

Review of Small Business Studies
by John Baldwin (et al)

Implications for a
Management Skills Framework for SMEs
May 1998



Entrepreneurship and Small Business Office
Industry Canada

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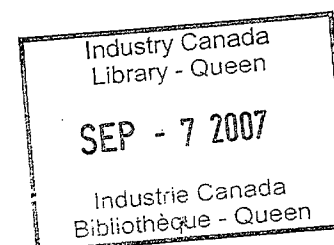
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Overview



- **Strategies for Success**
 - Identifies how more successful and less successful growing firms differ in firm strategies and activities (February 1994).
- **Successful Entrants**
 - Identifies characteristics of firms that survive and the differences of firms that achieved fast growth (April 1997).
- **Failing Concerns**
 - Identifies causes of bankruptcy and seeks measures that could prevent business failure (December 1997).

Strategies for Success: firms' self-assessment



- **Most important growth factors**
 - management skills (3.34)
 - skilled labor (2.93)
 - marketing abilities (2.87)
- **Least important growth factors**
 - R&D capability (1.44)
 - government assistance (1.37)
- **Most Important competitiveness factor**
 - customer service (4.01)
 - product flexibility to serve customer needs (3.94)
 - product quality (3.9)
- **Least important competitiveness factor**
 - R&D spending (1.45)
- **Most important management strategies**
 - quality management (3.6)
 - just in time inventory and process control (3.3)
- **Most important marketing strategies**
 - selling current products in present markets (lower emphasis on expanding product lines and new markets) (3.6)
- **Most important production strategy**
 - cutting labor costs (3.6)
- **Most important human resource practice**
 - general motivation techniques (3.3)
 - staff training (3.1)
- **Most important technology strategy**
 - improving own technology (3.1)

Strategies for Success: statistical analysis



- **Innovation and innovative activities were found to be the most important determinants of success**
- **Most important growth factors**
 - R&D and technological capabilities
 - access to new markets
- **Least important growth factors**
 - management skills
 - labor skills
- **Competitiveness factors**
 - R&D spending
 - frequency of new products and range of product lines
- **Most important management strategy**
 - just-in-time inventory and process control (advanced management skills)
- **Most important marketing strategy**
 - emphasizing new products or new strategies (marketing)
- **Most important human resource practice**
 - innovative compensation packages
- **Most important production strategy**
 - using new materials/more efficient production processes
- **Most important technology strategy**
 - developing a new technology and refining the technology of others

Strategies for Success: conclusions



- **Growing firms (GSMEs) assessed that management skills are the most important factor for their growth, as well as associated strategies such as total quality management, process control and just-in-time inventory.**
- **Following statistical analysis, it was determined that management skills was the factor least able to differentiate between less and more successful firms.**
- **Nevertheless, the importance attached to advanced management skills was significantly higher for more successful firms.**
- **Innovation and innovative practices, in all areas, are the most important determinants of success.**

Successful Entrants: profile of successful firms



- **Survey sample of 3,991 firms that had started between 1983-86 and had survived to 1993**
- **The predominant profile of successful firms:**
 - small: average 9 employees with sales of \$1.2 million. The majority achieved an average of 6.6% employment growth between 1983/86 and 1993;
 - has stable ownership and management structure: 80% of managers stayed with the firms since inception;
 - develops a customer-oriented business focus and product strategies aimed at enhancing the attractiveness of current products in current markets. The highest rated product related strategies were:
 - high quality products (single most important strategy)
 - superior customer service and flexibility in responding to customer needs
 - marketing strategies that focus on satisfying existing customers.
 - monitors performance most frequently through income-related criteria (more common among low-knowledge firms) -- only 20% develop formalized business plans;
 - only 20% innovate (product or process-related) and only 33% invest in new technology;
 - financial structures reflect nature of business and stage of business development;
 - only 12% of successful entrants export.

Successful Entrants: differences between faster and slower growing firms



- **Faster growing successful entrants attribute greater value to:**
 - innovation and investment in R&D
 - higher growth firms are twice as likely to innovate
 - aggressive market strategies
 - targeting new foreign markets (50%)
 - improving position in existing markets (25%)
 - human resource strategies (more important for high-knowledge sectors)
 - providing incentive compensation mechanisms (25%)
 - recruiting skilled labor (21%)
 - product specific strategies
 - introducing new and improved products (21%) and/or customizing products (16%)
 - price related strategies rank higher among slower growing firms
 - management strategies (more important for high-knowledge sectors)
 - use of information technology (20%)
 - delegating decision making (25%)
 - more flexible financial structure (mixed financial sources)
 - use of internal and external sources (7%)
 - use more permanent capital (8%)

*Failing Concerns: internal and external causes of
bankruptcy*



- **Surveyed trustees assigned to 1,085 corporate bankruptcies in Canada from March 1 to August 1 -- Response of 50.7% produced 550 valid responses**
- **Causes of bankruptcies were distinguished as either external or internal**
- **External causes**
 - economic downturn and unforeseen circumstances
 - increased competition
 - legislation and government regulations
 - changes in technology and/or market conditions
- **Internal causes -- deficiencies in:**
 - general management skills
 - business and financial planning
 - financial management and record keeping
 - human resources
 - marketing competencies
 - production and operations

Failing Concerns: general findings



- **Profile of bankrupt firms**

- young; 63.1% of bankrupt firms failed within the first five years of operation.
- small; 50% had between 1-9 employees, 30.5% had no employees.
- 85% were owned by a single person or family.

- **Causes of bankruptcy in general**

- internal factors are the basic cause of bankruptcy
- overwhelmingly, this is due to failure in management skills
 - 71% of firms fail because of problems in general and financial management;
 - 47 % because of poor marketing capabilities; and
- among the external factors were:
 - 68% fail due to economic downturn, and
 - 45% due to increased competition.

Failing Concerns: specific findings (1)



- **General management skills**

- over 56 % fail due to lack in breadth and depth of knowledge;
- 49% fail because of lack of vision
- 40% fail because of poor use of external advisors
- quality, inability to delegate responsibility was least often seen as a cause of failure

- **Financial management skills**

- 71% fail due to poor financial management;
- over 60% fail due to inability to manage working capital and undercapitalization;
- 55% fail due to unbalanced capital structure.

- **Business and Financial planning**

- about 20% of bankrupt firms have formalized business or financial plans. This is the same percentage as surviving firms
- the content of business plans for bankrupt and surviving firms is very similar (financial budget, forecasts, historical data). However, only:
 - 30% of bankrupt firms with financial plans actually compare results with forecasts and only 40% take immediate remedies (81% of surviving firms do so).
 - 13% of bankrupt firms had their financial plans reviewed by an external accountant or consultant (61% of surviving firms did so).

Failing Concerns: specific findings (2)



- **Marketing**

- lack of quality is not the critical deficiency for bankrupt firms (only 14%). Instead, failure is attributed to poor marketing skills.
- over 35% of firms failed because of poor pricing strategy.
- over 30% of firms failed because they were unable to establish a market niche

- **Human Resources**

- play a smaller role in bankruptcy.
- less than 30% of firms fail due to poor personnel management.

Conclusions: what we know and don't know



- **What they tell us about how to influence survival and growth**
 - In combination the findings from the three studies indicate that there is a transition in terms of what is more important. At the earlier stages management capabilities are crucial to survival. As the firm ages, human resource and innovation strategies increase in importance. By the time the firm has reached an established stage, its management and human resource capabilities are typically quite developed, and growth is more closely associated with innovation.

- **What we do not know**
 - We have limited substantive analysis of single operator businesses/home-based entrepreneurs. This is a distinct class of businesses and warrants special focus.
 - We do not have any examination of the importance of an effective board of directors to an incorporated firm, or an advisory board or team to unincorporated businesses. Further focus is required.

Conclusions: developing a framework



- **Implications for developing a management skills framework for SMEs**
 - Divide management skills requirements by each of the four stages of business development: start-up, growth, expansion and maturity.
 - Focus on general management skills and on financial management skills (core competencies)
 - Focus on subsidiary specialized skills (critical competencies) such as strategic business planning; research and development; innovation, commercialization/ marketing/export development, human resource management and development; operational management; decision making tools, analysis and control, production management; quality management (TQM, ISO, etc); informatics and technology; business networking/inter-firm collaboration; knowledge building and improvement; competitiveness analysis; productivity analysis and improvement; national and international benchmarking.
 - Develop practical benchmarking/diagnostic tools, generally for both new and old economy SMEs, but particularly related to GSMEs; compare these practical benchmarks against international competency standards and adjust; test on Canadian firms and adjust.

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