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Business Management Skills

A discussion paper prepared by:

**Small Business Policy Branch
Industry Canada**

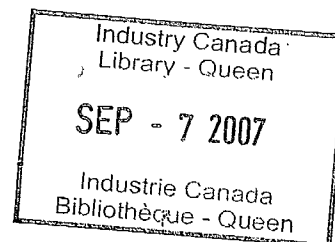
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Preface

Canada has long benefited from a high level of entrepreneurship. In fact, the Global Entrepreneurship Monitor (GEM) notes that Canada's level of start-up activity is the second highest among the G-7 countries. Canadians are very supportive of entrepreneurship and perceive many opportunities for new start-ups. The capacity to pursue new business opportunities is considered higher in Canada than most other countries.

While Canada enjoys a high rate of new business formation, there is also a high rate of exits from business. A lack of data and literature on the reasons for small firm exits are impediments to effective policy development for micro-enterprises. This paper is a revised version of one ~~was~~ originally presented at the APEC High Level Meeting on Micro-Enterprises held in Mexico in August 2002 ~~that~~ ~~and~~ ~~drew~~ ~~was~~ primarily on Canadian sources, particularly a paper titled *Management Skills for Small Business* prepared for Industry Canada by Keith Newton of Carleton University.¹ This and other research supports the idea that one of the most common reasons for exits among small micro- and micro-businesses ~~enterprises~~ is management weakness. Regardless of the Canadian experience, the importance of management skills to business success transcends geographic boundaries ~~and is reflected in the large proportion of overall economic activity attributable to the small and micro-enterprise sector throughout the world.~~

The purpose of this paper is to review the results of Canadian research and experience concerning management skills and small and micro-businesses ~~enterprises~~ and what this means for government policy.

Among the questions this paper attempts to address are:

- Is there evidence of deficiencies in management skills in the small and micro-enterprise population?
- Is it possible to identify key management skills for this population?
- What are the skills that must be acquired at the various stages of a small firm's development?
- What are some of the approaches to address the management skills problem?
- What is the appropriate role for government?

An underlying assumption of this paper is that the pace of technological change is unlikely to abate, globalization will proceed apace, competition will not cease, innovation will continue to be the source of competitive edge and competent management skills will continue to be essential to successful innovation, growth and competitiveness.

The Profile of Canada's Small Business Sector in Canada

In December 2001, there were about 2.2 million businesses in Canada. Two million or 98% of them were considered to be small, with fewer than 100 employees. About 1.14 million businesses were classified as 'indeterminate' — i.e. incorporated or unincorporated, possibly registered to pay income and other taxes, but without employees on the payroll. Of the remaining 1.05 million 'employer businesses', about 59% had 1 to 4 employees.²

Profile of Canadian Micro-Enterprises

Micro-enterprises represent the earliest stages of business development — a stage where the owner-founder is typically also the manager of the firm. At this stage, the management decisions of the founder or entrepreneur, his/her intention about the business and his/her background and aspirations are intrinsically linked with the success of the business itself.

¹ Most of the research sources for this paper can be found on the Industry Canada Small Business Research and Policy Website at: www.strategis.ic.gc.ca/sbresearch

In order to gain a better picture of the micro-enterprise sector in Canada, and to improve our understanding of the factors that motivate the entrepreneur or owner-founder of a micro-enterprise to expand their business, in 2000 Industry Canada conducted a survey of such Canadian enterprises that survived at least four years in 2000. The following provides highlights of the survey results.

Table 1: Total Number of Micro Business Establishments, and Number of Establishments relative to Provincial/Territorial Population, June 2002

Province/ Territory	Micro Business Establishments			Total No. of Businesses per 100 population
	Total (%)	Employer Businesses 1-4 Employees	Indeterminate*	
Newfoundland and Labrador	19,092 (1.1)	10,631	8,461	3.6
Prince Edward Island	7,671 (0.4)	4,110	3,561	5.5
Nova Scotia	37,993 (2.1)	17,663	20,330	4.0
New Brunswick	33,124 (1.9)	16,077	17,047	4.4
Quebec	407,144 (23.5)	153,348	253,796	5.5
Ontario	613,697 (35.4)	185,527	428,170	5.1
Manitoba	59,007 (3.4)	19,518	39,489	5.1
Saskatchewan	79,340 (4.6)	24,461	54,879	7.8
Alberta	228,096 (13.1)	79,500	148,596	7.4
British Columbia	246,519 (14.2)	91,712	154,807	6.0
Yukon Territory	2,081 (0.1)	905	1,176	7.0
Northwest Territories	1,654 (0.1)	752	902	4.0
Nunavut	386 (0.0)	205	181	1.4
Canada Total	(100.0) 1,735,804	604,409	1,131,395	5.5

Source: Statistics Canada, Business Register, June 2002; Estimates of Population by Age and Sex for Canada, the Provinces and the Territories, Q2 of 2002

Note*: The indeterminate category consists of incorporated or unincorporated businesses without employees. The Business Register classifies a business as "indeterminate" when it cannot be determined through payroll data that the firm has paid employees. The firm may well provide work under contract

² For statistical reasons "indeterminate" firms and "self-employed" are not comparable figures since it is not clear how many self-employed are counted as having an "indeterminate" business.

Table 2: Total Number of Micro-businesses by Region, June 2002

Region*	Non-employer Micro-businesses		Employer Businesses with 1-4 Employees		Total Micro-businesses	
	Number	%	Number	%	Number	%
Atlantic	49,399	4.3	48,481	8	97,880	5.6
Quebec	253,796	22.4	153,348	25.4	407,144	23.5
Ontario	428,170	37.8	185,527	30.7	613,697	35.4
Western	397,771	35.2	215,191	35.6	612,962	35.3
Northern	2,259	0.2	1,862	0.3	4,121	0.2
Canada	1,131,385	65.2	604,409	34.8	1,735,804	100

Source: Table 1

* Atlantic Canada consists of Newfoundland and Labrador, Prince Edward Island, Nova Scotia, and New Brunswick. Western Canada consists of Manitoba, Saskatchewan, Alberta and British Columbia. Northern Canada consists of Nunavut, Northwest Territories, and Yukon Territory.

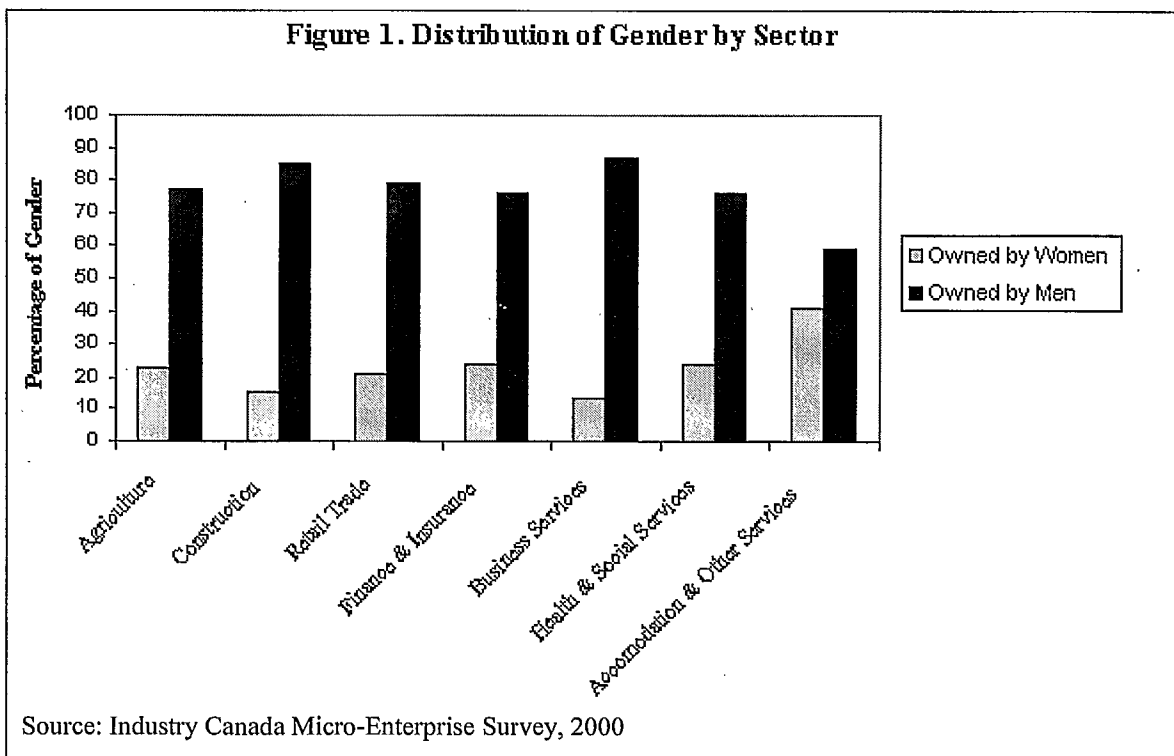
In June 2002, the regions of Ontario and Western Canada each had about 35 percent of the total number of ~~employer~~ micro-businesses in Canada. Taken together these two regions accounted for more than 70 percent of all micro-business in Canada and nearly 73 percent of these micro-firms are non-employers. At nearly 38 percent, Ontario had more non-employer micro-businesses than any other region.

Table 3: Number of Micro Business Establishments by Industry, June 2002

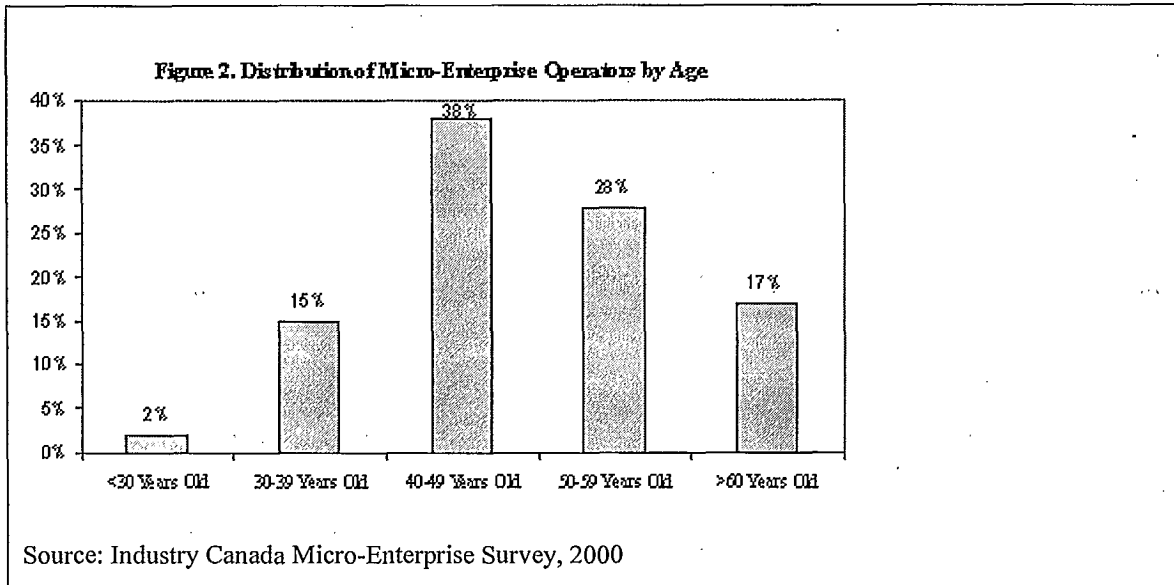
Industrial Sectors	1-4 Employees	Indeterminate*	Total Micro Businesses	Percent- age of Total	Canada Total
Agriculture, Forestry, Fishing and Hunting	48,400	134,409	182,809	93%	196,715
Mining and Oil and Gas Extraction	4,760	7,196	11,956	78%	15,292
Utilities	528	714	1,242	65%	1,905
Construction	70,301	131,543	201,844	84%	240,277
Manufacturing	27,930	39,677	67,607	65%	104,384
Wholesale Trade	32,552	55,172	87,724	72%	121,341
Retail Trade	59,775	85,702	145,477	67%	215,643
Transportation and Warehousing	31,413	58,688	90,101	86%	104,752
Information and Cultural Industries	7,115	15,371	22,486	77%	29,354
Finance and Insurance	18,086	69,336	87,422	84%	104,681
Real Estate and Rental Leasing	25,567	119,270	144,837	91%	158,636
Professional, Scientific and Technical Services	79,390	164,902	244,292	88%	277,729
Management of Companies and Enterprises	9,985	56,361	66,346	90%	73,728
Administration and Support, Waste Management and Remediation Services	27,845	51,989	79,834	81%	98,495
Educational Services	5,986	7,737	13,723	72%	18,930
Health Care and Social Assistance	46,866	10,730	57,596	63%	91,724
Arts, Entertainment and Recreation	10,150	20,991	31,141	80%	38,927
Accommodation and Food Services	28,552	35,320	63,872	58%	110,161
Other Services (except Public Administration)	66,821	66,232	133,053	81%	163,328
Public Administration	2,387	55	2,442	32%	7,596
All Sectors	604,409	1,131,395	1,735,804	80%	2,173,598

Source: Statistics Canada, Canadian Business Patterns, June 2002

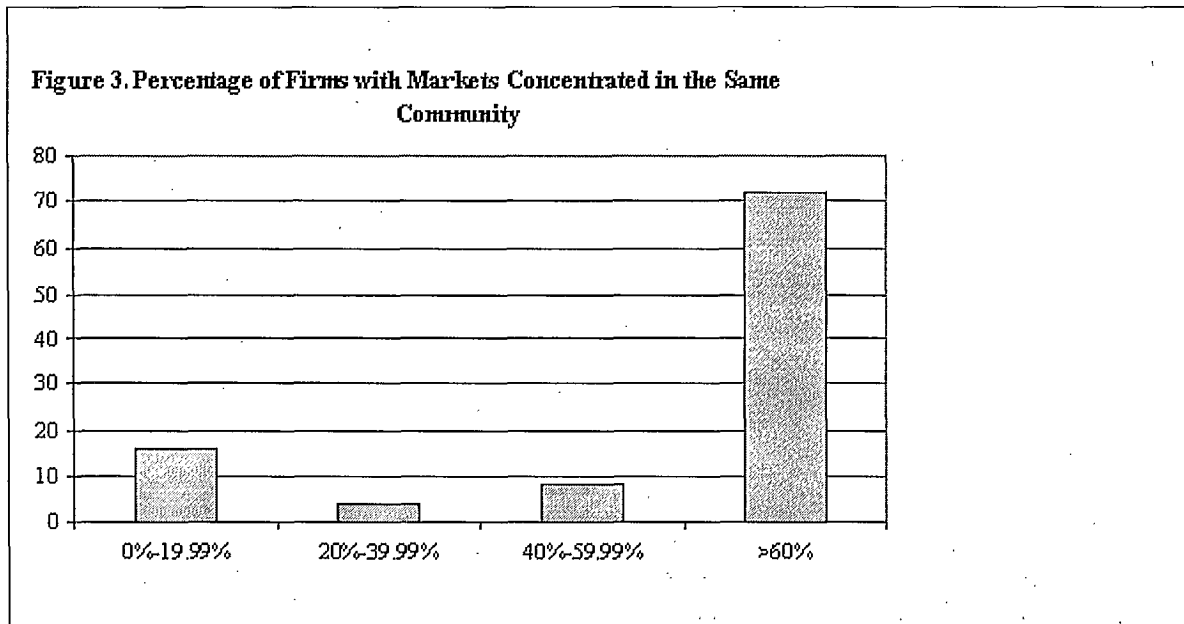
Note*: The indeterminate category consists of incorporated or unincorporated businesses without employees. The Business Register classifies a business as "indeterminate" when it cannot be determined through payroll data that the firm has paid employees. The firm may well provide work under contract.



With respect to gender, on average Canadian micro-enterprises are more likely to be owned by men (77%) than women (23%). Female participation is lowest in business services and construction, highest in accommodation and other services. In recent years, slightly over one-third of self-employed workers have been female; the share of female self-employment has increased steadily from just over one-quarter in 1976 to more than one-third in 2001.



Micro business owners are most frequently between 40 – 60 years old. Only 17% are under age 40.



Source: Industry Canada Micro-Enterprise Survey, 2000

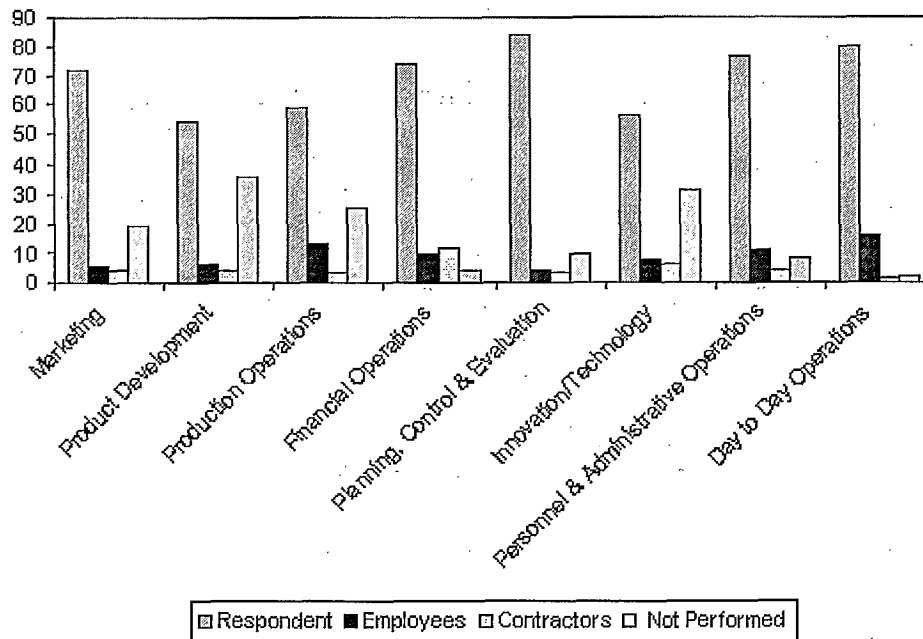
Micro-businesses are focused on the local market. Two thirds of the businesses have over 60% of their market (sales) concentrated in the local community. Only 16% of the businesses depend on the local market for less than 20% of their business.

Contribution to Job Creation

Over the last several years, Canadian data has become available on what sizes of firms create net jobs in the economy. The data are derived from Statistics Canada's Survey of Employment, Payrolls and Hours (SEPH). The following graph displays the relative contribution to job creation in the private sector economy covered by SEPH, by "small", "medium" and "large" businesses over the years 1994 to 2000. The relative contribution to each size class has varied considerably, and throughout the period each size class has played a major role in creating jobs in Canada at a certain time period. In 1994 and 1995 large businesses were shedding jobs and most of the job creation was found in small enterprises.³

³ A significant limitation of these data is that they cover a generally expansionary period, with only a mild downturn in 1995-96. In a more severe downturn or a recession, the percentage contributions to job creation (or loss) by smaller business may be quite different.

Figure 4. Percentage of Business Functions Performed by : the Respondent, Employees, Contractors or Not Performed at the Micro-Enterprise

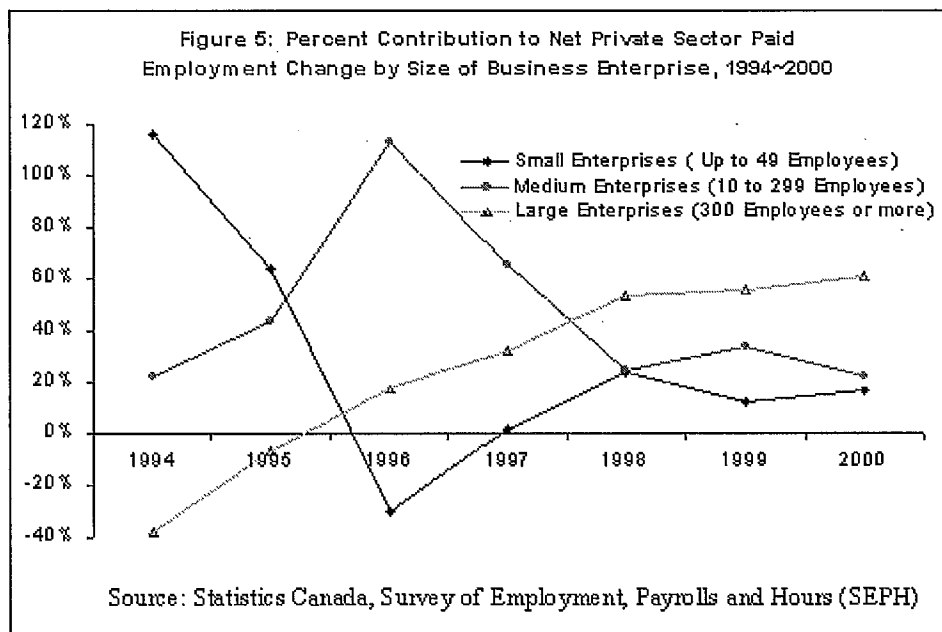


Source: Industry Canada Micro-Enterprise Survey 2000

Business functions in micro-enterprises are mostly conducted by the owner-manager. More than 50% of the operators stated that they perform each of the following business functions: marketing (72%), product development (54%). Production operations (59%), financial operations (74%), planning, control and evaluation (84%), innovation/technology (56%), personnel and administrative operations (77%) and day-to-day operations (80%).

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Identifying the Challenge

Survival

Before a micro-business can grow, it must survive. In the first three years after start-up, survival rates for micro-businesses are 20-28 percent lower than for other small businesses (5-99 employees). Size and age are among the predictable factors that affect how long a business stays active in its chosen market. But there are also a number of unpredictable factors affecting the decision by the entrepreneur to exit the marketplace, such as the number of competitors and new entrants. Research also suggests, however, that a lack of management skills is an important factor in firm survival.

Several Canadian organizations have confirmed this through their research. For example, the Canadian Manufacturers and Exporters Association conducted a survey in 2000 on the management issues faced by its members (the majority of which are SMEs). Management skills were ranked first on a list of skill needs – before information technology or engineering skills. Also in 2000 the Certified Management Accountants of Canada conducted a survey of its members who are involved, or had been involved with small businesses, either as employees or advisors. The top two factors CMAs identified in small business failures were poor business planning and poor financial planning. In addition, they ranked “better knowledge of business skills” at the top of the list of SME needs.

~~Canadian researcher~~ John Baldwin examined the issue of business bankruptcy in Canada using a sample consisting predominantly of small firms. Baldwin found that a large number ~~almost half~~ of the firms in Canada that go bankrupt do so primarily because of their own deficiencies rather than externally generated problems. Overall weakness in management combined with a lack of market for their product cause these firms to fail. According to Baldwin, the main reason for failure is inexperienced management. Managers of bankrupt firms do not have the experience, knowledge, or vision to run their business. Even as firms age and management experience increases, knowledge and vision remain critical deficiencies that contribute to failure. Baldwin found that in 71%

of the failed firms, deficiencies in both general and financial management are the major causes of failure – the single most important internal causes of bankruptcy, ahead of marketing (50%), production/operations (30%), innovation (28%) and human resources (27%).⁴

While bankruptcies may be seen as a visible measure of management deficiencies, the majority of small firms simply exit from their business. These exits draw equally important attention to the management skills challenge. Early stage enterprises are particularly vulnerable to management deficiencies leading to exit. Management must master the basic internal skills – general and financial knowledge, communications, supervision of staff, and market development – or it will fail.

It should also be noted however that high turnover is not necessarily negative. The volume of small business entry and exit is an indication of entrepreneurial activity. Canada's small firm population is characterized by high rates of turnover, suggesting a well-developed entrepreneurial culture. Canadian data shows that over two-thirds of micro-sized firms (under 5 employees) and almost half of small-sized firms (5 – 99 employees) exit the market within five years of start-up. Nearly 80 percent of all new small and medium-size enterprises (SMEs) ~~disappear~~ are gone within ten years. These figures are typical of the experience in other countries.

Growth

For those micro-businesses that do survive, at some point they are faced with the decision of whether to expand ~~in size~~. For many micro-business owners it is one of the more difficult challenges facing the firm, as it often has an impact on lifestyle choice.

As a surviving business grows, new sets of challenges arise that are associated with the increased complexity of running a maturing firm. As firms age, managerial issues such as the appropriate use of outside advisors, emphasis on quality, delegation of responsibilities, turnover of personnel, and problems associated with the owner/manager

⁴ Baldwin, J. et al (1997) *Failing Concerns: Business Bankruptcy in Canada*. Statistics Canada Cat. No. CS61-525-XPE.

become relatively more important factors. Difficulties associated with the delegation of responsibility are more of a factor for micro-enterprise firms than for larger firms.

Further, while economic and business researchers are often divided on the subject of small firm growth, there is agreement that the strategic choices of the business owner, and the way that he or she manages the business, are crucial in seizing opportunities to expand the firm and overcoming barriers to development and growth. Recent research by Industry Canada⁵ confirms that the more significant determinants of the growth of micro-businesses are the owner/manager's willingness to grow and assume risk, delegate responsibilities, and share ownership with business partners.

There are, of course, many business owners who derive adequate financial returns and personal satisfaction from their 'non-growing' businesses, and have neither the intention nor the ambition to 'grow' their enterprise. The majority of these firms see regular income as their primary objective. "The entrepreneur's desire for stability and security may be one of the most important considerations in choosing the direction for growth. Also, stability is one goal which has the active support of people related to the organization, like employees and family members."⁶ For entrepreneurial ventures the willingness of the owner-manager to grow is as important as their ability to foster and manage growth.

Diversity of Firms

Canada's micro-enterprise population is diverse, running the gamut from the hot-dog stand operator to emerging high-tech enterprises. Consequently, the demands for and deployment of various management skills will vary enormously. Generalizations, or the attempt to distill 'generic' skill sets or competencies may not capture the breadth and depth of skills required for every sector, but does provide a useful framework for addressing key areas of deficiency.

⁵ Papadaki and Chami, *Growth Determinants of Micro-Enterprises in Canada*, Industry Canada, 2002

⁶ Gasse, Y., Research Project on Best Business Management Practices, 1996

Management Competencies

Several terms are used to describe the various dimensions and aspects of management. Included are: 'knowledge', 'skills', 'competencies', 'attitudes' and 'characteristics'. Of these, the term that is used more and more frequently is 'competencies'. Regardless of the terminology however, managers are considered competent when they have the ability and knowledge to do something efficiently and successfully that contributes to improved firm performance. Research suggests that successful businesses result from competent management in all functional areas. A review of literature produces the following list of competencies required to successfully manage a business:

1. Vision: leadership, communication, entrepreneurial values and creating a climate conducive to high performance.
2. Strategizing and planning: the ability to develop a business plan and build the appropriate strategic alliances that activate the business model.
3. People management: the ability to hire, train, manage and evaluate employees, as well as interpersonal 'soft skills' such as motivation and persuasion.
4. Operational control: the ability to adapt new information and communication technologies, innovation, and quality standards, to production and operating systems, and to manage risk (e.g. financial) through all stages of business growth.
5. Marketing and sales: the ability to develop marketing plans, to identify networking opportunities, and to identify new markets and products.

Different management education programs emphasize different competencies. While the competencies noted above are by no means inclusive, they do represent a reasonable summary of research findings. They do not indicate, however, how management skills are acquired – through formal education, experience and informal

learning, or a combination of all these, ~~both~~. Management competence are still be considered by many to be as much art as science.

Stages of Growth

As noted earlier, different management skills are required at different stages in the firm's life cycle. A simple model to describe the process of development and growth of a firm can be summarized as follows:

Nascent/Pre-start-up: The beginning of the small business life cycle is often referred to as the 'pre-start-up phase'. This phase generally involves initial considerations on whether to 'give it a go' followed by a determined exploration of resources, opportunities and needs. It typically requires the formulation of some kind of guiding vision that translates into a business plan. The latter typically involves some assessment of the market for the would-be entrepreneur's² product or service and a consideration of financing.

The management skills that can be brought to bear at this initial stage can differ enormously. Some would-be entrepreneurs may have formal management education such as an MBA. ~~My~~ ~~et~~ many others may be virtually innocent of business management knowledge, bringing with them only ideas or enthusiasm. All will develop their management skills – though clearly to vastly varying degrees – through learning-by-doing.

Start-up: Firms in this stage typically have a single product ~~with~~ with a limited, local markets. Organizational structure tends to be informal; planning typically does not extend beyond a one-year time horizon. Management skills required at this stage are still fairly basic, with a focus on personal communications and marketing skills, as the entrepreneur seeks to secure initial financing and build clients.

First stages of growth: The financial plan at this stage becomes a major management tool. The management style remains predominantly entrepreneurial. Mastering growth

and keeping control are the major challenges. According to the Canadian Institute of Chartered Accountants, an enterprise in the development stage typically will be devoting most of its efforts to activities such as financial planning, raising capital, establishing sources of supply, acquiring property, plant and equipment, recruiting and training personnel, developing markets and starting up production.⁷ The length of the development stage will vary significantly from enterprise to enterprise, depending on the nature of the business, ~~and the industry in which it operates~~. Some enterprises become operational within weeks of inception (e.g. a single retail store), while others may require significantly longer time.

Expansion/Transition: This stage is characterized by steadily growing profits. Organizational structure is more functional, arranged around products or markets. Seizing strategic opportunities and maintaining control, motivation and commitment are the main preoccupations of entrepreneurs at this stage.

Maturity: This stage is characterized by more formal procedures. Entrepreneurs spend more time on strategic decision-making and less on day-to-day operations.

Stages can of course merge and overlap. Some may be skipped – some firms will seek foreign markets at the outset while others will do so only after securing a solid home base; some will enter the market on the basis of technological superiority while others have to learn about technology, and so on. The one conclusion that our research has found is that progression through the stages is unlikely to be smooth.

Hierarchy of Skills

Various research studies have looked at the skills required by entrepreneurs. One of the models used within the stages of development context is a management skills pyramid. As the figure below indicates, the base of the pyramid assumes an array of basic skills and competencies. Functional mastery is required in terms of literacy, numeracy and “computeracy” – it is hard to survive in the knowledge-based economy

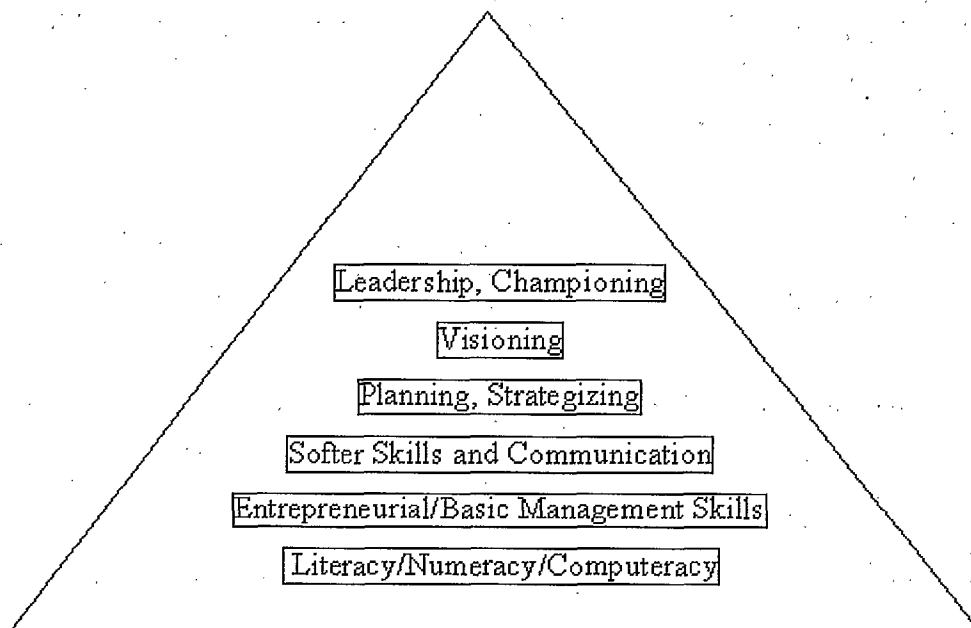
⁷ Canadian Institute of Chartered Accountants, *Accounting Guideline 11*, March 2000

without such abilities. Many would-be entrepreneurs have superimposed on those foundation skills certain technical skills that in many cases become their 'selling card'. The application of such skills requires, at the next stage, the invocation of entrepreneurial instinct and attitude and the use of some basic management skills in the preparation of a business plan. Communication skills then become of primary importance in:

- (a) securing financing
- (b) convincing potential clients of the merits of one's product or service
- (c) acquiring key people
- (d) acquiring the best possible advice
- (e) forging partnerships and alliances.

Successive growth phases involve some formalization of policies and procedures. Formal planning and strategizing become more important elements of the management skill set. As the pieces come together visioning becomes important: how does the company see itself; what is its mission and mandate and what kind of corporate climate and culture does it want to establish? Finally, the management traits that will "make it stick" are leadership and championing – setting the tone and leading by example.

A Hierarchy of Management Skills, Competences and Traits



Factors Impeding, and those Conducive to Management Skills Development for Small Business

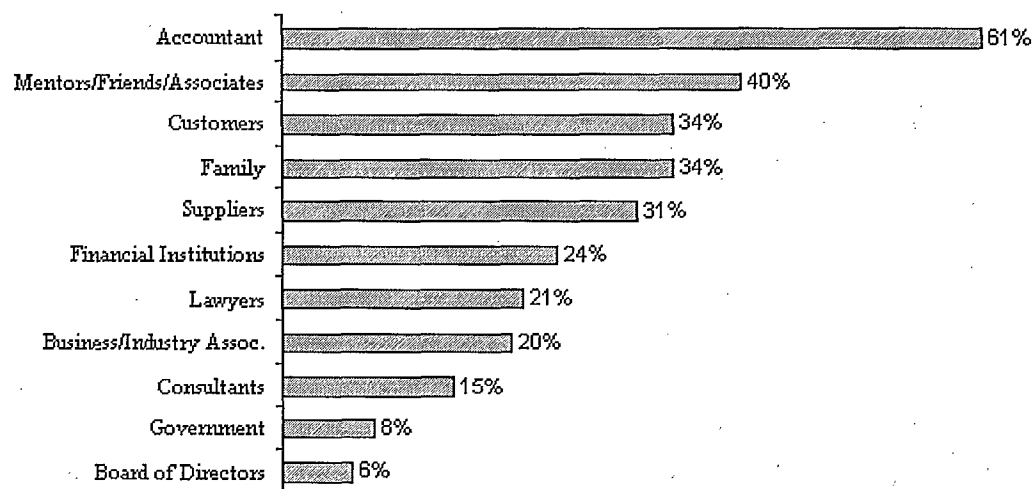
Regardless of the stage of development of a firm, there is no shortage of business support services available, both public and private, to assist entrepreneurs or micro-enterprises in obtaining or enhancing the necessary management competencies to help them succeed. However, the reality for most firms is that they simply lack the time, money, information and experience to evaluate their management skill needs and access the required programs and services. Many small firm owners do not know what they need to run a business. Sometimes they misread the nature of their problem and mistakenly conclude that a fresh infusion of financing, or a technological fix will suffice. In some cases inexperienced managers do not realize that they have a management skills deficiency until it is too late. In other cases managers may obtain bad or inappropriate advice that only exacerbates their business situation.

Inexperience and imperfect information can lead to misdiagnosis of problems and needs. Imperfect information is a principal barrier at all stages of the development cycle of a firm. Inherently, the younger and more unproven the firm, the greater the challenges of risk and uncertainty. Information is a means to minimize uncertainty and accurately assess risk. At each stage of development, timely, accurate and relevant information is required to assess needs and acquire the means to address them. In doing this, however, firms may face another information problem in the form of largely uncoordinated potential suppliers of services.

Where do entrepreneurs turn to for business advice? This question was addressed in the 2000 Industry Canada micro-enterprise survey, with some surprising results.

Accountants are the single most sought source of business advice with formal sources such as bankers, lawyers and business consultants less commonly sought. Family, friends, mentors, customers and suppliers are also an important source of business advice for micro-business owners. Government falls next to last.

Figure 15. Percentage of Times the Source of Business Advice is Selected

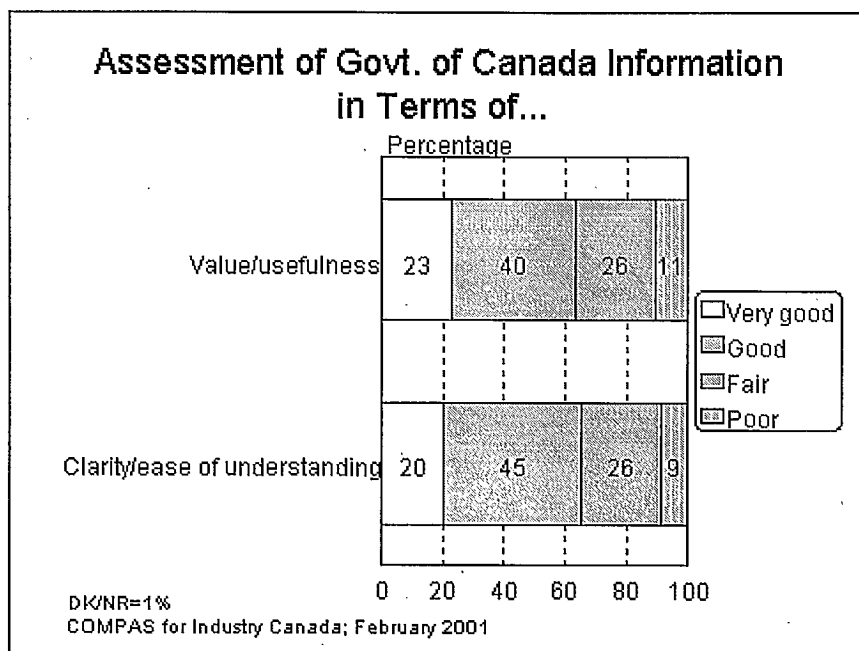


Source: Industry Canada Micro-Enterprise Survey, 2000

Role of Government

The challenge to government providers of information to small businesses from the 2000 micro-enterprise survey is survey (which was consistent with other surveys done in Canada) is obvious. Government is not seen as an important source of business advice. A separate, but related survey on small business information needs conducted for Industry Canada found that almost half of small businesses reported they do not use the Internet at all for their business and half of the rest report minimal use. This survey also found that small businesses that obtained information from the federal government offered moderately positive assessments of the information they received. Most of the business managers expressed satisfaction with the material received. However, one-third

assessed it as fair at best and a significant minority of small businesses were not satisfied with the government material.⁸



Despite these results, the Canadian government is playing an increasingly important role in the provision of information to small business managers, particularly through web sites. The principal reasons for this transition are costs and accessibility. Where government used to print and mail its information holdings, it is now far more economical to provide information through the web, which has become increasingly accessible to more people.

In addition to marketing and awareness issues, government must coordinate and organize a vast array of information available so that it is easily accessible by small business. In Canada there are 14 federal departments and agencies that provide or deliver small business programs and services as well as a host of others with websites of interest to small business. Add to this mix the information from provincial and municipal governments, and the need for better integration of online service delivery across jurisdictions, it becomes clear that this is a complex endeavour. A number of initiatives

⁸ Industry Canada Small Business Information Needs Assessment Survey, 2001

launched recently by the federal government go a long way to addressing the information challenges. One of the most significant is Government On-Line (GOL)
<http://Canada.gc.ca> .

Government On-Line is the federal government's commitment to be the most electronically connected government in the world and, to provide Canadians with electronic access to federal information and services. GOL is about using information and communication technologies to enhance Canadians' access to improved integrated services, anytime, anywhere and in the official language of their choice. The federal government is committed to having all its key programs and services on-line by 2005.

One of the main "portals" of GOL is the BusinessGateway
<http://BusinessGateway.ca/> that leads individuals to all the information necessary to start and run a business. This site in turn links to several practical Industry Canada sites including "Sources of Financing" <http://strategis.gc.ca/sources> , a resource for locating traditional and alternate sources of small business financing; "Contact!" <http://strategis.gc.ca/contact> that provides an up-to-date directory of business support organizations; "Steps to Growth Capital" <http://growth.ic.gc.ca> , an entrepreneurs' guide to securing risk capital; and, "Performance Plus" <http://sme.ic.gc.ca> , a financial performance tool to help new and established firms assess their financial performance.

An increasingly popular means of attaining improved business performance is through benchmarking. Benchmarking is the process of continuously comparing and measuring a firm's processes against other organizations to gain information on their practices or methodologies to help an organization take action to improve its performance. Benchmarking can be used to identify and rectify problem areas, implement strategic change initiatives, or for continuous process improvement. One of the most comprehensive business diagnostic and benchmarking sites can be found at: http://strategis.ic.gc.ca/sc_mangb/strategy/engdoc/main.html. This site includes profiles from a database of more than 100 diagnostic and benchmarking tools, an additional 45 profiles comprising a database of diagnostic and benchmarking training as well as a section on reports and studies.

One of the more interesting examples of a benchmarking business management diagnostic tools, not included on the Strategis site is *ProfitLearn* <http://www.profitlearn.com/home.htm> which offers an on-line management assessment tool as a subset of a broader training and development offering. Another interesting model for addressing management skills questions is the virtual university for SMEs at: www.vusme.org. This site is a strategic alliance of business organizations and educational institutions promoting an understanding of how Internet technology can be used to build profitable businesses. VUSME provides training courses tailored to the needs of entrepreneurs in English, French and Spanish.

An important information gap that small firm managers need to overcome has to do with the links between the development and deployment of management skills, on the one hand, and the impacts on the firms' performance outcomes on the other. Many small business owners and managers feel intuitively that skill acquisition makes sense but hesitate because of the costs as well as foregone time. Ideally, they should be convinced that skill acquisition is not just a cost but also an investment that has bottom-line payoffs. However, research on this subject is rare. Until a solid, wide-ranging body of empirical evidence can demonstrate the wisdom of investment in management skills the natural reluctance of small business managers to pay for costly services and/or advice with uncertain results will continue to prevail.

Policy Considerations

Beyond the collection of statistics, more documented information would help guide policy and programs relating to the development of management skills in small businesses. At the most general level, issues of entrepreneurial culture, public attitudes and mindsets must be the focus of attention if entrepreneurship and small business management and ownership are to be a flourishing contributor to the process of innovation in the knowledge based economy. Simply (though paradoxically) put, small businesses are big business. They will continue to be a major force in the knowledge-based economy.

The challenge for governments is to recognize how different government institutions are in orientation and culture from micro enterprises. Micro-enterprises do not turn to government nor follow a prescribed path in their search for success. It must also be recognized that entrepreneurs, even ones with very little formal education, have a great deal of wisdom. As Ray Kroc, the founder of McDonalds Restaurants once noted, "Nothing in the world can take the place of persistence. Talent will not; nothing is more common than unsuccessful individuals with talent. Genius will not; unrewarded genius is almost a proverb. Education will not; the world is full of educated derelicts. Persistence and determination alone are omnipotent." If we accept that entrepreneurship is making decisions about economic structure at the grassroots, by the people engaged in the business activity who know the customers, the clients, the cost structure, etc. then we should accept that entrepreneurs are responsible for market adaptation.

Policy analysts concerned with innovation, productivity, improvement, enhanced competitiveness, aggregate economic growth, and job creation may want to give special attention to the small business sector. ~~micro-enterprises~~. Not only is this sector a major component of economic activity, it is the key to future economic development. Increasingly, policy analysts must be attuned to the needs of entrepreneurs and where they seek business advice before proceeding with strategies or inappropriate courses of action that do not address the real requirements of micro-enterprises.

Some studies suggest that an appropriate role for government is acting as facilitator, broker, agent, catalyst; the provider of infrastructure; the creator and custodian of healthy marketplace guidelines and climate; and, the creator and disseminator of strategic information. However, as evidenced by the Canadian findings, business owners looking for information do not readily turn to government to provide it. The issue is how to do it. Given the increasing focus on electronic service delivery, governments face a significant challenge in providing useful information in a cost effective manner.

In response to these findings, efforts to disseminate information via small business intermediaries (e.g. banks, industry associations) should be encouraged, as

should the sharing of information needs with all levels of government and the private sector. Government should promote this matching of micro-businesses with advisors or experienced mentors that could help them build their management skills.

Concluding Comments

This paper has attempted to position the subject of business management skills development in the context of the importance of the small business sector to the emerging global knowledge-based economy. Knowledge and skills are the critical factors of production in the knowledge-based economy and the source of competitive edge. Continuous and comprehensive innovation is the key to survival and growth. Management skills are, in turn, central to that process of innovation. Since small and micro-enterprises account for sizeable proportions of economic activity, and since they are an important source of dynamism and innovation, small business management skills could be a focus for economic policy in general and for innovation strategies in particular.

As indicated earlier in this paper, not all small enterprises are interested in growing their business. Governments should not make judgments on lifestyle firms. Many small and micro-enterprises continue to derive adequate income without growing their business or expanding beyond their own local market. These firms make an important contribution to the economy and should be encouraged but their needs are separate and different from firms seeking sustained or rapid growth. As such, a blanket policy approach to small and micro-enterprise development and growth is not effective. However, for those small and micro-enterprises that are willing to grow targeted policies may be preferable.

Program evaluation contributes greatly to our understanding of the policy needs for the micro-enterprise community. ~~Support for~~ Aa concerted program of policy research to address information gaps and further examine among the various levels of government what works, what doesn't and why merits ~~is a potential consideration.~~ support. Additional empirical evidence could provide valuable input to

policy-making in this important area and complement government efforts to disseminate strategic information -

policy-making in this important area and further complement government efforts to disseminate strategic information -

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