the relationship between management practices and performance in large firms we have less understanding of how specific leadership and management skills relate to management practices and which practices improve firm performance in small firms. Figure 1 summarises the key relationships we identify.

Figure 1: Key relationships between skills, practices and productivity in SMEs



Policy implications

In policy terms the mediating role of practices in the link between Skills and Productivity is also potentially important. The implication is that improving skills in isolation will not transfer directly to improvements in productivity. It is only where upgraded skills enable or inform influence practice that productivity benefits will be realised. Supporting productivity growth requires a dual approach combining training and mentoring to build managerial skills and ensure these are embedded in Management Practices.

Full paper link: <https://www.enterpriseresearch.ac.uk/our-work/publications/>