

# SME MANAGEMENT DEVELOPMENT IN IRELAND



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# foreword

Management skills are critical to the success of an enterprise and hence the national pool of management expertise has a crucial bearing on the economic development of a nation. Management capability is one of the four 'essential conditions' identified for Ireland's success in the Enterprise Strategy Group's report. As Ireland evolves to a knowledge-based economy, characterised by the primacy of innovation, services, and customer focus, management skills will become increasingly important. This is the context for the study presented in this report.

The report draws on a study of SME Management Development in Ireland. The study was commissioned by FÁS and Enterprise Ireland, on behalf of the Expert Group on Future Skill Needs, and was undertaken by a consortium of Mclver Consulting and Tansey, Webster, Stewart consultants. The Expert Group believes that the report provides a very useful analysis of the issues relating to SME managers' skills in Ireland. It agrees that there is a pressing, and compelling, need to improve management skills for the future. It also notes the kinds of barriers to up-skilling reported in the study, and how many countries have had difficulty in overcoming these barriers in practice. The need for approaches which are flexible, practical and often involve non-formal methods (e.g. mentoring, peer-to-peer discussions and work-based projects) is also an important conclusion of the study.

This report should provide an important complement to other studies and reviews which have been, or are being, conducted. These include the Enterprise Strategy Group's report and the Small Business Forum. Given the pervasiveness of management, and the large number of

small companies in the country, the Expert Group suggests that there is a need for a more co-ordinated and coherent approach across the different Government Departments and agencies involved. The overall aim should be to ensure a significant increase in the incidence and effectiveness of SME management development activities in Ireland.

I hope that the report will contribute to this aim, and I would like to conclude by thanking those involved in researching and producing the report.



**Anne Heraty**  
Chairperson  
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# executive summary

People are the key to successful businesses, and managers comprise a vital part of all businesses, large and small. The Enterprise Strategy Group concluded that management was one of the four 'essential conditions' for Ireland's future success. The importance of all skills, including management, is likely to increase in Ireland over the coming years as Ireland moves towards higher value-added, innovative, products and services.

Poor management skills in SMEs are recognised as an acute problem worldwide: the OECD working group on SMEs has identified managerial weakness as a key factor in the failure of small businesses. There are in excess of 200,000 SMEs in Ireland – mostly very small owner-managed micro-enterprises. The success of these enterprises is largely related to the performance of their management (often the owner-manager). Thus, the skills of managers in SMEs in Ireland are an important factor for Ireland's success. This is the context for the Expert Group's interest in this area.

FÁS and Enterprise Ireland, on behalf of the Expert Group on Future Skill Needs, commissioned a consortium of Mclver Consulting and Tansey, Webster, Stewart consultants to undertake a study of management development needs of SMEs in Ireland. The study was based on a literature review and consultation with a cross-section of organisations in Ireland with a professional interest in management. In addition, the consultants discussed their findings and conclusions with two focus groups of SME managers.

The Expert Group has considered the study undertaken by the consultants (reproduced in Chapters 1-4) of this report. It has also noted other studies and reviews that have been, or are being, conducted. These include the Enterprise Strategy Group's report and the Small Business Forum. The final chapter of the report presents the Expert Group's conclusions.

Chapter 1 of the report contains a summary of the literature review including reports from the OECD, UK, EU and Ireland. Some of the points arising from the literature review were:

- Management development for SMEs is treated as an issue of high policy importance in many countries, including the UK, Finland and the US. There is evidence that management development cuts SME failure rates.
- Problems arise where the design and targeting of programmes are supply-led, rather than taking sufficient account of actual demand from entrepreneurs.

- Demand for management development from entrepreneurs often remains latent, and there may be a need to stimulate demand if uptake is to increase. Provision of information on learning opportunities is useful in this regard.
- Informal learning opportunities have an important role to play. It is important that the design of development programmes should take account of the preference that entrepreneurs have for informal approaches to learning. Business networks have an important role to play in increasing the penetration of management development.
- Owner-managers are the key to learning in the SME sector. Where they are engaged with management development, there is a good prospect that they will promote learning among other staff. Where they are not engaged, they are unlikely to do so.

The study did not include a survey of SME managers, but rather discussions with SME representatives, organisations that work with SMEs, and management trainers. Thus, the study does not establish the detailed skills abilities and shortcomings of SME managers. Nevertheless, a broadly consistent picture was established. On the basis of these interviews, and the literature review, the consultants draw up some key findings (Chapter 3). They conclude, as also did the Enterprise Strategy Group report, that management skills are of key importance to Ireland. They also highlight the importance of the non-internationally-traded sector to Ireland's future development, and hence the importance of management skills in that sector. They note that one of the attractions of SME management development is the spin-off it gives to the training of other employees.

Given that there are over 200,000 SMEs in Ireland, including many sole traders, the extent to which SMEs interact with State services is quite variable. The consultants conclude that the vast majority of SMEs have principals (often owner-managers) who have not engaged in formal management development. The challenge is to move these companies to

a stage where they begin to develop management skills. There is also a much smaller group of companies that have principals with professional management backgrounds, or who have developed management skills with support from State funding through Enterprise Ireland, FÁS or County Enterprise Boards. These companies are likely to be at a more advanced stage of development. Nevertheless, there is a need for them to ‘move up’ to meet increased competitive challenges.

A major conclusion of the study is that much of the existing provision of management development opportunities is not sufficiently focused on the real needs of SME managers. Too often, it seems, provision is provider-driven rather than demand-driven. Thus, in practice, it is too much geared around standard, formal, training courses – often delivered on a 9 to 5 basis. SME managers, on the other hand, are more likely to learn best from flexible short inputs, geared to their particular problems, and delivered on a peer-to-peer basis. This perceived lack of relevance, combined with time pressures and the cost of courses, provides the major barrier to increased SME manager participation in management development. The consultants argue that further subsidising the cost of courses is not the best way of promoting take-up. Rather, the primary focus should be on improving the relevance of provision.

Indeed, in general, the consultants argue that universal subsidisation of SME management development is not appropriate. They argue that, in general, there is not an economic ‘market failure’ case for subsidisation. However, they accept, and the Expert Group endorses, the case for subsidisation of provision to meet particular policy goals. These include indigenous business development, pump-priming of initial training efforts and enhancing the spin-offs to further employee development.

Drawing on the findings of the study, and other reports including that of the Enterprise Strategy Group, the Expert Group draws a number of conclusions for the future development of SME managers in Ireland (Chapter 5). The Expert Group emphasises the importance of SMEs and the key role of managers in SME development. Although there is no evidence that, in general, Irish SME managers are less skilled or competent than those in other countries, the Expert Group believes that enhanced capabilities are required to meet future business challenges – both in the internationally-traded and the domestic sectors. Thus, there is a need to increase both the incidence and effectiveness of management development across the range of Irish SMEs. Ireland needs to move to a situation where all SME

principals will be able to identify their own needs and those of their staff and find cost-effective, relevant, development opportunities to meet such needs.

Government and its agencies have an important role to play in achieving the required progress. Overall, a range of activities need to be undertaken as listed below: Many of these are currently being undertaken, but there is a need to examine whether more should be done.

- Providing an accessible central point of reference for information on courses and other learning services for managers.
- Assisting SMEs in identifying their needs, and supporting them in satisfying those needs.
- Identifying market gaps, where current and latent demand for management development is unsatisfied.
- Preparing and disseminating advice to industry, trade and professional bodies that have significant numbers of SME principals as members on developing and delivering informal learning opportunities for these members.
- Inducing the supply side of the market – providers of management development courses, including higher education institutions – to respond to identified gaps and to the demand of SMEs.
- Together with individual SMEs and their representative organisations, assisting in the development of course content relevant to the needs of SMEs.
- Reviewing and certifying the quality of provision.
- Promoting the use of structured business networking for management development.
- Developing management diagnostic tool kits that allow SMEs to identify their own specific management development needs, and ensuring that these diagnostic tools are widely distributed amongst SMEs.
- Demonstrating and publicising the benefits of management development through Irish SME case studies that show the payoffs delivered by management training.

■ **Continuing to provide financial support for management development activities where justified on public policy grounds.**

The Expert Group believes that there is also a major role for SMEs themselves, and their representatives, in the area. These bodies should advise on development needs and suitable provision, promote the importance of SME management development among their members, develop networks and other means of peer-to-peer learning and work with State funding organisations to arrange and deliver development opportunities.

Because of the large number of SMEs, and the pervasiveness of management development issues across all SMEs, there is a perception of a lack of coherence and adequate co-ordination in the field. To overcome any danger in this regard, and to help drive progress in respect of the activities listed above, the Expert Group suggests that consideration be given to the establishment of an SME management development co-ordination committee or forum. Such a committee would be established by the Department of Enterprise, Trade and Employment and include the relevant Government departments and State agencies, representatives of SMEs and, as appropriate, major providers of management development in Ireland. It is not suggested that the committee would have an executive function but it would help to ensure a co-ordinated approach, based on improved contacts between stakeholders, and ensure an on-going focus on the issue of management development in SMEs in Ireland.

Finally, the Expert Group suggests that there may be a need for more detailed research on particular areas of deficiency or need. One of the considerations of any new co-ordination committee might be the value of more detailed research on management skill needs.

# introduction

Management skills are critical to the success of an enterprise and hence the national pool of management expertise has a crucial bearing on the economic development of a nation. Management capability is one of the four 'essential conditions' identified for Ireland's success in the Enterprise Strategy Group's report. As Ireland evolves to a knowledge-based economy, characterised by the primacy of innovation, services, and customer focus, management skills will become increasingly important. There are a very large number of managers in Ireland. The number of managers and proprietors rose by 70% in the decade to 2001 and is forecast to grow by another 22% over the period to 2010.

Poor management skills in SMEs are recognised as an acute problem worldwide: the OECD working group on SMEs has identified managerial weakness as a key factor in the failure of small businesses. There are well in excess of 200,000 SMEs in Ireland – mostly very small owner-managed micro-enterprises. It is widely recognised that the success of these enterprises is largely related to the performance of their management (often the owner-manager). Thus, the skills of managers in SMEs in Ireland is an important factor for Ireland's success. This is the context for the study presented in this report.

## Consultants' Research Study

FÁS and Enterprise Ireland, on behalf of the Expert Group on Future Skill Needs, decided to commission a research study of management development in SMEs. The study was undertaken by a consortium of Mclver Consulting and Tansey, Webster, Stewart. The study was conducted in 2004 and the objectives of the study, as set out in the Terms of Reference, were as follows.

- "Provide an assessment of the adequacy of management skills in SMEs in Ireland. This should identify particular strengths and weaknesses in terms of skills or tasks, management specialities, sectors, sizes of company, location etc."
- "Identify new or increasingly important skills for SME managers for the future. This needs to be set in the context of the business climate for the future (e.g. globalisation)."
- "Review the extent of management training undertaken in SMEs, and barriers and problems facing SMEs in this regard. This should include existing public supports to management training."

- "Recommend actions that should be taken to meet current or future skill needs of managers in SMEs."

The EU classifies enterprises with fewer than 250 employees, and with a turnover of €50m euro or less, or a balance sheet of €43m or less, as SMEs. However, reflecting Irish circumstances, the consultants directed their primary attention towards companies employing 50 or fewer.

The study was undertaken under the oversight of a steering group drawn from FÁS, Enterprise Ireland, Forfás, Small Firms Association and the Expert Group on Future Skills Needs.

The research was undertaken in two main stages:

1. a literature review stage; and
2. an interview stage.

The design of the interview questionnaire was based on the findings of the literature review.

Twenty-four interviews were undertaken with a broad cross-section of people with a professional interest in management development, from the following types of organisation.

- Representative organisations for SMEs
- State agencies – FÁS, Enterprise Ireland, Shannon Development, Forfás
- Skillnets
- Higher education institutions
- IMI
- PLATO Ireland
- Private training providers

- Professional bodies
- Trade unions

Direct primary research conducted with SMEs themselves was precluded by the Terms of Reference for the study, implicitly recognising that a very large number of interviews would be required to improve on the information that could be obtained from "knowledgeable persons".

## Focus Groups

In reviewing the consultants' study, it was decided that it would be useful to 'check' the analysis and conclusions with a limited number of SMEs. Thus, the consultants were asked to organise, and report on, two focus groups of SMEs. These focus groups were held in the Summer of 2005.

## Conclusions

Following the work of the consultants, as described above, the Expert Group considered the position and, in particular, the kinds of conclusions and recommendations that it wished to make. It developed its conclusions drawing both on the findings of the study, its understanding of other studies such as the Enterprise Strategy Group report, and its views as to how best to progress the issues raised.

## Structure of Report

Chapters 1-3 of the report contain the research and findings originally undertaken by the consultants. The first chapter of the report reviews key elements of the literature. Chapter 2 continues by reporting on the responses to each interview question. Chapter 3 presents an analysis of the information and views gathered. Chapter 4 contains a brief summary of the two focus group meetings. Chapter 5 presents the conclusions of the Expert Group.

# literature review

## 1.1 Introduction

A search through the literature showed that two major international research initiatives relating to management development had been undertaken in the recent past. The findings of these initiatives were found to provide a good overview of current thinking on SME management development, based on current evidence from a range of countries.

In 2003, OECD published a report entitled “Management Training in SMEs”, which studied SME management development in Canada, Finland, Germany, Japan, the UK and the US.

In 2000, the Secretaries of State for Education & Employment and for Trade and Industry in the UK appointed a “Council for Excellence in Management and Leadership” to develop a strategy to ensure that the UK would have “the managers and leaders of the future to match the best in the world”. It published a number of working papers and reports, culminating in a final report entitled “Managers and Leaders: Raising Our Game” in 2002. The Council had an SME Working Group, which produced its own final report, entitled “Joining Entrepreneurs in their World: Improving Entrepreneurship, Management, and Leadership in UK SMEs”, also in 2002, with the main findings being incorporated into the main Council report.

A number of recent EU documents address “management capacity building” for SMEs, although not in as much detail as the above reports. Also, in 2003, the Observatory of European SMEs published a report on “Competence Development in SMEs”. While this report addresses management as just one of a range of occupational areas where competence development is required, its findings are of interest.

Also of some relevance is an unpublished report prepared for the Expert Group on Future Skills Needs by Mclver Consulting during 2003, entitled “High Performance Management Skills Study”. This study looked at the skills implications, at all occupational levels (not only managers), of implementing the organisational practices often referred to currently as representing “High Performance Management”.

## 1.2 OECD Report – Management Training in SMEs

### 1.2.1 Introduction

This report studied management training for SMEs in six OECD countries – Canada, Finland, Germany, Japan, the UK and the US, focusing on formal taught training and education programmes at least partly funded by the SME. It explicitly excluded less formal approaches, and approaches to management development based on one-to-one counselling.

### 1.2.2 Link Between Management Training and SME Performance

The report quotes various studies as indicating “that there is a positive correlation between the degree of management training and the bottom-line performance of an SME”.

It also refers to preliminary evidence “that formal management training can reduce the failure rates of small firms”. It quotes one study as finding that formal management training and development cuts failure rates by half, all other things being equal.<sup>1</sup> It quotes another as finding that failure rates could fall from one in three to one in ten over the first three years, where management training was undertaken.<sup>2</sup>

### 1.2.3 Volume of Management Training Undertaken in Countries Studied

The report shows that managers in small firms are much less likely than those in large firms to receive training.

It quotes one UK study as showing 37% of managers in companies with fewer than 10 employees undertaking external training in a year, in comparison with 51% of those in companies with 25 to 49 employees, and with 82% of those in large firms (more than 500 employees). This study found that the amount of training received by those managers who actually received training did not vary dramatically with company size.

### 1.2.4 Delivery of Management Training

The report shows significant differences between countries studied in terms of the types of organisation prominent in the delivery of management training.

- It shows **independent private sector providers** having a role in all six countries – strong in Canada, Germany, the UK and the US, and weaker in Finland and Japan.

- It shows **chambers of commerce and industry associations** also having a role in all six countries – strong in Canada, Germany, Japan and the UK, and weaker in Finland and the US.
- It shows **colleges and universities** having a major role in Canada, Finland, the UK and the US, a weaker role in Germany, and little involvement in Japan.
- It shows **public organisations** having a major role in Canada, Finland and Japan, and little involvement in Germany, the UK or the US.
  - In Canada, “Canadian Small Business Centres” co-ordinate information on all public sector services for small businesses.
  - In Finland, Employment and Economic Development Centres (“Tekeskukset”) provide support and advice to SMEs in all sectors, with a spectrum of management development services ranging from counselling to training.
  - The German federal government provides management training and counselling mainly through chambers of commerce and other business partners.
  - Japan has substantial and long-established management development programmes for SMEs delivered via local government or the Japan Small Business Corporation, again ranging from management counselling to training.
  - The UK places a heavy emphasis on supporting one-to-one consultancy guidance for SMEs, but only has small scale schemes to provide management training.
  - In the US, Small Business Development Centres support SME owners through counselling, training and technical assistance. Support for counselling has grown much faster than support for training.

For purposes of the current study, we infer from the evidence in the report that there is no single “best” institutional model for the provision of management development. It is contingent on the circumstances of the individual country.

### 1.2.5 Rationale for Government-Supported SME Management Training Programmes

The report sets out three issues that may justify Government intervention.

1. Small firms may fail to appreciate the benefits they

would obtain if they provided more training, because of imperfect and asymmetric information.

2. Small firms may not invest sufficiently in training because of characteristics that are common among small firms, such as short-termism and the higher risks that small firms face that a newly-trained manager may move to another employer, depriving the company of a return on the investment. The real cost of training per manager may also be higher in a small firm than in a large firm, and there is an increased risk that reconciling the needs of managers from different companies may lead to the training provided being overly generic.
3. There may be benefits from management training over and above those accruing to the individual manager or enterprise. As high-growth SMEs are “large net job creators and drivers of economic growth, enhancing the managerial skills of small firms might be justified on the basis of correcting a market failure... : better managed small firms will contribute to overall economic growth and the well-being of society as a whole”.

### 1.2.6 Findings on Best Practice in Management Training

There has not yet been sufficient evaluation work done to identify best practice with certainty. The OECD report identifies some broad characteristics for how publicly-supported management training may best be designed, but does not express certainty that these represent best practice.

- **Differentiating training from counselling**
  - The report suggests, under this heading, that training is more relevant for start-ups, while counselling is more appropriate for established firms. The logic is that start-ups tend to have similar learning needs, while the learning needs of established SMEs are often too dissimilar to be addressed efficiently in a formal training context. However, a full reading of the report’s findings implies that training is also relevant where established firms have issues and characteristics in common.
- **Teaching important management skills**
  - The report says that management training programmes for SMEs should impart a package of skills needed in the current business environment. The package required will differ between start-ups and established companies. Start-ups will need training in areas such as formulating business plans, identifying markets, hiring skilled workers and complying with government regulations. More established companies need skills in marketing and

1. “Small Firms Training Impact Assessment” (1999), SFEDI Centre for Enterprise

2. “Understanding the Small Business Sector”, (1994), D.J. Storey, Routledge, London

exporting, product development, process improvement, identification and use of new technology, increasing cooperation between staff (including teamwork), enhancing networking, and generally improving adaptability and flexibility.

Under this heading the report draws attention to management training through a “Develop your Business” approach, under which executives from different SMEs come together in small working groups where they confront, help and share problems and issues with other participating managers.

- **Targeting training on specific groups**
  - The report argues that training can be targeted on specific groups, reflecting in part a case study finding that it is through select groups of like managers that SMEs may receive the greatest benefits of management training. Examples given are start-ups, exporters and young people.
- **Making programmes local and flexible**
  - The report argues that delivery of training should be through local organisations offering flexible programmes. SME owner-managers will not travel far, and it is necessary for training to be provided at times that suit them, such as evenings and weekends.
- **Maximising electronic delivery**
  - The report suggests that training programmes for SMEs will increasingly be delivered by computerised learning packages, and that best practice in interventions to promote management development is therefore ultimately likely to incorporate, or even be based wholly on, electronic media. This is despite that fact that the research findings reported indicate that small business managers learn best in broadly homogeneous groups, learning best from one another, particularly when the training is facilitated by an individual with experience of entrepreneurship. The report argues that in large countries (and where the population is geographically isolated) it can be difficult to deliver this ideal type of training. It argues that this is creating a stimulus to move away from classroom teaching, and towards electronic learning. As a result, many OECD countries are putting their management training insights online on the Internet.

In identifying large countries as having the greatest need to adopt electronic learning for SME management development, the report implicitly suggests that the need is less in small countries such as Ireland.

- **Fostering entrepreneurship through education**
  - Efforts to promote entrepreneurship through the general education system, and among young people, are becoming common. The report quotes examples from Finland, Germany, Canada and the UK.

### 1.3 Reports of Council for Excellence in Management and Leadership

#### 1.3.1 Introduction

The UK’s Council for Excellence in Leadership and Management published approximately thirty documents over a period of two years. Here, we review the findings and recommendations set out in the report of the SME Working Group, and in the final report of the wider Council.

#### 1.3.2 Findings of SME Working Group of Council

The main findings of the SME Working Group were as follows.

- Helping to improve the quality, calibre and capacity of leaders in small and medium sized enterprises could have a significant impact on the British economy.
- Entrepreneurs provide the key to workforce development in smaller businesses. They are hard to reach, and reluctant to engage in external activities away from their day-to-day business, but if they are not engaged, then their workforces will not be either.
- Entrepreneurs place a strong reliance on personal and informal learning practices including observation, informal mentoring and life experiences.
- There is some, limited, use of formal management courses, but always in addition to informal approaches and not as a substitute. Entrepreneurs have little demand or desire for formal learning opportunities, and have a strong preference for informal learning opportunities that mirror their own working practices.
- There is a plethora of schemes to support management development available, many publicly funded, and the majority offering formal learning opportunities. However, they have been created on a piecemeal basis, and entrepreneurs feel confused by the array of opportunities. They find the approach bureaucratic, and often irrelevant to their needs. The current approach to provision is largely supply-led.

- To achieve the goal of improving management and leadership abilities in entrepreneurs, it is vital to stimulate demand, and to meet that demand with relevant, accessible solutions.
- Entrepreneurs identify the crucial skills needed to build strong businesses as being people abilities and strategic and analytic thinking abilities.
- Entrepreneurs must be responsible for making their own choices and decisions, and the starting point must be for the entrepreneur to choose an advisor-partner they trust to identify the priorities and challenges.

#### 1.3.3 Recommendations of SME Working Group

The SME Working Group made four broad recommendations, which (in summary form) were incorporated into the main report of the Council. The headline recommendations were as follows.

1. Stimulate demand for management development among entrepreneurs.
2. Enable entrepreneurs to assess their priority development needs.
3. Sign-post entrepreneurs to potential solutions
4. Making it happen:
  - Recruit a network of intermediaries from the public and private sectors through a widespread marketing campaign.
  - Provide funds for a widespread marketing campaign (to intermediaries and entrepreneurs).
  - Incentivise and stimulate demand for informal learning through a Challenge Fund for Informal Learning to support and enhance existing networks and clusters, and informal learning opportunities.
  - Set up an accountability, governance and monitoring framework (which would come under the new strategic body for Management and Leadership proposed by the Council for Excellence in Management and Leadership).

Key areas for action in **stimulating demand among entrepreneurs** were:

- Initiatives to encourage entrepreneurs to undergo preliminary diagnostic processes, such as a “Cosmo”<sup>3</sup>

style quiz or a diagnostic session with a trusted individual or an intermediary;

- Promotion of management development success stories; and
- Working with existing networking groups and organisations for entrepreneurs.

The main areas for action to enable **entrepreneurs to assess their priority development needs** related to the promotion and use of diagnostic tools. The Group evaluated this recommendation through testing of a new self-assessment diagnostic tool for entrepreneurs called BITE (Business Improvement Tool for Entrepreneurs). BITE is designed to be administered by non-experts.

The group recommended that substantial Government funds should be made available to establish a **sign-posting system for entrepreneurs**, to assist them in identifying learning opportunities that meet the development needs they have identified. (This formed a part of a wider Council for Excellence in Management and Leadership recommendation.) It recommended that the system would have the following characteristics.

- Accessible through multiple points of contact
- To include informal as well as formal learning opportunities
- Available in different ways, including Internet-based
- Free to entrepreneurs, providers and others
- To include non-qualification opportunities as well as qualification courses
- Qualitative information so that entrepreneurs can make informed decisions, for example, each entry to carry a review from an identified entrepreneur – along the lines of book reviews at Amazon.com
- Learning opportunities to be described in laymen’s ‘outcome’ terms

#### 1.3.4 Recommendations of Council for Excellence in Management and Leadership

Recommendations of the Council for Excellence in Management and Leadership, other than those touched on above, were in the following broad areas.

3. The magazine, Cosmopolitan.

- Future research and monitoring relating to management development.
- Promotion of best leadership practice
- Introduction of new management development modules by professional bodies and as a part of the Investors in People programme, and promotion of increased continuing professional development (CPD) by management professional organisations
- Better preparation for management and leadership roles while at school and college
- Measures to improve the customer focus of providers
- The use of standards to improve management and leadership skills
- Strengthening the leadership content of higher education management qualifications
- Improving pathways between Further Education and Higher Education management qualifications
- Development of regional Centres of Excellence in management and leadership, which, among other roles, would identify and disseminate good practice in developing the in-house capacity of employers in their area.
- Raising standards in teaching, research and knowledge transfer
- Increased autonomy for business schools within the university sector
- Developing demand-led supply through the on-line sign-posting system and Strategic Body for Management and Leadership referred to earlier.

#### 1.4 EU Reports

In its Sixth report on “The activities of the European Union for small and medium-sized enterprises”, published in 2003, the European Commission reported that it had launched a project of exploratory and research work on “management capacity building”. This appears to represent an attempt to address more comprehensively an area that the EU has previously approached on a piecemeal basis.

During 2003, the Observatory of European SMEs published “Competence Development in SMEs”, a report which looked at competence development across all occupational

groups in SMEs. Some of the findings are specifically relevant to SME management development.

The report highlights a preference among SMEs for non-formal training practices, such as attendance at trade fairs, but with more formal approaches such as formal training courses also being popular. The report presents survey evidence that managers and directors in SMEs are more likely than other employees to have access to competence development activities, and that this tendency is much more pronounced among SMEs with fewer than 10 employees than among larger SMEs.

In most SMEs with fewer than 50 employees, and in many with 50 to 250 employees, the owner-manager or general manager has the main responsibility for identifying competence needs. This underlines the OECD finding that the personal involvement of an SME’s principal in management development is an important factor influencing the learning opportunities made available to the SME’s other employees.

Referencing the Expert Group on Future Skills Needs Report on In-Company Training, the report argues that SME entrepreneurs are often not able to diagnose their own competence needs effectively.

The report also finds that “SMEs are often critical about the quality, extent and orientation of the existing supply of formal training and external advice”. Criticisms that courses are “too theoretical and seldom tailored to the individual SME needs” are common. This is argued to show “that, as far as external formal training activities are concerned, the competence of the provider is a factor equally important as price considerations since, for many SMEs, there is often a significant gap between the business-driven needs of SMEs and the mainstream adult education curriculum”.

#### 1.5 High Performance Management Skills Study

This unpublished report, prepared by Mclver Consulting on behalf of the Expert Group on Future Skills Needs, looks at “High Performance Management” practices, and at their skills implications. “High Performance Management” is a popular term for the current phase in the evolution of organisational practices involving high levels of employee involvement and organised improvement processes. Other terms that have been popular include, for example, World Class Manufacturing and Total Quality Management.

The report found that the practices described in the literature as representing High Performance Management are essentially those currently thought of as representing best practice in Operations Management and Human Resource Management. Interviews with industry made it clear that, de facto, effective use of Information and Communications Technologies also forms a part of the High Performance Management package.

High Performance Management does not provide a full prescription for management and organisational success. While it provides effective prescriptions for doing what the organisation already does better, its particularly strong emphasis on operational performance makes it less effective where the organisation needs to innovate by finding better things to do.

The use of High Performance Management practices has skills implications across all occupations, not just management occupations.

According to the report, the skills required of managers, to implement High Performance Management practices effectively, fall into the following main areas:

- The Ability to Manage Quality: The ability to design and implement quality improvement processes
- The Ability to Manage Productivity: The knowledge and skills to set up metrics of productivity; the ability to identify areas where productivity improvements can be made
- Cost Control Skills: The ability to implement cost control measures by the use of measures such as Activity-Based Costing; to identify and eliminate waste; to measure and assess the use of resources
- Product and Process Development: The ability to adapt and implement appropriate Total Quality Management systems
- Benchmarking: The competence to identify comparative operations and benchmark against key performance indicators
- Stock and Materials Management: The ability to implement and monitor Materials Requirement Planning systems
- Co-ordination and Control: The ability to co-ordinate the activities of the organisation
- Training and Skills Enhancement: The ability to identify the skills set required at each stage of the production process and design and implement appropriate training programmes

- ICT: The competence to identify improvement opportunities available through ICTs, and to make effective business use of ICT investments
- Service and Quality of Service: The ability to deliver customer service and to maintain high levels of service quality
- Strategic Management: The ability to develop a long term strategy for the organisation and provide a shared vision of the future
- Leadership Skills: The ability to act as a role model for an inclusive approach to delivering change; the ability to motivate others to take ownership of the change process; develop and drive a shared vision of the organisation for the long term future
- Organisational and Business Awareness: The ability to maintain an evolving understanding of the organisation’s internal and external environment
- Communications Skills: The capability to ensure that the employees are fully conversant with the strategic objectives; communicate and share information with stakeholders; relate to management and staff the need for agreed objectives and the benefits of mutual gains
- Innovative Thinking: The ability to develop innovative approaches to HPM and to recognise innovative solutions presented by others
- The Ability to Champion Change: The capability to build consensus with others, recognise those who can influence others and empower people to design new processes and implement change
- The Ability to Build and Maintain Relationships: Able to build good working relationships with all employees and managers; the ability to build trust and confidence at all levels; the ability to facilitate cross functional teams in achieving consensus on important issues
- The Ability to Influence: The ability to influence others by displaying commitment, credibility and trustworthiness; able to empathise with other viewpoints while presenting a clear case for change
- Problem Solving and Decision Making Skills: Able to use creative thinking to solve problems in a team setting.

## 1.6 Enterprise Strategy Group

The Enterprise Strategy Group was established in 2003 by An Tánaiste and (then) Minister for Enterprise, Trade and Employment to develop a medium-term enterprise strategy, and to propose and prioritise national policy responses to the strategy. The Group reported in July 2004.

A number of themes from the Enterprise Strategy Group report are relevant to the current study, and are broadly consistent with its findings.

- The Enterprise Strategy Group report identifies improvement in “Management Capability” as being one of four “Essential Conditions” required to underpin its strategy.

The report highlights the following three factors that may inhibit SMEs from availing of external training.

- “Tactical Focus: SMEs generally have an overstretched management structure that is occupied with immediate, operational issues rather than more strategic ones.
- “Training: Many firms, particularly the smaller ones have difficulty in accessing appropriate training.
- “Resources: SMEs have difficulties in meeting the full cost of training.”

The report makes three recommendations on building management capability.

- “Businesses should recognise the importance of, and assume responsibility for, management capability building. This area should be a major business development priority.”
- “Business networks should articulate the management development needs of their members. These networks could act as a focal point for the delivery of targeted training.”
- “The enterprise development agencies should place increased emphasis on the Board and management capabilities of firms to which they are providing support.”
- The Enterprise Strategy Group report argues in favour of the emergence of strong enterprise-led business networks to pursue common interests, including management development, and argues in favour of rebalancing State supports over time between agency interventions at firm level and interventions responding to requirements articulated by networks. The report

recommends the allocation of a budget to support the creation of enterprise-led networks.

- The Enterprise Strategy Group report places a strong emphasis on the contribution of efficient, effective and innovative locally-trading businesses to the Irish economy. It argues that the best way to improve Irish living standards is to improve productivity, and that, as the locally-trading sector is the major source of employment, increased productivity in the sector would have a significant positive effect on the whole economy.

## 1.7 Conclusions from Literature Review

Key points arising from the literature review include the following.

- Management development for SMEs is treated as an issue of high policy importance in many countries, including the UK, Finland and the US.
- There is evidence that management development cuts SME failure rates.
- The focus of interventions in other countries tends to be across a broad range of SMEs, and is generally not limited to exporting firms.
- Significant formats for management development include at least the following:
  - One-to-one counselling;
  - Training courses;
  - “Develop your Business” type courses (which typically have elements of training, counselling and mutual support from participants); and
  - Management education, including executive education and certified programmes such as MBAs.
- Training interventions must offer managers the skills and knowledge that they perceive that they need to be successful in the current business environment, and at the stage of development their business has reached.
- Problems arise where the design and targeting of programmes is supply-led, rather than taking sufficient account of actual demand from entrepreneurs.
- Demand for management development from entrepreneurs often remains latent, and there may be a need to stimulate demand if uptake is to increase.

Provision of coherent information on learning opportunities is necessary if this is to happen.

- Informal learning opportunities have an important role to play. It is important that the design of development programmes should take account of the preference that entrepreneurs have for informal approaches to learning.
- Management training is best delivered to homogeneous groups, in which the amount that managers learn from each other is likely to be maximised.
- There is a need for management development to be provided locally, and at times that suit SME owner-managers.
- Despite significant shortcomings in its effectiveness, electronic delivery of management development programmes is increasing, as a means of reaching managers who would not otherwise be reached by development programmes.
- Owner-managers are the key to learning in the SME sector. Where they are engaged with management development, there is a good prospect that they will promote learning among other staff. Where they are not engaged, they are unlikely to do so.
- Business networks have an important role to play in increasing the penetration of management development.
- The productivity of locally-trading businesses, and by implication the quality of their management skills, are important to the performance of the Irish economy.

The findings from this literature review were used extensively in drawing up the interview questionnaire. The interview questionnaire was reviewed by the project steering group, and a number of changes and adjustments were made before interviewing commenced. The methodology and results are discussed extensively in the next section.

# chapter 02 findings from interview survey

## 2.1 Introduction

This chapter presents an overview of the responses given to each question in the interview survey.

## 2.2 Responses to Questions on Questionnaire

Using a structured questionnaire presented to, and approved by, the steering group, interviews were conducted with a wide cross section of informed opinion in the sphere of SME training. Respondents were drawn from state training agencies, organisations representing small firms, trade unions, universities, Institutes of Technology and private training providers. In all, more than twenty interviews were conducted.

In keeping with the terms of reference for the study, no SMEs were interviewed. As a result, the findings of the interviews reflect external expert assessments of management skills in Irish SMEs.

The following methodology is used in presenting the interview results. First, the questions are stated individually and summary replies, reflecting the balance of opinion, are reported. Where particularly pertinent or telling responses were elicited, they are included as direct quotations. In responses requiring ratings or quantitative assessments, arithmetic mean averages are used as summary statistics.

### QUESTION 1: 'How would you assess the level of general management skills in Irish SMEs?'

Overall, general management skills in Irish SMEs were assessed as poor. One respondent stated that "they don't manage, they firefight". Another noted "the passion and the work input are there, but they can't manage". Others expressed surprise at how many small companies actually survive despite having grossly inadequate management skills.

Some exceptions to this overall assessment were mentioned, which reflect the position in a minority of high performance SMEs. In these cases, some owner-managers have a professional management background, arising from experience in a larger company (sometimes a multinational), or from undertaking a programme of management development such as an MBA. The skills these managers possess were described as frequently being quite strong.

There are also some owner-managers from a non-professional background who are making good progress in developing both their skills and their companies, having participated in development courses.

Thus, in reviewing the overall assessments of typical SME manager behaviour presented in the responses (both to this question and to other questions), it should be borne in mind that there is a small set of Irish SMEs that have highly competent managers, and are highly developed and sophisticated operations.

### QUESTION 2: 'In what areas do you think that general management skills are deficient in Irish SMEs?'

Weaknesses in general management skills were attributed both to deficiencies in specific skills necessary to run a business – particularly in the spheres of human resource management, marketing and finance – and to an inability to plan ahead. Inability to plan ahead was seen as being rooted in deficiencies in analytic skills, compounded by the day to day pressures experienced by SME owner-managers.

In turn, these weaknesses were seen as reflecting the manner in which many small businesses evolve. One respondent pointed out "they start up in business because they're good at something, perhaps production or sales, but they have no general management skills". Another added that "many have difficulties in absorbing new techniques and skills because of their weak educational backgrounds".

The small size of SME management teams means that there is a greater need for managers to possess all-round management competence than in larger companies. There is often no scope to have a specialist manager devoted to a function. As a result, any gaps in the skills of a manager in an SME are unlikely to be compensated for by others in the organisation.

### QUESTION 3: 'How would you assess the level of Strategic Management skills in Irish SMEs?'

Strategic management skills in Irish SMEs were reported to generally be very weak. One interviewee stated "there's very little in the way of strategic management skills in Irish SMEs. Both the structures and the systems required to support strategic management are absent". Another noted "Strategic management is the weakest area in Irish SMEs. It's very, very poor. It's the furthest thing down the list. There are problems even with setting realistic business objectives".

### QUESTION 4: 'How would you assess the level of Product Management skills in Irish SMEs?'

Product management skills were assessed as poor. "It's weak from product costings and estimation upwards. There's too many back of the envelope calculations", one respondent pointed out. A second noted "Product pricing and product marketing are quite poor. Often, businesses don't know why or where they're making money. At the same time, they're often very, very good at what they do. What they produce is often of very high quality. Ultimately, they're let down by their weak management skills."

### QUESTION 5: 'How would you assess the level of functional management skills in Irish SMEs?'

The general consensus held that functional management skills in Irish SMEs were quite poor, although there has been evidence of improvement in recent years. In large measure, deficiencies in functional skills were attributed to the small scale of SME operations. One respondent explained it thus: "in most SMEs, there are simply not enough managers to cover the functional spectrum". In terms of the incidence of functional skills, another respondent summed up her experience of SMEs as "good at operations and production; limited on sales, marketing and technology; very weak on 'soft' skills". A third interviewee said he was "disappointed that the impact of free education does not seem to have translated into higher quality functional skills within SMEs. Graduates, in particular, simply do not appear to be attracted to working within SMEs".

### QUESTION 6 asked respondents to rate functional management skills within SMEs on a five point scale ranging from 'excellent' through 'good' and 'average' to 'inadequate' and 'poor'.

Summary respondent ratings showed the following profiles:

SALES:	Average;
TRAINING:	Inadequate
MARKETING:	Inadequate;
SUPPLY CHAIN:	Inadequate
IT:	Inadequate;
R & D:	Poor;

HUMAN RESOURCES:	Inadequate to Poor;
NEW PRODUCTS:	Inadequate;
CUSTOMER SERVICE:	Average;
EXPORTING:	Inadequate;
OPERATIONS:	Good to Average;
FINANCE:	Inadequate.

### QUESTION 7: 'How would you rate the quality of decision making in Irish SMEs?'

Evaluations of decision making capacity in typical Irish SMEs were rated across a range from inadequate to adequate, depending on the interviewee commenting. Those who thought of SME decision-making as being adequate mostly said this with significant reservations.

The biggest problem identified was the paucity of information and inadequacy of analysis on which decisions are based. One interviewee put it succinctly "Decisions are made all right, but they're poorly informed". This view was mirrored amongst many respondents. Another said "decisions are made too often on the basis of 'gut instinct'. For example, credit is often extended too easily without undertaking credit searches".

There was also a degree of sympathy for SME managers, as evidenced by a third respondent: "they make the best decisions they can, but they're often insufficiently informed. Many are very lonely people and they know that they are making decisions beyond their capability. Yet they have no one to consult, no one to turn to. They make their decisions alone".

### QUESTION 8: 'To what factors do you attribute the inadequate quality of decision making?'

Where decision making was assessed as inadequate or worse by respondents, two principal reasons were given: (i) inadequate data and information on which to make informed decisions; (ii) insufficient range and depth of skills within the business to inform decision making.

### QUESTION 9: 'How would you assess the quality of leadership in Irish SMEs?'

Overall, leadership in Irish SMEs was assessed as good to excellent, but instinctive and untutored. Many respondents

observed that, in the absence of strong and effective leadership, smaller enterprises would cease to exist. The views expressed ranged from “they’re better than average on leadership. They have to motivate people or the business won’t work at all” to “in general, leadership is superb in the conditions they’re operating in. Firms wouldn’t exist without it.”

Yet, it is not trained leadership. “SME owner managers often lack the tools to get the best results from their undoubted leadership abilities.” “They’re very good in terms of passion and motivation because, in many cases, the business is their life. They tend to be strong on the leader as champion but very weak on the leader as enabler”. Typically, they know and implement few of the human resource management tools used to underpin effective leadership in larger companies.

**QUESTION 10: (where leadership was assessed as less than adequate) ‘To what factors do you attribute weaknesses in the quality of leadership?’**

Amongst those who responded to this question, inadequate leadership was attributed to a weakness in management structures and systems for implementation of decisions and evaluation of results.

**QUESTION 11: ‘How would you assess the analytic skills possessed by Irish SME managers?’**

Respondents differed on how they assessed managers’ analytic skills.

A few saw managers’ analytic skills as strong. These focused particularly in the area of operations and production. Thus, one interviewee noted “owner managers usually have a surprisingly strong grasp of their own business and all its nuances. They possess an innate ability to analyse their own businesses, but they need to build skills to react to outside events”. This view was supported by a second respondent, who said “they’re often good at operations and this tends to reflect their own background skills. They can be very creative in this area”.

However, this view was challenged by other respondents, with some arguing that analytic skills are generally weak outside the area of operations, and others arguing that they are generally weak across all areas, including operations.

A key area where most respondents saw analytic skills as being weak was in skills involving a good understanding of

the market, such as marketing, strategy and export sales. Others argued that even in the area of operations there are significant deficiencies in analytical capabilities, with many managers, for example, having difficulty in undertaking effective cost analyses.

One respondent was emphatic in stating: “analytical skills are weak – it’s the single biggest weakness in the SME sector. It runs right through companies. They simply don’t understand things in the round”. This view also found support, with another respondent adding “most live day to day. They don’t see analytical skills as important”.

**QUESTION 12: ‘To what extent do you think that Irish SME managers understand opportunities presented by IT (including e-business) sufficiently to exploit them?’**

The overall sense emerging from interviews was that SME managers do not grasp the opportunities presented by information technology sufficiently clearly. Relatively few have moved beyond using IT for relatively straightforward tasks, such as e-mail communications, accounting, payroll, invoicing and related administrative purposes.

SME managers mostly understand what the broader opportunities are in general terms, but not in sufficient depth to enable them to make effective use of any but the most mature and widely-adopted technologies.

One respondent noted “they understand the opportunities all right, but they are not necessarily able to grasp them”. Few have moved beyond using IT applications in their internal systems. Part of the difficulty may arise from many managers initial exposure to IT. As one interviewee put it “many were sold a pup in the early days and this alienated them. They now need to re-learn the scope of IT, its uses and applications”. The principal specific difficulties encountered in upgrading IT and extending the use of its applications were reported as system selection and cost.

**QUESTION 13: ‘Do you think that Irish SME managers encourage participation in decision making amongst**

- (a) other managers in the business;**
- (b) supervisors;**
- (c) other employees?**

While some companies with relatively professional owner-managers encourage participation, most do not encourage it amongst any subordinate groups. The reasons adduced

ranged from the fact that many Irish SMEs are family owned, and managers do not want decisions to be made outside the family to “it’s not in their nature to encourage participation”. Where participation is invited, it was seen as often being formal and ritualistic, often having little obvious impact on the decisions made.

**QUESTION 14: Interviewees were asked to rate the management style of Irish SME managers on a scale from ‘highly participative’ (1) to ‘dictatorial’ (5).**

The mean average rating was 4, indicating a management style tending towards the dictatorial and lending support to the responses to Question 13.

**QUESTION 15: ‘How would you describe the communications skills of Irish SME managers?’ (with employees, customers, suppliers, and industry peers)**

Communications skills within the business were generally seen as poor. Respondents’ views of typical SMEs ranged from “communication with employees is just not taken seriously” to “communications in-house are ignored”.

In contrast, external communications skills were seen as much better, particularly with customers and suppliers. Customer relationships are crucially important to the success and stability of many SMEs, offering a critical means for them to differentiate themselves from competitors. Indeed, it is on close client relationships that many SMEs are built.

**QUESTION 16: ‘To what extent do you think that managers in Irish SMEs recognise the need for teamworking? To what extent do you think that SME managers have the skills required to develop and lead teams?’**

The consensus view held that Irish SME managers were quite positively disposed towards teamworking, in principle, but that there are barriers to the effective implementation of teams similar to those seen in larger companies. The main barriers mentioned were that many SME managers are reluctant to empower their people, whether individually or in teams, and that most SME managers do not possess the skills to implement teamworking effectively.

**QUESTION 17: ‘To what extent do you think that Irish SME managers are committed to improving their businesses?’**

Most respondents replied that the majority of owner managers wanted to increase the size of their businesses. As one interviewee put it “most want to improve their businesses. Image is still a big driver and most owner managers want to be seen to be successful to the outside world”. But the drive to succeed was seen to have its limits. Another respondent noted “most have a view as to where they want to get to. Once there, they stop”. This interpretation was corroborated by a third respondent who said “about three-quarters of owner managers are pushing to get bigger and around a quarter are happy where they are”. This latter quarter were characterised as “lifestyle businesses”.

**QUESTION 18: ‘How would you assess the incidence of continuous improvement processes in Irish SMEs?’**

The consensus view held that the incidence of continuous improvement processes in Irish SMEs was low. This was seen as being linked to a more general weakness in the adoption of best management practices, to skills deficiencies among owner-managers, and to the relatively dictatorial management approach in most SMEs.

**QUESTION 19: ‘To what extent do you think that Irish SME managers have adopted modern Human Resource Management practices that seek to gain employee commitment and involvement?’**

The overall assessment found that the adoption of modern HRM practices was low, ranging from “worse than average” to “fairly bad” and “very limited awareness of what modern HRM techniques are”.

Some respondents held the view that, if SMEs fulfilled their legal commitments, little more could be expected. As one interviewee put it “If they have done what is required by legislation, they won’t go further than that. Many still don’t even issue wages slips”.

Some others took a somewhat more positive view. One argued that “the labour market shortages of recent years together with the much increased amount of labour legislation have forced SMEs to use modern HRM practices to a greater extent. As a result, there has been more emphasis on career progression paths and reward systems in SMEs and, of course, if they don’t comply with labour legislation, they’re exposed”.

Even so, the overall picture that emerged from interviews was of SMEs that have made relatively limited progress towards the adoption and implementation of modern Human Resource Management practices.

**QUESTION 20 asked respondents to assess the sufficiency of SME managers skills under a range of headings.**

Respondents average ratings of these skills are shown below on a scale ranging from 'excellent' through 'good' and 'average' to 'inadequate' and 'poor'.

MANAGEMENT OF QUALITY:	Good to Average;
MANAGEMENT OF INNOVATION:	Inadequate;
PLANNING:	Poor;
ORGANISATION:	Inadequate
STRUCTURING THE ORGANISATION:	Inadequate
CONTROLLING THE BUSINESS:	Inadequate
PROJECT MANAGEMENT:	Inadequate
DELEGATION:	Average to Inadequate
SUCCESSION MANAGEMENT:	Poor
CRISIS MANAGEMENT:	Good to Excellent
DEVELOPING COMPANY CULTURE:	Inadequate

It was observed by some that SME managers have to be good at managing crises because they happen frequently. Responses on company culture split between those who observed that SMEs have cultures that function in practice, and those who felt that most SME owner-managers have no understanding of modern concepts of company culture.

**QUESTION 21: 'Do you think that sufficient management training is being undertaken in Irish SMEs at present?'**

There was absolute unanimity amongst all respondents that an insufficient amount of management training is being undertaken in Irish SMEs at present.

**QUESTION 22: 'What would you identify as the principal barriers to raising the amount of management development among Irish SMEs?'**

Virtually all respondents identified Time, Financial Cost and Lack of Relevance as the three biggest barriers to the undertaking of more management development within SMEs. However, a number of other factors were also identified, signaling a deeper-rooted reluctance to participate in management development.

One interviewee explained his perception of the problem thus: "often, time and cost are thrown out as a disguise. In reality, many are afraid of exposing their educational deficiencies in front of others in management development programmes". Another pointed out "many management development courses are far too general in their orientation. A much better fit to the actual operating circumstances of participating companies is needed". A stronger interpretation of this view was put forward by a third respondent "current programmes are counter-productive and are putting people off management training. Basically, at present, it's a numbers game that centres on the numbers of bodies processed. The relevance and effectiveness of the management training offered to participants is not sufficiently evaluated".

The points made by the first two of these respondents were echoed repeatedly in other interviews.

A number of respondents observed that unwillingness to expose personal limitations frequently dissuades owner-managers from taking part in training programmes, and that care must be taken in the design and delivery of management development programmes to avoid exposing participants to embarrassment. As owner-managers tend to feel that they are less threatened, and have more to gain, in groups made up of their peers, programmes designed around active engagement by owner-managers should not admit more junior managers. In some cases, it take several sessions before owner-managers are prepared to discuss issues candidly, even with their peers.

Some respondents proffered explanations as to why existing management development courses may be seen to be too general.

■ In some cases, the learning needs of participants are so diverse that it is simply not practicable to provide a programme that is relevant to all. Under these circumstances, good-faith efforts to give some value to everyone can lead to programmes being too general for everyone.

■ In other cases, the processes behind the development and provision of a programme are seen as defective. Where a requirement for a programme has been identified correctly, some respondents argued that the response is often compromised at the design stage. The reasons include insufficient attention to the views of those that need the intervention, and (in the case of state-funded interventions) insufficient use by commissioning bodies of the expertise and experience of providers of education and training at the development stage.

**QUESTION 23 asked respondents to rate seven identified barriers to management training and development on a scale of 1 (highest) to 5 (lowest). The results, in terms of average ratings, are reported below.**

TIME CONSTRAINTS:	1.3
COST OF COURSES:	2.5
LACK OF RELEVANCE:	2.2
LOCAL UNAVAILABILITY:	2.7
KEY TOPICS UNAVAILABLE:	3.4
INSUFFICIENT COURSE INFORMATION:	3.2
INSUFFICIENT INFORMATION ON QUALITY:	3.7

**QUESTION 24: 'What can be done to remedy the principal barriers to management development identified?'**

This question elicited a wide range of responses, but certain common themes recurred. These included:

■ SME managers need to be convinced that their participation in management development programmes will improve business profitability. One interviewee stated "managers themselves have to realise that they want to do it. They have to be shown that it will improve their

performance." A second respondent supported this view, emphasising "we have to show a real, genuine association between management training and business results."

■ SME management development programmes must meet the needs of participants, not providers. This requires, inter alia, that SMEs are engaged in the formulation and design of such programmes. One respondent was of the opinion that "SME management development courses will not work unless SMEs themselves are included as stakeholders". Another counselled "initiate a flexible delivery approach to management training that is governed by the participants and that is judged by output results".

■ There is some preference, both from state agencies and SME representative organisations, for customised mentoring and coaching initiatives over broad, generic management development programmes. One interviewee advised "the emphasis should be on coaching and mentoring SME managers". Another argued that "the focus should be on one-to-one provision". A third suggested that policy in this area should "focus on integrated interventions, not just simple generic courses provided by training consultants".

■ There is significant support for training programmes, focused on developing the business, that involve bringing owner-managers together at intervals over a period of several months for training and mutual support, complemented by individual mentoring and coaching. Such programmes account for an increasing proportion of the management development supports provided at the initiative of FÁS and Enterprise Ireland. They are the mainstay of initiatives by the PLATO network, and also used by other bodies, such as some County Enterprise Boards.

■ A couple of respondents argued in favour of the reintroduction of the FÁS Training Support Scheme, arguing that it allowed State training interventions to be more industry led than the current FÁS approach of commissioning training courses.

■ Many respondents argued that a key to increasing management development activity among SMEs is to focus on owner-managers. If an owner-manager engages with management development, he or she is likely to support other managers in the business in also undertaking management development. Where the owner-manager does not engage, it is much less likely that other managers will themselves engage in management development.

**QUESTION 25: Respondents were asked to rate the current contribution of a range of education and training providers to Irish SME management development on a scale from 1 (lowest) to 5 (highest). The averaged results are tabulated below.**

IRISH UNIVERSITIES	2
OPEN UNIVERSITY	2
INSTITUTES OF TECHNOLOGY	3
STATE AGENCIES	3
IRISH MANAGEMENT INSTITUTE	2
NATIONAL COLLEGE OF IRELAND	2
PROFESSIONAL INSTITUTIONS	3
PRIVATE TRAINERS/ TRAINING COMPANIES	4
E-LEARNING	1
POPULAR MANAGEMENT LITERATURE	2
CHAMBERS OF COMMERCE	3
FRANCHISERS	2
TRADE UNIONS	2

As can be seen, Private Trainers scored highly for their current contribution to Irish SME management development.

E-Learning was seen as making a minimal contribution to SME management development at present. The universities scored poorly. One respondent commented “the universities are not at the races. It’s very sad. They could be doing so much more”.

**QUESTION 26 asked respondents to rate the providers that could contribute most to the advancement of management development amongst Irish SMEs in the future.**

There was a marked reluctance on the part of respondents to attempt to assign ratings to potential future contributions from existing providers in the absence of any institutional or financial context. As a result, it would be spurious to assign scores to the results. Those who were seen as having the potential to make a much bigger contribution to SME

management development included the universities and the Irish Management Institute.

**QUESTION 27 asked respondents to assess the contribution of state agencies to SME management development, using a scale of 1 (lowest) to 5 (highest). The average results are shown below.**

Respondents working for state agencies were not asked to rate the agencies for which they worked. It should be borne in mind that many respondents felt they were not well equipped to answer this question, so each average below reflects the views of just a section of the respondents.

FÁS	2
ENTERPRISE IRELAND	2
FÁILTE IRELAND/CERT	3
SKILLNETS	4
UDARÁS NA GAELTACHTA	2
SFADCo	2
COUNTY ENTERPRISE BOARDS	2

Skillnets attained the highest rating, although a number of respondents pointed out that this rating was somewhat “aspirational” since Skillnets has been in operation for a relatively short space of time. The relatively high rating accorded to Fáilte Ireland/CERT reflects a perception that the training side of the agency “keeps very close to its industry”.

**QUESTION 28 ‘What overall level of change in provision of management development services and supports do you think is required: (i) No Change; (ii) Tweaking the Existing Arrangements; (iii) A New Programme; (iv) A Fundamental Restructuring?’**

Almost all respondents stated that there was a need for fundamental change in the provision of management development services and supports.

**QUESTION 29 asked respondents who expressed the view that change was required to identify the priority targets, the new initiatives that should be delivered, the institutions that should be charged with delivery and how any such initiatives should be funded and resourced.**

The majority of respondents identified owner-managers as the priority target group, with one respondent refining the target further to owner-managers in enterprises employing 20 people or fewer.

Private training consultants and mentors were seen as the best currently available instruments for delivering management development to SMEs. Some thought that there was scope for higher education institutions to play a significant role, but that significant changes would be required in institutions for this to be feasible.

A few focused on the scope for organisations such as PLATO networks, Chambers of Commerce, national and regional industry organisations and professional bodies to play a significant role in provision, leveraging their access to SMEs that may benefit from management development, and to experts who may participate in the provision of management development.

Respondents were unclear about the institutions that should be charged with responsibility for new management development initiatives, though there was a perceptible and understandable tendency for those employed by state agencies to nominate their own organisations.

Similarly, no clear-cut advice on where the necessary funding should be sourced was forthcoming. Many respondents simply indicated that the funds should be found. One interviewee, however, suggested that “new initiatives do not necessarily require additional resources, but more effective use of existing resources”.

**QUESTION 30 ‘What would you recommend as the single initiative that would give the strongest impetus to raising the amount of management development training in Irish SMEs?’**

Amongst the initiatives proposed were:

- Increase awareness of existing management development programmes;
- Make much more use of mentors in delivering management development training to SMEs;

- Create institutional settings in which SME owner managers can learn from their peers;
- Focus interventions on those who are particularly exposed – owner managers with weak educational backgrounds in enterprises employing up to 20 people;
- Address the problem of why it is proving so difficult to attract owner-managers to participate in existing management development programmes;
- Make more use of training consultants delivering management training to SMEs on a one-to-one basis;
- Reintroduce the Training Support Scheme;
- Introduce and publicise widely a series of short management development courses focused on basic specific skills such as ‘finance for non-financial managers’; ‘costing a job’; and ‘using IT effectively to market your business’;
- Provide high status courses of world class quality, modelled on the EI/ISA SalesSTAR programme<sup>4</sup>, to groups of owner-managers chosen on a competitive basis, both to promote the idea of management development and to benefit companies with high potential regardless of their existing State Agency relationships;
- Decouple support for management development within Enterprise Ireland from company development programmes;
- Engage industry organisations and providers of management development more in the promotion of management development;
- Provide research funding for business schools to undertake more research on topics that will equip faculty to provide management development services to SMEs;
- “Privatise” one or more of the university business schools in line with the model of university privatisation proposed recently by the Higher Education Authority; and
- Appoint a national champion with responsibility for promoting and coordinating progress in management development in Ireland.

A university consulted argued that State Agencies should rethink their approach to working with higher education institutions on the provision of training, to take account of the way that colleges operate.

4. Sales STAR is a joint initiative of Enterprise Ireland and the Irish Software Association, and is supported by FÁS.

- It argued that colleges, as currently organised, are best equipped to provide courses that are likely to be repeated regularly. There can be a significant amount of administrative effort involved in setting a programme up for the first time, but once there is a team in place it can be repeated with much less difficulty. It was argued that Agencies should mainly ask colleges to provide programmes that are likely to need to be repeated, and should have the firm intention of repeating programmes if they are seen to be successful.
- It argued that Agencies should take account of significant organisational difficulties in developing and providing joint programmes involving more than one faculty (e.g. business and engineering), and should be slower to propose such programmes.
- It argued that tendering processes used by Agencies can discourage colleges. Tendering processes are based on the assumption that those who may be available to do a piece of work have an active self-interest in doing so. Often, while a college may be well positioned to provide a management development programme, it may have little self-interest in doing so, and may only be prepared to become involved out of a sense of good corporate and academic citizenship, sometimes after significant persuasion from a State Agency. Under these circumstances, tight deadlines for proposals, and the possibility that a well-designed proposal that has taken a considerable amount of work may be rejected, can make involvement by colleges unattractive.

## chapter 03 Analysis of information and views gathered

### 3.1 Introduction

This chapter addresses the following range of strategic issues relating to SME management development:

- the significance of SME management development to Ireland;
- the efficiency of management development as an instrument of policy;
- mapping the SME management development territory;
- SME management development policy priorities;
- existing interaction between parties interested in management development; and
- meeting the management development needs of the Irish population of SMEs.

### 3.2 National Significance of SME Management Development

It is apparent from the interview evidence that serious deficiencies in management skills permeate the Irish SME sector, and that these deficiencies have a substantial negative impact on the economic performance of the sector. As the SME sector dominates the indigenous part of the economy, this has major national economic implications.

Ways in which deficiencies in SME management skills affect economic performance include, amongst others:

- elevated rates of business failure of SMEs, both among those formed recently and among long-established companies;
- failure to progress to exporting, or to maximise export growth;
- failure to innovate adequately; and
- failure to raise productivity as rapidly as is feasible.

These deficiencies are true both of exporting and non-exporting SMEs, although the deficiencies may be even more pervasive among non-exporting SMEs than among exporters.

Traditionally, Irish national development policy has focused particularly on exporters, and on businesses with export potential, with lesser emphasis being placed on the development of businesses in domestically-traded industries. However, low productivity and high inflation in domestically-

traded sectors are now acting as a major constraint on the economy. Competition policy is the prescription most commonly promoted to address this constraint in Ireland, and it is right that it should be accorded a high priority. However, we believe that improvements in management capabilities also have an important role to play.

It is apparent that even limited progress towards remedying the deficiencies in SME management skills could have a significant positive impact on productivity growth in the SME segment, both through exporting and non-exporting sectors.

Management development is the main tool available to improve management capabilities in SMEs. For this reason, it deserves to be accorded a high policy priority.

The report of the UK's Government-appointed Council for Management and Leadership references a study arguing that there are four skills "hotspots" for the UK, which are: management skills; ICT skills; generic/transferable skills and numeracy. While a list of skills hotspots for Ireland would not be identical to this, we believe that management skills would still form a part of such a list.

### 3.3 Efficiency of Management Development as an Instrument of Policy

One of the attractions of using management development as an instrument of policy is that it can achieve a significant impact on business performance, and on skills development, at relatively low per-company cost to the State.

- The return on a management development intervention in a company may be substantial through stirring the initiative of the entrepreneur, leading to: output growth; increased productivity; increased profitability; or even survival. This makes company development interventions based solely on management development economically viable in many cases where the much higher cost of supporting comprehensive company development initiatives (such as those often supported by Enterprise Ireland) cannot be justified.

- A successful management development intervention often has substantial training spin-offs within an SME. Where an owner-manager engages with management development, interviewees suggest that they become much more likely to recognise the value of training for other staff, and to be prepared to pay for it out

of the company's own resources. This makes SME management development one of the best candidates for an effective and cost-efficient strategy to counteract the well-known tendency of SMEs to under-train at all occupational levels.

- There is scope for industry to take on many of the costs associated with the provision of management initiatives. Where SMEs believe that management development initiatives offer value for money, they will be prepared to pay some, or even all, of the cost of management development. Additionally, in some training networks, such as those operated by regional PLATO organisations, larger member companies provide the services of highly skilled employees, as trainers for SME managers, free of charge, so reducing sharply the total cost of their programmes.

### 3.4 Mapping the Territory

The population of Irish SMEs is far from uniform. Size, industry sector and the level of management skills possessed by the managing director are among the characteristics that vary that are important to policy on management development.

Examples of the ways in which these characteristics are relevant include the following.

- Smaller SMEs are more likely to have serious management deficiencies than larger SMEs.
- A relatively small number of companies are led by professional managers, who have acquired a good breadth of skills from working in a larger company, or through undertaking an MBA or similar studies. Most SMEs are led by people from a technical or operations background that has given them relatively strong technical or operational skills, but had not given them much depth in other areas of management competence by the time that they started the company. Of these, some have compensated by undertaking significant management development activities. A majority have not.
- Successful exporting (which is not relevant to all industry sectors) has significant management skills requirements in excess of those required to operate in Ireland. In some cases, operating in another national market is more demanding than operating in the Irish market. In all cases, there are significant skills required to export successfully beyond those required to operate domestically, in areas such as export marketing, export sales and logistics.

There are major variations in the ways in which SMEs relate to the relevant State Agencies. These variations are significant to the current study because they affect the access that companies have to existing management development supports, and because they must be taken into account in the design of strategies to address SME management skills deficiencies. Most SMEs do not have an active relationship with any State Agency promoting management development.

- Enterprise Ireland focuses on industry sectors in the areas of manufacturing and internationally traded services, almost exclusively on companies with more than ten employees. Thus, smaller SMEs are excluded by definition, from the outset.

Enterprise Ireland clients are effectively divided into three groups –

1. the core part of the existing client base where it is believed that interventions from EI can assist companies in achieving significant export growth;
2. start-ups, of which those supported under the High Potential Startup Programme typically receive the most support; and
3. the majority of the existing client base made up of companies where it is not thought that interventions from EI are likely to drive significant growth. This last group has been eligible only for limited supports up to the present.

However, under its strategy for 2004 to 2007, Enterprise Ireland now plans to deliver a range of management development initiatives, with the potential to influence the pace and direction of individual companies and selected industry sectors, to its wider client base, including the third of the above groups.

- FÁS focuses on a range of industry sectors that overlaps with that of Enterprise Ireland, defined as: Business-related services, Chemicals, Clothing, Footwear & Textiles, Construction, Contract Cleaning Services, Engineering/Electronics, Film & TV, Food & Drink, Logistics / Software / Transport, Motor, Printing, Paper & Packaging and Retail / Wholesale.
- Fáilte Ireland focuses on the tourism and hospitality sectors.
- County Enterprise Boards focus on businesses with up to ten employees, which can be in any industry sector.

Figure 3.1 below presents a map of the population of SMEs where the vertical axis describes the competence of the principal(s) (entrepreneur/owner-manager/managing director/member of core management leadership), and the horizontal axis covers a combination of inter-related factors such as company size, industry sector and relationships with State Agencies.

The groups on this map that are relatively well served by public interventions in support of management development are Enterprise Ireland clients from its core

client base, and from its base of start-up clients. Supports for management development in other types of SME range from sparse (although sometimes excellent) to non-existent.

The key message to draw from Figure 3.1 is that public support for management development is limited to a tiny minority of all SMEs. Approximately 600 SMEs out of 200,000 in the country are targeted by Enterprise Ireland. Activity by other agencies that is less narrowly targeted may serve a small number of thousands more in any given year.

Figure 3.1 Map of Population of SMEs\*

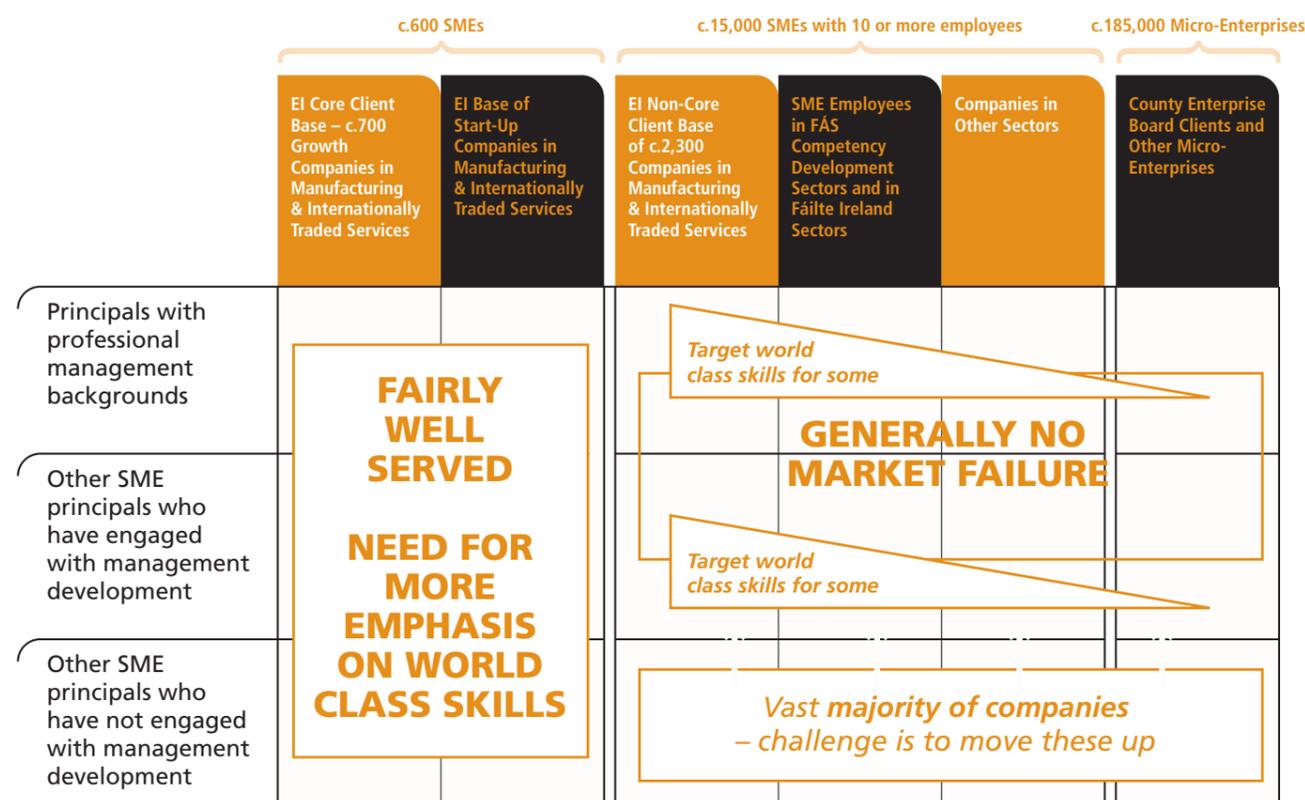


\* Figure 3.1 is presented in this way for analytic purposes. It is not to scale. If it were, the box labelled "Relatively Well Served by Public Interventions" would be considerably smaller.

### 3.4 SME Management Development Policy Priorities

Figure 3.2 uses the framework set out in Figure 3.1 to summarise where the policy priorities appear to be in broad terms.

Figure 3.2 Map of Policy Priorities\*



\* Figure 3.2 is presented in this way for analytic purposes. It is not to scale. If it were, the box labelled "Vast Majority of Companies" would dominate, and other boxes would be considerably smaller.

The main points summarised in Figure 3.2 are as follows.

- The vast majority of SMEs have principals who have not engaged in management development, and are not part of the population targeted intensively by Enterprise Ireland for assistance. The challenge with these companies is to move their principals to a position where they engage with management development.

- Companies with principals who have professional management backgrounds, and those with principals who have engaged effectively with management development, appear to generally make sufficient use of management development opportunities to enable them to operate effectively. However, Ireland has an economic and industrial policy interest in having some of these

companies take a step beyond just operating effectively to performing at a world class level in international markets. High end management development activities have a role to play in this.<sup>5</sup>

- SMEs targeted by Enterprise Ireland for support appear to generally be fairly well served with management development assistance alongside other supports. There may be a case for an increase in high end management development interventions, targeted on developing world class capabilities. The SalesSTAR initiative for the software sector, undertaken jointly with the Irish Software Association, and with support from FÁS, is an example of such an intervention.

### 3.6 Supply of Management Development Opportunities

Overall, the supply of management development opportunities available to principals of SMEs is not in good shape. Experts interviewed highlighted an often poor match between management services on offer, and the real requirements of SMEs. The services offered were seen to often be driven more by the needs and capabilities of providers than by the needs of managers.

Private training companies and training consultants were rated relatively highly as providers of management development services, reflecting the market reality that their businesses will not survive unless they provide a service that is valued by clients.

However, a healthy private training industry does not provide a sufficient supply of management development opportunities by itself.

- A well functioning system of management development provision for SMEs would have a significant involvement by educational institutions (higher education and IMI) with capabilities relevant to the provision of management development services. However, these were not highly active in providing learning opportunities for SME principals.

There appear to be three main underlying issues. One is that educational institutions are mostly not organised in

5. The triangles in the diagram are intended to suggest that raising management skills to a world class level may be desirable in SMEs of any size, but that it is more likely to be relevant in larger companies, and in companies that export or have the potential to export.

a way that makes it easy or rewarding for their staff to respond to the needs of SMEs. A second is that providing management development services to SMEs tends to be less rewarding to colleges than providing such services to large companies. Finally, SME management development is not afforded a high national policy priority, and for this reason it does not feature among the priorities promoted by higher education funding bodies.

- SME representative organisations already have significant activities in the field of management development. However, a well functioning system of management development provision for SMEs would feature a much greater level of involvement by a wide range of industry organisations, trade organisations and professional bodies that have SMEs principals as members, providing both informal learning opportunities and formal management development courses.

One of the main constraints is that most of these organisations are too tightly resourced to allow them to play a very active role in promoting management development. While their members may be happy to pay the full direct cost of providing a course, it can be difficult for these organisations to justify investing in developing suitable interventions, in providing advice, and in the administrative backup required to operate an ongoing programme of management development activities.

Enterprise Ireland reports that it frequently has difficulties in sourcing providers capable of serving the top end management development needs of high potential SMEs effectively. It actively seeks to encourage providers to partner with leading overseas providers, and to raise their own capabilities to a higher level.

### 3.7 Existing Interaction between Interested Parties

Two of the main issues identified by the UK's Council for Excellence in Management & Leadership in 2002 were that:

- the current approach to provision of management development opportunities was largely supply led, and that
- there was a need to stimulate latent demand for management development among SMEs.

The Council saw a need for improved interaction between interested parties to address these issues. It saw a need for

the solutions provided to be much better informed by the needs of SMEs. It saw a need for a range of organisations to become involved in stimulating demand for management development.

The interview evidence from the current study has shown that similar issues also exist in Ireland, and that addressing these issues is crucial to the prospects for increasing management development activity.

- Providers of management development (both private and public) and relevant State agencies have relationships with only a minority of the population of SMEs.
- Detailed design of interventions is often undertaken by agencies with an insufficiently deep understanding of the SMEs that the interventions are intended to benefit, and without making sufficient use of the knowledge of providers active in the market, or of relevant industry organisations.
- With some exceptions, industry organisations are not highly active in promoting management development among their members.
- At present, the incentives are weak for higher education colleges and their staff to become heavily involved in business education targeted on principals of SMEs.

Thus, while the Institutes of Technology are important providers of learning opportunities to mid-level SME managers, and while both universities and Institutes of Technology are prominent among the providers of management development services used by Enterprise

Ireland, the overall involvement of higher education colleges with owner-managers is relatively limited.

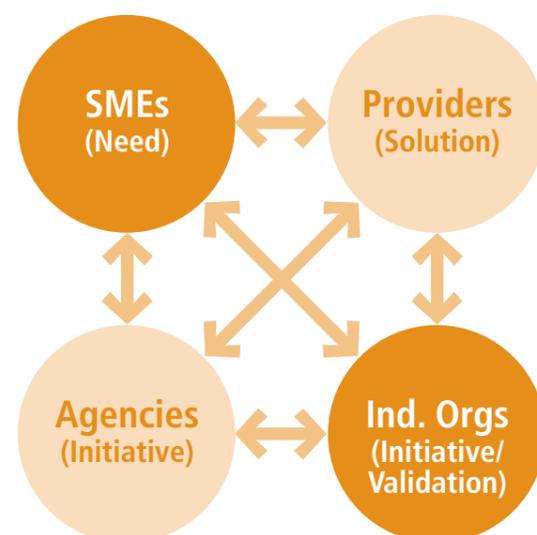
Figure 3.3 below summarises the relationships that should exist if Ireland's management development infrastructure were to be effective.

In addition to the inherent need for strong interaction between SMEs and providers of management development, the chart indicates that State agencies and industry organisations have important roles to play in taking initiatives to promote management development, in terms of working with both SMEs and providers of management development services. Latent demand for management development will remain latent unless it is activated.

Interaction between agencies and industry organisations is also crucially important. Even among the relatively small numbers of client companies targeted by State agencies, interventions are more likely to be successful if they are supported by industry organisations, and if industry organisations assist in validating the approach and content of management development courses.

State agencies do not have the manpower resources to effectively reach the wider SME population by themselves. Rather than dissipating resources by attempting to create a new infrastructure to achieve this, it would be better to reach them through existing industry organisations, such as IBEC, ISME and the Chambers of Commerce. Existing training networks, such as PLATO, the various Skillnets-funded networks and the SFA, also have a role to play.

**Figure 3.3 Relationships Required for an Effective SME Management Development Infrastructure to Exist**



### 3.8 Meeting the Management Development Needs of the Population of SMEs

#### 3.8.1 Three Groups of SMEs

It is possible to think of the population of SMEs being made up of three groups.<sup>6</sup>

1. **Group 1** – One group is made up of the companies with growth potential in manufacturing and internationally traded services industry sectors that form the main focus of intensive support from Enterprise Ireland.<sup>7</sup>
2. **Group 2** – A second group is made up of the wider population of SMEs engaged to a greater or lesser extent by the major State agencies concerned with industrial development and skills development.
3. **Group 3** – The third group is made up of the wider, and numerically dominant, population of SMEs whose links with the machinery of State support for industry are tenuous to non-existent. The boundary between this group and Group 2 is weakly defined.

While there are gaps in provision and uptake of management development opportunities for all three of these groups, they are greatest with the third. It is particularly necessary to increase penetration into this third group.

#### 3.8.2 Interventions for Group 1 SMEs

Two main types of intervention are currently targeted specifically on Group 1 companies.

- One is the provision of financial support for management development undertaken as an integral part of company development programmes supported by Enterprise Ireland. The company usually sources and chooses management development services on its own behalf.
- The second is the provision of training programmes designed to address specific skills deficiencies, often management skills deficiencies, identified as being of importance to industrial development. Many of these programmes relate to a specific sector of industry. The programmes are typically commissioned by Enterprise Ireland, and fees for participation are subsidised.

6. In terms of Figure 3.2, Group 1 SMEs are represented by the two leftmost columns, Group 2 SMEs are represented by the two middle columns, and Group 3 SMEs are represented by the two rightmost columns.

7. Many of Enterprise Ireland's support programmes are operated by Shannon Development in the Shannon Region.

In addition, Group 1 companies often have access to supports available to the broader population of companies represented by Groups 2 and 3.

There is some scope to increase the breadth and penetration of training courses specifically targeted on Group 1 SMEs. Such courses are not currently made available to all of the industry sectors in which growth SMEs are concentrated, and they do not address all of the major management skills deficiencies in the sectors where they are available.

However, the main opportunity to improve supports for Group 1 companies lies in improving conditions for the broader population of companies in ways that are also accessible to this core group.

#### 3.8.3 Interventions for Group 2 SMEs

Three main types of existing intervention are focused mainly on this group of SMEs.

- FÁS provides training courses targeted on addressing skills deficiencies in specific industry sectors. As the FÁS sectoral brief is much wider than that of Enterprise Ireland, and as it is not constrained to providing for managers of companies expected to grow, these courses are available to participants from a much wider population of companies than those provided by Enterprise Ireland. Fáilte Ireland provides a range of comparable courses targeted specifically on the tourism and hospitality sectors.
- FÁS, through its regional divisions, also subsidises the provision of a range of training, including management development courses, prioritised to meet regional skills needs.
- Training networks supported by Skillnets typically provide management development opportunities to their members as a part of a wider package of training. Skillnets part-funds networks of companies to provide training opportunities to their members in accordance with a plan developed by the network, and agreed by Skillnets.

Under its strategy for 2004-2007, Enterprise Ireland plans to become much more active in this area than it has been in the past. It has established a Client Management Development Services unit to deliver to the wider EI client base a range of 'just-in-time' Management Development solutions designed to have the potential to influence the pace and direction of the development both of individual companies and selected sectors. Its approach will be based on a combination of long term and short term educational

and developmental inputs, delivered both within a company and externally.

EI will also work with industry led networks in the provision of management development activity.

These EI initiatives will also serve Group 1 SMEs.

There are two main areas under this heading where change is required, which are:

- Achieving a position where Group 2 SMEs are willing and able to purchase management development services on their own behalf; and
- Growing the provision of targeted courses aimed at Group 2 SMEs (with many also being available to Group 1 SMEs). Enterprise Ireland's new strategy should make a significant contribution to this.

#### Leading Requirement for Change – Self-Sufficiency

The leading requirement for change with this group of SMEs is to achieve a position where they are willing to purchase, and pay for, management development services on their own behalf, and where there is a sufficiently broad, accessible and reasonably priced supply of suitable learning opportunities to allow them to do so.

Currently, even if SMEs were actively willing to source and pay for management development services, deficiencies in the range and relevance of learning opportunities on offer would inhibit many from doing so.

The solution lies in a combination of stimulating demand that currently remains latent, and resolving the many problems that exist on the supply side.

#### Second Requirement for Change – Targeted Courses

There is a need for a significant increase in the volume of activity in training targeted on the management skills deficiencies of specific industry sectors. Examples of this need are highlighted frequently by reviews of industry skills needs, which typically envisage that the courses would not be limited to companies targeted by Enterprise Ireland. For example, the recent FÁS Software Industry Training Study proposes a range of new management development courses in areas such as strategy, marketing and sales and sales management. Past studies by FÁS and Enterprise Ireland have led to the establishment of a range of courses in areas such as food industry management, software sales, and strategic management for the printing industry. Fáilte Ireland and its fore-runners have made provision of this nature for SMEs in the tourism and hospitality sectors.

Offering such management development courses to companies beyond the population targeted for support by Enterprise Ireland has made it easier to assemble sufficient participants to justify their provision, developed the pool of managers available to all industry, and made it more likely that Group 2 companies would make a useful contribution to industrial development.

Some respondents interviewed argued that targeted management development courses potentially also have important industrial policy functions, beyond addressing deficiencies in targeted industries, such as:

- inspiring and enabling SME principals of companies not currently on a growth path to be more ambitious for their companies;
- preparing SME principals in a sector facing consolidation to make sound choices; and
- enabling “at risk” SMEs to improve productivity, to innovate, or to transfer ownership successfully.

FÁS and Enterprise Ireland often co-operate in providing targeted management development courses, but are both constrained in the volume of activity they can undertake.

- FÁS is constrained by its budgets for employee training.
- Enterprise Ireland is constrained by a policy of coupling the provision of financial support for companies to employment and export sales targets.

One or both of these constraints will have to be relaxed if the volume of targeted management development courses is to be expanded as envisaged above.

It would be reasonable for Enterprise Ireland to take a more permissive approach to providing financial support for SME management development than for other development activities, using it as a modestly priced trigger for improved industry performance.

#### 3.8.4 Interventions for Group 3 SMEs

This is, in numerical terms, by far the biggest group, and it is where efforts must be reinforced to raise significantly the numbers participating in management development.

Two main types of intervention are focused on this group of SMEs.

- County Enterprise Boards (CEBs) have budgets for training, parts of which are used to varying extents to support management development interventions for

SMEs. The emphasis placed on management development varies between CEBs. Activities supported include participation in third party courses and commissioning of courses for groups of managers.

Many County Enterprise Boards contribute to the expenses of PLATO networks active in their areas. Under this model, public funds are applied primarily to administration, and not directly to provision of training.<sup>8,9</sup> The main function of PLATO networks is to provide management development opportunities for their SME members. PLATO networks keep the actual cost of provision at a low level by making heavy use of the voluntary services of senior managers from large companies as trainers. The result, where the network is operating effectively, is a high level of management development activity at a very modest unit cost to the State.

- Many of the training networks supported by Skillnets provide management development opportunities to their members as a part, or even all, of their package of training. Many Skillnets networks are centred on industry bodies, such as national industry-specific associations and regional or local industry bodies. Many have SME members, and some are made up solely of SMEs. Many

networks are in industries that are outside the remit of Enterprise Ireland, and some are in industries that are outside the remit of FÁS, placing their SME members firmly in Group 3.

As with Group 2 SMEs, the leading requirement for change with this group is to achieve a position where they are willing to purchase, and pay for, management development services on their own behalf, and where there is a sufficiently broad, accessible and reasonably priced supply of suitable learning opportunities to allow them to do so.

As with Group 2 SMEs, even if they were actively willing to source and pay for management development services, deficiencies in the range and relevance of learning opportunities on offer would inhibit many from doing so.

As with Group 2 SMEs, the solution lies in a combination of stimulating demand that currently remains latent, and resolving the many problems that exist on the supply side.

The main difference from Group 2 SMEs is that subsidised management development courses targeted on industrial development and skills development priorities will not have a major role to play for SMEs in this group.

8. The volume of funding made available to PLATO has fallen significantly over time.

9. By contrast, Skillnets support packages provide funding both for provision of training and for administration of the network.

# chapter 4 summary 4 focus group findings

## 4.1 Introduction

FÁS, on behalf of the EGFSN, asked Mclver Consulting/Tansey to organise two focus groups to test the findings and conclusions of their research on SME Management Development. This was felt useful as the original research had involved consulting with expert opinion, including the executives of SME representative organisations, but had not involved direct discussions with SME managers. SME focus group meetings were held in association with ISME and the SFA on June 14th and June 16th 2005 respectively. A total of thirteen SMEs participated in the focus groups.

The consultant team for both workshops consisted of the team originally responsible for the SME Management Development study:

- Frank Roche, Mclver Consulting
- Paul Tansey, Tansey, Webster, Stewart
- Con Gregg, Mclver Consulting

The format of both focus groups was similar, with Professor Frank Roche setting the context of the study and the focus group in his introduction.

Paul Tansey then facilitated the discussion by asking the participants for their reaction to some of the key questions addressed in the study. In asking participants for their views, he asked them to focus on the general levels of management skill and commitment to management development that they see among other SMEs, rather than on the specific situation in their own companies.

## 4.2 Conclusions

Although somewhat limited in representation, the focus groups confirmed the findings identified in the research in relation to the serious deficit in management development in Irish SMEs.

- They supported the view that, overall, there are serious deficiencies in management skills among SMEs. While companies had strengths in some functional skills, particularly in the area of the founder's background, the general position was of weaknesses in key functional areas, in particular, in strategic areas such as in marketing and human resource management. In addition, strategic decision-making in SMEs is often weak.

- They confirmed that most SMEs do not undertake sufficient management training.
- They supported the view that shortcomings in the quality and relevance of available courses form a barrier to engagement in management development. Participants indicated that the range of courses is quite limited, and that they often find nothing that is available meets their needs. There was a feeling that there was a particular problem in relation to the supply of management training for small service businesses, which they suggest receive little attention or formal assistance in management development. At the same time, according to the focus group participants, training providers often have difficulty in filling their courses with suitable trainees and end up recruiting managers for whom the courses are of marginal relevance. There is, therefore, a need both to promote management development in SMEs, and to ensure that course content is fashioned to meet the specific needs and requirements of Irish SME managers.
- They broadly confirmed the extent of the roles played by different types of management development provider, and noted the potential of higher education institutions to play a bigger role. They broadly confirmed the assessment of the state-backed supports for management training and development set out in the original report.

The focus groups also endorsed the consultants' recommendation in relation to the establishment of an SME Management Council and emphasised that any such council should limit its scope to SMEs to avoid being dominated by the concerns of larger enterprises.

Perhaps not surprisingly the participants were less enthusiastic in relation to the consultants' views in relation to firms being responsible for paying for the cost of management development. However, when the scale of the investment required was explained, participants appreciated the rationale for the recommendation. However, the outcome of the discussion was inconclusive.

# chapter 5 conclusions

## 5.1 Introduction

Informed by the findings contained in the previous chapters, and its own assessment of options for the future, the Expert Group's conclusions are presented in this Chapter. In drawing its conclusions, the Expert Group is conscious that the study has not examined the detail of management skill needs in Ireland but rather the broader, strategic, issues.

The survey of informed opinion revealed that management skills in Irish SMEs are perceived as poor, both at strategic and functional management levels. The analysis also indicates that an estimated 185,000 of the total population of some 200,000 Irish SMEs are little influenced by any public interventions in the sphere of management development. In an economy where the cost competitiveness of the internationally traded sector is being eroded internally by high relative rates of price and wage inflation and externally by market enlargement, rapid productivity growth provides the key to future economic prosperity. Raising the quantity and quality of management skills is a necessary condition for fostering faster productivity growth within Irish small and medium-sized enterprises.

Improving management capability within Irish SMEs is also necessary if the level of workplace training for those already in employment is to be leveraged upwards. For unless SME managers, and particularly owner-managers, possess sufficient knowledge to perceive the long-run benefits of employee training, the amount of relevant training delivered to those at work will be low. There is an observed link between participation by the principal of a business in management development, and the commitment of that business to training its other managers and staff.

For these reasons, management development within SMEs is a priority requirement for the future success of indigenous Irish businesses.

## 5.2 Objective

The objective is to improve the managerial performance of SMEs operating in all sectors of Irish business, whether trading internationally or locally. In essence, there is a need to increase both the incidence and the effectiveness of management development throughout the population of Irish SMEs. Raising management capability within SMEs through an increased uptake of management development is seen as the best available method of aiding SME survival and expansion prospects in the years ahead. The principal

target for enhanced management development is identified as SME owner-managers.

Ideally, the objective, as envisaged by the Expert Group, should be that every SME principal will:

- be able to identify their own management development needs, and those of their employees,
- be able to easily find and buy a course at a reasonable price, if this is what is required, with confidence that it will be suitable and of high quality; and
- have access to opportunities to learn from peers through management development networks providing a mix of informal and formal learning opportunities.

There is a need to ensure the provision of a portfolio of specific programmes and courses that meet the needs of SMEs themselves. Given the diversity of the potential client base, and the range of desired alternatives, there is no unique solution to the problem of SME management development. As a result, a diverse range of management learning opportunities should be promoted. Based on the findings of the study, these should include:

1. informal peer group management support activities;
2. peer group management development courses involving periodic structured learning sessions supplemented by mentoring;
3. short basic courses in specific applied management skills;
4. one-to-one mentoring; and
5. continuous, integrated company interventions by training consultants over periods lasting up to one year.

The first two of these are particularly well suited to implementation through training networks.

It might be also valuable to consider the establishment of 'blended learning' solutions involving a mixture of web-based and personal forms of learning. These could be based on reuse of online management development learning materials in use in other countries. However, e-learning courses alone are unlikely to be suitable for most SME owner managers' needs.

## 5.3 Barriers

The interviews conducted by the consultants identified three key barriers which are currently inhibiting SMEs from

undertaking more management development. These were found to be:

1. Time Constraints;
2. Lack of Relevance of Courses Available;
3. Financial Cost

The interviews indicated that, in general, SME managers are not satisfied with the relevance of available courses in management development to the individual circumstances they confront in their own businesses.

The three principal barriers to increased participation in management development programmes appear to be linked. Taken together, they indicate that many SME managers do not perceive existing management development initiatives as offering value for money. Put another way, the payoffs from participating in currently available management development initiatives are not rated highly enough by SME managers relative to the costs incurred, whether denominated in time or money. Unless this central cost/benefit problem is addressed, no sizeable increase in SME management training can be anticipated.

#### 5.4 Paying for SME Management Development

While the employee training markets in which SMEs, and particularly micro-enterprises, operate are characterised by a degree of market failure,<sup>10</sup> these failures are less pronounced in the case of management training for owner-managers. Since owner-managers should capture the full return on any efficient investments they make in their own management development, the case for across-the-board subsidisation of all management development for all owner managers does not stand up to scrutiny. Aside from issues of principle, practical considerations also support the view that the majority of SME management development activity should be funded by firms themselves. The number of SMEs is so great that any public initiative providing direct subsidies for all provision would be too expensive.

10. Sources of market failure in SME training include information asymmetries (SMEs may have insufficient information to allow them to make informed choices), labour indivisibilities (key roles in SMEs are often embodied in a single person who cannot easily be spared for training) and the impaired ability of SMEs to capture the returns on training investments due to labour market 'poaching' by larger enterprises.

In consequence, as a general principle, SME management development courses for owner-managers should be financed by SMEs themselves, since they are the ultimate beneficiaries of such investments. However, there are exceptions to the general principle of self-financed management development within SMEs:

1. where demonstrable market failure in management development compromises the attainment of industry development or skills policy objectives (e.g. as part of indigenous enterprise development policy);
2. where a temporary subsidy is useful in convincing SMEs of the efficacy of management development;
3. where initial subsidies are found necessary to induce the development of courses;
4. where the spin-off to other employees' skills development may be important.

#### 5.5 The Role of the State in Supporting SME Management Development

The state has an important role in supporting SME management development. However, an important part of this role is to help the 'market' to function better, rather than to replace the 'market' with state-organised provision. Thus, there is a need to stimulate the demand for management development amongst SMEs, much of which remains latent, while at the same time improving the supply side to improve the relevance of the management development products on offer.

In these circumstances, the State should exercise two main functions in seeking to raise SME participation in management development:

1. It should assist the 'market' by helping SMEs and providers of management development services to match their management development needs and offerings, current and prospective. This would entail:
  - Providing an accessible central point of reference for information on courses and other learning services for managers;
  - Assisting SMEs in identifying their needs, and supporting them in satisfying those needs;
  - Identifying market gaps, where current and latent demand is unsatisfied;

- Preparing and disseminating advice to industry, trade and professional bodies that have significant numbers of SME principals as members on developing and delivering informal learning opportunities for these members;
  - Inducing the supply side of the market – providers of management development courses, including higher education organisations – to respond to identified market gaps and to the revealed preferences of market demanders;
  - Together with individual SMEs and their representative organisations, assisting in the development of course content relevant to the operational needs of SMEs conducting their business in Ireland; and
  - Reviewing and certifying the quality of provision.
2. It should seek to stimulate the demand for management training amongst SMEs. This would involve:
    - Promoting the use of structured business networking for management development;
    - Developing management diagnostic tool kits that allow SMEs to identify their own specific management development needs, and ensuring that these diagnostic tools are widely distributed amongst SMEs;
    - Demonstrating and publicising the benefits of management development through the commissioning of a series of customised Irish SME case studies that show the payoffs delivered by management training; and
    - Continuing to provide financial support for management development activities where justified by the exceptions to the general principle of self-financed management development within SMEs outlined earlier.

#### 5.6 Future Developments

The attainment of the objectives outlined above requires a series of actions from state and other organisations. Responsibility for the development of SMEs, including their management development, rests with the Department of Enterprise, Trade and Employment. The Department discharges this responsibility through a variety of interventions, either directly or through its agencies. However, the consultants' study reported that SMEs were not clear on the

respective roles of different agencies, and believed that a more co-ordinated approach would be desirable.

This report should provide an important complement to other studies and reviews which have been, or are being, conducted. These include the Enterprise Strategy Group's report and the Small Business Forum. The Expert Group suggests that the findings of the present study, together with these other studies, should be assessed by the Department of Enterprise, Trade and Employment with a view to developing a clear strategy for SME management development over the coming years. The strategy should set out a range of actions to be taken by the various stakeholders involved. It should also establish a basis for a co-ordinated and coherent approach across the different Government agencies involved.

In this regard, the Department should examine whether some additional mechanism for co-ordination should be established. For example, a co-ordination committee or forum could be established, including the relevant State organisations, the social partners and main training providers. Such a co-ordination committee could review the extent to which the State is adequately undertaking those activities listed in Section 5.5 above. It could then help to identify ways in which any gaps could be filled and lead to a co-ordinated response by the State agencies to doing so.

The full engagement of industry, trade and professional organisations in which SME principals have an involvement is essential. As well as the main national organisations representing SMEs – SFA, ISME and CCI – a wide range of other national, regional and local industry and professional organisations have the potential to contribute, as do PLATO and training networks supported by Skillnets Ireland.

- They are well placed to organise informal learning initiatives, based on bringing SME principals together in formats that facilitate them in learning from each other. Workshops, working groups, presentations by managers to their peers and brainstorming sessions are just a few of the formats that may serve as vehicles for learning.
- They are well placed to advise on defining the content of management courses relevant to their members' needs, and to promote such courses among their members.
- They are also well placed to play a direct leadership role through forming and promoting training networks focused on management development.

The Expert Group, therefore, wishes to emphasise that representative bodies for SMEs should play an important role in this area. Ideally, each body should have a designated staff member for the area to act as a focal point for training needs identification and dialogue with other organisations.

The Expert Group notes, and welcomes, the additional funding that FÁS will be providing to SME representative bodies in 2005/2006 to help fund a significant increase in management development among small companies. This should allow an opportunity for tailoring to meet particular local needs.

The study highlights the need to create awareness of the value of management development. A possible response would be that SMEs should be entitled to a standard short-duration subsidised initial 'Introduction to Management Development' programme aimed at owner-managers which deals with the value of management development, strategic planning and leadership and points owner-managers to possible next steps (which may differ greatly) depending on their situation. This initiative would act as a kind of portal or clearing house. The level of subsequent support and agency involvement would then depend on a company's willingness to develop and implement a more detailed set of development activities.

The interviews conducted for the study suggested that the third-level sector – and particularly the universities – could make a greater contribution to delivering management courses targeted specifically at SMEs. However, there are institutional reasons why such activities are often treated as low priority. It is suggested that higher education establishment review the situation to see whether a more active role can be facilitated. There also appears to be an opportunity for an Irish higher education institution to take on a leadership role in SME management development analogous to that taken by Durham Business School's Foundation for Small and Medium Enterprise Development in the UK.

Finally, the Expert Group suggests that there may be a need for more detailed research on particular areas of deficiency or need. One of the considerations of any new co-ordination committee might be the value of more detailed research on management skill needs.

# appendix one

## Membership of the Expert Group on Future Skills Needs

<b>Anne Heraty</b> , CPL Resources PLC	<i>Chairperson</i>
<b>Senan Cooke</b> , Waterford Crystal Ltd	<i>Member</i>
<b>Jack Golden</b> , Cement Roadstone Holdings PLC/IEI	<i>Member</i>
<b>Una Halligan</b> , Hewlett Packard	<i>Member</i>
<b>Joe McCarthy</b> , Arkaon Ltd	<i>Member</i>
<b>Dr Sean McDonagh</b> , Former Director of Dundalk IT	<i>Member</i>
<b>Aileen O'Donoghue</b> , IBEC	<i>Member</i>
<b>Peter Rigney</b> , ICTU	<i>Member</i>
<b>Linda Tanham</b> , Mandate	<i>Member</i>
<b>Pat Hayden</b> , Department of Enterprise, Trade & Employment	<i>Advisor</i>
<b>Ruth Carmody</b> , Department of Education & Science	<i>Advisor</i>
<b>Andrew McDowell</b> , Forfás	<i>Advisor</i>
<b>Fergal Costello</b> , Higher Education Authority	<i>Advisor</i>
<b>Roger Fox</b> , FÁS	<i>Advisor</i>
<b>Anne Nolan</b> , Department of Finance	<i>Advisor</i>
<b>Martin Shanahan</b> , Forfás	<i>Head of Secretariat</i>

# appendix two

## Publications by the Expert Group on Future Skills Needs

<b>Report</b>	<b>Date of Publication</b>
Data Analysis of In-Employment Education and Training in Ireland	<i>December 2005</i>
Skills Needs in the Irish Economy: The Role of Migration	<i>October 2005</i>
National Skills Bulletin 2005	<i>October 2005</i>
The Demand & Supply of Foreign Language Skills in the Enterprise Sector	<i>May 2005</i>
Skills Requirements of the Digital Content Industry in Ireland Phase I	<i>February 2005</i>
Innovate Market Sell	<i>November 2004</i>
The Supply and Demand for Researchers and Research Personnel	<i>September 2004</i>
Literature Review on Aspects of Training of those at Work in Ireland	<i>June 2004</i>
Financial Skills Monitoring Report	<i>November 2003</i>
Responding to Ireland's Growing Skills Needs – The Fourth Report of the Expert Group on Future Skills Needs	<i>October 2003</i>
The Demand and Supply of Skills in the Biotechnology Sector	<i>September 2003</i>
Skills Monitoring Report - Construction Industry 2003/10	<i>July 2003</i>
Benchmarking Education and Training for Economic Development in Ireland	<i>July 2003</i>
The Demand and Supply of Engineers and Engineering Technicians	<i>June 2003</i>
The Demand and Supply of Skills in the Food Processing Sector	<i>April 2003</i>
National Survey of Vacancies in the Private Non-Agricultural Sector 2001/2002	<i>March 2003</i>
National Survey of Vacancies in the Public Sector 2001/2002	<i>March 2003</i>
The Irish Labour Market: Prospects for 2002 and Beyond	<i>January 2002</i>
Labour Participation Rates of the over 55s in Ireland	<i>December 2001</i>
The Third Report of the Expert Group on Future Skills Needs – Responding to Ireland's Growing Skills Needs	<i>August 2001</i>
Benchmarking Mechanisms and Strategies to Attract Researchers to Ireland	<i>July 2001</i>
Report on E-Business Skills	<i>August 2000</i>
Report on In-Company Training	<i>August 2000</i>
The Second Report of the Expert Group on Future Skills Needs – Responding to Ireland's Growing Skills Needs	<i>March 2000</i>
Business Education and Training Partnership 2nd Forum, Dublin	<i>March 2000</i>
Business Education and Training Partnership Report on the Inaugural Forum, Royal Hospital Kilmainham	<i>March 1999</i>
The First Report of the Expert Group on Future Skills Needs – Responding to Ireland's Growing Skills Needs	<i>December 1998</i>