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Key Factors in the Design Of Policy Support for the Small and Medium Enterprise (SME) Development Process

- An Overview -

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Abstract

The article focuses upon key issues in the development and growth of small and medium businesses (SME's) at different levels in the economy. It begins with a broad reappraisal of the growth of the SME sector as a whole in Europe. It notes there has been an upward trend since the early 1970's and discusses the explanations for this. It notes some marked differences in the position of the sector in different economies. The approach taken thereafter is to explore some of the key issues in the management of support for SME development at three levels: that of the overall environment and policy context; that of the management of institutions and forms of assistance; and that of the SME itself. Within this framework the paper particularly focuses upon: the previously neglected issues of the SME contribution to structure and ownership of resource in the economy; the arguments for reappraisal of the ways in which institutions and networks of support for the small enterprise are managed; and the need to provide comprehensive frameworks for bringing together the key factors influencing the growth process of SME's rather than pursuing narrowly focused 'academic explanations'. The importance of this is underlined by the very different routes that SME's take to rapid growth and the different phases they go through at different times of their life.

Contents

Introduction

This article seeks to explore influences upon the management of the SME growth process in Europe. Taken in its broadest sense this can embrace: the entrepreneurial management of the environment at the macro level needed to facilitate the growth of the SME sector; the entrepreneurial management of institutions and networks which support directly, indirectly, formally and informally the growth business at the regional, national and international level; and management of businesses themselves at 'various stages of development' embracing the development of the entrepreneur(s) and his/her team, the development of the organisation and the development of the business.

The article therefore aims to provide some insights into:

- How to manage better the overall environment of support for the growth of the SME sector (policy).

- How to manage better the institutional assistance environment and networks in support of growth.

- How to better facilitate the SME business growth process itself.

  In pursuit of this goal it reviews the key issues in influencing management at the three levels identified above. It essentially focuses upon what can be learned from the past and present. It leaves aside therefore a number of important strategic issues affecting the small and medium enterprises in the future including: greening; IT; telecommunications; the Single European Market; and globalisation among others. It begins with a brief review of the context of intervention in SME growth and the broad issues raised by it.

The Context

The Growth of the SME Sector - The Evidence

The growth of the SME sector in all Western economies in the 1970s and 1980s has been well documented. There is now much agreement that the growth of the sector was not just an anti-cyclical response to the problems of the late 1970s and early 1980s but constitutes a trend, evident since the early 1970s, across a broad section of the industrial and commercial economy[1]. This trend is interestingly observable in economies operating under governments of different political colour and ideology. It cannot simply be explained by any single 'ideology' - for example Thatcherism[2]. It is also only partly explainable by the growth of the service sector. In most Western economies there has indeed been a substantial drift of employment into services but this has much further to go in some economies than others[3]. In Denmark and The Netherlands, for example, the relative share of services in total employment is around 70 per cent. In contrast, in Portugal and Greece it provides only 44 and 48 per cent of employment respectively. This trend towards services has been at the expense of a decline in manufacturing employment: but this has not been a uniform trend even among the more developed of the Community countries. Germany in particular is an outstanding example of retaining a substantial manufacturing sector with an average of 40 per cent of employment in manufacturing compared with 33 percent average for the European Community as a whole[4].

There is evidence to support the proposition that even within the manufacturing sector, the relative share in output and employment of small and medium enterprises and establishments in most European countries has grown, in some cases very dramatically[5]. A recent study by the Research Institute for Small and Medium Sized Business in the Netherlands shows SMEs getting stronger in all parts of manufacturing industry in terms of labour volume share and in all but one sector in terms of GDP[6]. This trend is by no means universal: for example Schwalbach reports a minor decrease of small firm share with respect of employment in German manufacturing in the period 1977-1986 in the face of a substantial growth of small firms share in terms of number of businesses[7]. Results elsewhere, however, seem to show an increase in small firm employment in many manufacturing industries, particularly engineering, in several European countries[8]. There is no clear evidence, however, as to whether the trend towards 'small is beautiful' in manufacturing has continued. In the latter part of the 1980s

1 Sengenberger, Loveman and Piore 1991 p.307
2 Burrows 1991
3 European Commission 1990 p. 163
4 Ibid p.22
5 Sengenberger et al 1991 p.163
6 Thurik 1990 p.37
7 Schalbach 1989 p. 129-136
8 Carlsson 1989 p.203-255

there is some slender evidence (from certain countries) that the trend may be reversing[9].

There are considerable statistical difficulties in making adequate and, most certainly, up-to-date comparisons between sectors of the small firms population both between and within countries[10]. A recent study by the ILO, for example, frequently uses data over 20 years old[11]: and making comparisons of data collected in different ways is notoriously difficult. Nevertheless, in comparative terms, some intriguing questions are begged. What is the explanation for firms under 100 employees having 69 per cent of employment in Italy and 46 per cent in the United States? Why should medium sized firms in manufacturing (having between 100 and 499 employees) have twenty five per cent of manufacturing employment in Germany and over 36 per cent in Norway and 18 per cent in Italy. Indeed the total share of small and medium enterprises under 500 employees varies somewhat between countries, from 67 per cent in Japan and 69 per cent in Switzerland and 74 per cent in Italy[12]. There is some evidence to suggest that for several European countries the small firms output and employment gains have come from net additions to the stock of firms. Such evidence is borne out, for example, in the UK where the share of employment in manufacturing firms of small enterprises under 100 employees has increased from fourteen per cent in 1963 to twenty four per cent in 1986, with hardly any change in medium sized firms' share (100 to 499)[13].

Another major problem in comparisons is that there are many difficulties in separating out statistically the ownership factor in aggregative studies of small firm size. In some economies it is only possible to point out that there has been a growth in a number of establishments without being able to comment on ownership. There is some evidence in certain economies that the number of establishments per large company has increased thereby supporting the large company disaggregation thesis as being one cause of the growth in stock of small scale establishments[14][15].

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9 Thurik 1990.
10 Bannock et al 1989 p.69
11 Sengenberger 1991
12 Ibid p.1-62
13 Dunne and Hughes 1989
14 There have indeed been several attempts to describe the emergence of the small and medium sector as a “statistical aberration’ but these arguments as yet remain unconvincing.
15 Thurik 1990

Attempts at identifying the growth sectors of the small firms population by means of aggregative analysis of published statistics are fraught with dangers, not only to do with definitions of ownership (as outlined above) but also in respect of tracking movements into and out of broad size bands over time. Changes in any size band over time may be a result of companies growing into the size band above or alternatively dropping down from it; and companies moving into the category from the size band below or companies falling into it from the size band above[16]. The issue is further complicated by the growing recognition that births and deaths of small firms as they appear in the statistics are not all that they seem to be. Many terminations are not in fact 'deaths' but simply transfers of ownership resulting from entrepreneurial behaviour in terms of mergers, acquisitions and attempts to mitigate tax, change legal status and preserve assets within the family[17]. In this respect it has been suggested that plotting entrepreneurial behaviour, rather than the progress of any individual firm itself, might be a fruitful area for research[18]. Notwithstanding the difficulties there is evidence to suggest in several countries that the growth of employment share of small business has been very substantially a result of growth in the new and smaller sized categories of small business[19]. In Germany for example between 1975 and 1986 the percentage of net employment growth was the larger the smaller the size class of establishment[20]. By far the largest net increase was recorded in establishments up to 20 employees. Job generation results for very small firms in Italy are equally striking[21]: and there is also supporting evidence from the UK in this respect[22].

The discovery of a trend, has shifted academic interest away from the small firms contribution to job creation - a debate around which there is still much controversy, stimulated by academics, which served to obscure some of the more significant issues behind the growth of small firms in the 1980s.

The Growth of the SME Sector - The Structural Argument

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16 Doyle & Gallagher 1987
17 Arrighetti & Curiani 1990
18 Scott 1990
19 Storey & Johnson 1987
20 Fritsch 1989
21 Becottini 1991
22 Marsden 1991 p.223-261

Given the fact that the growth of the small firms' sector across most developed economies remains largely unchallenged, the issue of 'why' this has occurred is most important for those who manage such economies and the institutions designed to support economic development. This has been raised[23] particularly in respect of the traditional views of the small business as:

- Being one of lower productivity than that of large.

- Being businesses where the quality of jobs and of the environment is reputed to be lower than that of the larger company.

  One immediate response to the above is to raise questions about the conventional measures of 'productivity' and in particular the influence of capital investment on measures of so-called 'labour productivity'. The whole issue of the criteria for measurement of 'quality' of jobs in the small and medium enterprise also needs to be re-examined in a full ethnographic approach[24], as much in terms of job satisfaction criteria as opposed to listing measures of differences in wages and 'hygiene' factors. It may for example be the case that individuals are prepared to exchange higher wages and more comfortable surroundings for better flexibility in jobs, closer personal relationships, closer identification with the customer and a small group atmosphere. There is yet little evidence about this.

Notwithstanding these basic issues the root potency of traditional 'economies of scale' arguments needs to be challenged. Even when explored in its own terms questions can be begged. Some recent work in The Netherlands seeks to explain declines in average firm size in terms of the decreasing importance of fixed costs over time and therefore the cost efficiency of small units[25]. Such arguments have also been advanced in the Italian context[26]. The Dutch study does not offer detailed explanations for the phenomena only a number of hypothesis relating to: changes in the nature of products (differentiation); changes in the business regulatory environment and in particular of the regulation of labour supply; possible differences in economies of scale 'within' the production process relating to finance, planning and control, marketing, information and purchasing; and finally the role of technological development and its influence upon the process

[23] Pratten 1991
[24] Curran and Burrows 1987 p.171
[25] Kleijweg & Thurik 1991
[26] Becattini 1991

of physical production itself. The weight of most of these factors in particular instances depends upon the nature of the product being produced. Equally speculative explanations have been suggested by Brock and Evans[27] and Acs and Audretsch[28] and include: internationalisation of markets and associated increased need for flexibility; changes in labour force composition; changes in consumer tastes demanding differentiation; deregulation and ease of entry; and the development of new innovative clusters. In respect of the last mentioned point it is difficult to find extensive evidence in other countries of the kinds of economies seemingly enjoyed in the Italian 'industrial districts'. Within the economics tradition (and largely in the context of a defence of the economies of scale arguments[29] seeks to explain that the small firms emergence can be the result of: the movement of firms into business where there are no economies of scale; where the market is limited and non-standardised; where flexibility in customer service is demanded; where there are non homogeneous products; where firms are new and therefore small or have just entered the market; and because of the emergence of the entrepreneur perhaps determined to keep scale small. Pratten produces very little evidence for these arguments from his own study, arguing instead that most of his sample entrepreneurs can perceive 'benefits from economies of scale'.

Overall the traditional 'for and against' arguments concerning scale, as rehearsed in the text books need to be challenged[30] as do the simplistic cost reduction models upon which they are based. The formal dimension of scale argument is founded on many assumptions that are challengeable including: products being unchanged over time; standardisation; long run views; and capability to maintain high capacity utilisation over time. The impact of these assumptions on the firm's ability to be flexible, to cater for individual customer needs and changes while maintaining high standards and, on the supply side, to cope with unionisation remains largely unexplored. The dimensions of scale argument as applied to selling and distribution costs are less clear; these areas are probably less open to achieving technological economies of scale. Arguments concerning the economies of space and indivisibilities also need to be questioned. The latter for example is not an argument for large scale per se, but for a scale appropriate to achievement of benefits from the individual machine process or technology 'unit': such a scale can be quite small. Also to be questioned are arguments concerning

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[27] Brock and Evans 1991
[28] Acs and Audretsch 1990
[29] Pratten 1991
[30] Marchesnay 1990

specialisation. Pratton for example argues[31] that the 'larger the output of the product, plant or firm, the greater the opportunities for an advantage from 'specialisation'. This also is not an argument for large scale itself. Indeed it can be argued that the greater the potential for specialisation of this kind the greater the potential for this being undertaken by small independent businesses as is the case in much of the Japanese industrial structure. Equally the existence of 'economies of massed resources' embracing the traditional arguments for spreading risks leading to firms being themselves able to take greater risks need to be examined. This argument, for example lends itself too easily to support for firms who seek to reduce uncertainty by expansion aimed at giving them greater control over the market place and of resources. It does not necessarily follow that 'large concerns will have a greater opportunity to experiment with new methods and introduce new products without jeopardising the future of the business'. And benefits that arise from this activity while accruing to the firm may not necessarily be in the ultimate interest of consumer welfare. Economies of scale arguments which relate to 'superior techniques of organising production' and to 'learning effects' also need to be more closely scrutinised.

The root of some of the arguments for large scale lies in the transactions cost model[32]. Basically this is a useful approach in that it not only underpins the rationale for the existence of firms (firms will be set up when individual-to-individual transactions become too expensive) but also underpins arguments for scale (firms taking on more and more internal transactions) by positing that the costs of 'discussing relevant prices, of negotiation, of concluding separate agreements'[33] may be reduced by 'internalising' products or services previously bought out. The exact nature of the circumstances where the 'allocation of resources by firms is more efficient than allocation by the market mechanism' needs however, to be carefully explored. The argument that the market adjustment process is costly in terms of social resources is interestingly one that found favour with Marx[34] and provides a justification for public ownership! There are some who argue that vertical integration of firms themselves can be explained very substantially in terms of transaction costs rather than economies of scale[35]. It is clear, however, that firms in fact 'internalise' transaction costs by operating themselves a particular service, product or process. The interface of

[31] Pratten 1991
[32] Williamson 1985
[33] Pratten 1991
[34] Marx 1976
[35] Pratten 1991

department with department, sub process with sub process, and internal service with internal customer all need to be managed: once internalised such operations can become non-flexible overheads. Uncertainties relating to transaction costs can be overcome in other ways for example by partnership arrangements with small firm suppliers as the Japanese model has demonstrated[36].

Outside of this debate, however, is the powerful argument that the simplicity of the cost reduction model underpining the rationale of the scale argument places the focus on efficiency, not effectiveness and upon management of output rather than upon management of the total relationship with a customer. The economies of scale argument is usefully put into perspective by the following quote from the ILO study referred to above[37]:

"Without denying that there are certain technical efficiencies associated with the scale of production, it need not follow that there is a natural law that inescapably puts dimension or size of business units at the root of superior economic performance".

The same study claims that economic performance crucially depends upon the social organisation of activities fed into the communal organisation. Benefits that might be derived by large scale within one company can equally be enjoyed by smaller firms organised within 'industrial districts'. An even broader view held by Sabel and Piore[38] sees the victory of the mass production paradigm not necessarily based upon intrinsic technological superiority or dynamism but the product of property rights, politics and the distribution of capital and wealth.

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36 Sato 1989
37 Sengenberger et al 1991
38 Piore and Sabel 1984

Towards a new Agenda in Creating a Climate of Support for SME's

It is clear from the above that the context of the debate on small business and its role in the economy in Europe is changing. It is moving, in policy terms, away from its previously narrow concentration on the role of small business in job creation - but has not yet found a clear alternative focus. There is no shortage of generalisations about the possible roles of small business in the economy which have been articulated in official reports[39], committees of enquiry[40] or by international development agencies[41]. Paradoxically many of these generalisations, for example, the role of small business in: combating rural depopulation; distributing income more widely; providing outlets for entrepreneurial energy that cannot be absorbed elsewhere; converting local savings into investment; absorbing appropriate technology; and operating in sectors where there are no scale economies, have scarcely been tested. There is consequently an absence of comprehensive small business development policies based upon proper understanding of the contribution of small and medium enterprise to the major goals of economic and social policy (other than employment creation) for example: balance of payments stability; equality and social justice; price stability; and growth[42].

The discussion above of transaction costs and their influence upon firms' decisions concerning the internalisation or externalisation of processes and product manufacture is a reminder that from a macro economic viewpoint, the relative strength (or weakness) of the small and medium business sector above all reflects decisions taken by managers about the optimum structure of industry and services and the optimum balance of ownership. The fact that most large firms are conglomerations of services, processes, component production and sub assemblies, many of which could be run independently, is frequently overlooked. We have been reminded of this in recent years by the noticeable transfer out, sub-contracting, spin-off, and spin-out movement in large scale manufacturing across Europe which has contributed to the growth of the small firm sector[43]. And, increasingly (as noted above), evidence is being provided that within the large firm sector the numbers of individual establishments per large firm has increased.

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39 Molenaar, Mamak and Van Dijk 1983 p.211
40 Bolton 1971
41 Nelson 1987 p.282
42 Gibb 1990
43 Sengenberger et al 1991

The most immediate reminder of the importance of the structure and ownership issue is the current challenge facing Eastern Europe. While in most countries outside of the former communist bloc the small independent business constitutes well over ninety per cent of all industrial and commercial establishments in the economy in the former communist countries the distribution, if not skewed wholly the other way, is nevertheless very markedly in favour of medium and large scale (State owned) businesses[44]. Examination of these State businesses in detail demonstrates that they are potentially the major source of new small and medium enterprise in the Eastern Europe[45]. It can be argued that unless many of these large businesses are restructured into smaller independent units with much greater market and process logic than has been evident hitherto they will not survive in a market economy. Thus the privatisation process in these countries is closely bound up with issues of disaggregation, decentralisation and downsizing of State companies. Only this way will essential flexibility in the economy be achieved. It is, moreover, no accident that the privatisation process is more easily and successfully achieved with smaller units than with large[46].

The process of disaggregation observed in the Western Europe of the 1980s raises policy issues concerning the management of dependency and interdependency between businesses. The loss of direct control by the externalisation of product, process and service businesses, previously internalised, demands strategies not only to reduce uncertainty but also to ensure 'just in time' and 'total quality' management in buyer/supplier relationships as well as a sharing of strategic horizons. The growing interest of management schools in the issue of partnerships and strategic alliances is an indication of their response to the challenge. Providing incentives for collaboration between small and large firms and partnership arrangements has become a major focus of policy[47].

One aspect of the large/small firm relationship receiving growing attention is sub-contracting[48]. Much of this interest has been simulated by the practice of Japanese companies. While there is argument about the exploitative nature of the Japanese sub-contracting system[49] and its hierarchical nature of prime, secondary, and tertiary sub-contractors there is some evidence that the nature of the

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44 Pickler 1991
45 Ibid 1991
46 Gdansk Research Centre for Privatisation, Poland 1991
47 Mitsui 1986 p.80
48 Robinson 1990
49 Chalmers 1989 p.283

relationship is changing between large firms and sub contractors to one of greater partnership[50]. And the nature of the dependency relationship is also being weakened at least among major sub contractors. Various types of sub-contracting arrangements have been identified including: 'pyramid type', diversification type, industrial complex type, foot-lose industry type, and decentralised flexible specialisation type[51]. Schmidt argues that the expansion of the sub-contracting business in Western Europe will be associated with an increase in the 'pyramid' and the 'decentralised flexible specialisation' types, the result of which will be a more competitive sub-contracting network. International sub-contracting is also of growing importance Differences between countries in the organisation and role of sub-contracting are evident but as yet are analytically unexplained. The growth of opportunities for firms to tender for public contracts in the European Community is likely to lead to greater international sub contracting[52].

There are a limited number of studies which point to an increase in inter dependence between firms, arguably a consequence of the decrease in size of the large firm and the tendency towards more specialisation in individual phases of the production process together with an increase in the use of sub-contracting[53]. In general the increased growth of networks and cooperation (within a competitive environment) between small and medium firms is given as an explanation of the ability of small firms to survive and grow independently. The operation of firms within the industrial districts of Italy particularly Reggio Emilia has been the focus of much interest and of attempts to 'transfer' the network system[54]. Writers see communal organisations as being the major compensation for small firm lack of resources[55]……..the firm looks for other small firms to associate with and to build a more permanent, mutually constructive network of joint support and resource sharing, possibly with the coordinator specialisation of each firm in the network'.

More generally there is a growing body of research which finds evidence of networking as a key factor in the growth of SMEs. A Belgian study[56] sees networking as being a supreme way to 'make up' short comings in respect of lack of internal know-how, particularly in the field of management. It makes

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50 Koshiro 1991 p.173-223
51 Schmidt 1990 p.19
52 European Commission 1990
53 NMB Bank 1985
54 Goodman, Bamford and Saynor 1989 p.531
55 Sengenberger et al 1991 p.59
56 Donkels 1990

distinctions between exogenous and endogenous induced networking support and explores the conditions under which exogenous support can be made more effective while recognising that it is endogenous impulses that are indispensable in realising long term objectives. There are, indeed, a growing number of reminders that it is not just the production network as defined in the transactions cost, sub-contracting and large/small supplier relationship framework that is important to the health of the small business. The burgeoning literature on entrepreneurial networking[57] underlines the importance of the broader 'organising context of the small firms operation, important not only to get things done but to build self-confidence'. It embraces the personal networks of the entrepreneur in the cultural and community network which the entrepreneur needs, in the absence of corporate resource, to 'manage' in order to grow effectively and develop his business. 'The entrepreneur is more tied to the local organising context than his corporate colleague'[58]. This has major implications for those who through policy, seek to organise the 'support' environment for small and medium business to ensure that small firms can achieve 'the complementary skills and resources which are essential for competitiveness and survival in world markets'[59]. An understanding of the way these networks operate is critical to the design of support systems which are frequently themselves designed by bureaucracies (see below). Greater understanding is also needed of the nature of the dependency of small firms on such networks in different contexts, particularly that of technology[60]. For example it is by no means sure that (as has been argued elsewhere) 'small and medium sized enterprises do not themselves generally have the range of capabilities and resources to research, commercialise and market new products. They need cooperation with large firms and other SMEs in order to remain in the innovation game'[61]

These points are particularly important for those who seek to support the development of technical innovation and New Technology Based Firms. The evidence already suggests that it is not easy to replicate the conditions under which such businesses thrive and that physical resources themselves (as embodied for example in Science and Technology Parks) are not a sufficient condition. Rothwell[62] pointing to the continued growth of importance of small

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57 Szarka 1990
58 Johannisson & Nilsson 1989
59 O'Doherty 1990
60 Johannisson 1990 pp.32-45
61 O'Doherty 1990
62 Rothwell 1990 pp.239-248

business in innovation and technology and the massive increase in new technology based firms (including software) seeks to explain this growth in terms of entry costs becoming lower, as innovations become knowledge intensive rather than capital/scale intensive. Information technology has opened up many market niches. And 'job hopping' has made mobility a key factor in the flow of new technology entrepreneurs. Such mobility enhances personal and instrumental (to the technology business) networking. This in itself has implications for the design of systems of support associated with Science Parks and Technology Centres and for Technology Support Venture Capital organisations.

Rothwell's[63] point concerning job hopping is a reminder that policies can do much to lower the opportunity costs of job change and stimulate moves out of the 'corporate' sector by managers capable of establishing growth oriented businesses. It is arguably the case that at least a part of the explanation for the trend towards self employment in the 1980s lies in the greater levels of uncertainty then operating in the 'formal' large company labour market. Career paths were disrupted, job status threatened, job security no longer guaranteed, rewards threatened; mobility increased laterally with restructuring; and greater geographical mobility enforced. Arguably the greater the uncertainties in the formal labour market, the lower the psychological as well as real opportunity cost of managers leaving to face the uncertainty of operating an independent business. There are several examples in Europe of programmes designed to lower the opportunity cost, and stimulate transfer from large to small[64].

Notwithstanding its possible impact upon 'high level' entrepreneurship, creating uncertainty in the formal managerial labour market on the scale of the early 1980's is not a real policy option to follow! A more positive route is to create a culture within which the entrepreneurial career is seen to be equivalent to, or more desirable than, that of the 'professional' career. It has been argued that at the root of this is a culture which embodies some of the 'essences' of entrepreneurship in the education system and the work environment[65]. This involves enhancing the factors important in stimulating entrepreneurial behaviour in the work place including: freedom; greater ownership; more personal control; commitment to seeing things through; customer service orientation; flexibility; incrementalism; tolerance of mistake making; and overall a greater spirit of feeling of independence and inter dependence. The policy implications of this

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[63] Ibid 1990
[64] Entrepreneuurship Development Programme
[65] Gibb 1987

approach are important not only for the operation of support services for small business (see below) but also for the culture and content of management training in general.

The above discussion is a reminder that entrepreneurship is about decentralisation, differentiation and tolerance of chaos rather than about standardisation and order. This is an important point to remember in development of policies. There are those who would argue that small business will survive best in highly decentralised political systems where they are capable of ; wielding greater influence at the local level and/or where policies are there fore more likely to be differentiated to cater for specific local needs[66]. This is a point worth noting in respect of the design of institutions in support of small enterprise (see below) but also a reminder of the potency of less formal, private Non-Governmental Organisations (NGO's) in supporting the development of entrepreneurship[67]. The important role of NGO's in the provision of assistance to small enterprise development is increasingly recognised by international agencies concerned with Third World development[68]. The development of forms of more autonomous, regionally oriented, and integrated Small Business Development Centres in place of the regional bureaucracy of the Small Business Administration in the United States, and the development of Local Enterprise Agencies involving private and public partnerships in several countries in Europe indicate that this point has not been lost in the West. These in turn are also a reminder of the scope for partnerships of all kinds in policies for small businesses in respect of national, regional, local government, large business, and small business to-business links.

A highly important part of the support network for growth is the private service sector itself. Close examination of the growth paths of many small and medium businesses indicates that at a critical point, the quality, strength and capability of many of the professional private advice networks played a major role. It has taken some time for the view that policies for SME development should concentrate upon the manufacturing sector be cause the service sector will be 'pulled along' by its development, to be re considered. The industry support service sector is now seen as a critical factor in providing the pre-conditions for rapid SME development and as a key component of local and regional development

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[66] Hull & Hjern 1987
[67] Havers 1991
[68] Ibid 1991

policies[69]. And there is growing recognition also of the potential of many branches of the service sector to themselves provide export led development poles.

Overall, the above scenario represents a major challenge for policy makers in the 1990s in managing an environment in which the numbers of small firms continue to increase, the number of transactions in the market place increase, competition increases and where indeed competitiveness may be based on staying small. It will also be an environment where there are a wide range of other (indirect) transactions taking place facilitated by the growth of the private service sector economy but also between all kinds of different 'social' partners at a local, regional as well as national level. If there is to be a return to the 'putting out' system, effectively using the market rather than the hierarchy we are more likely to see large firms with higher rates of externalisation but more tightly linked with small in a variety of interactive ties. This takes us away from strategies based on the lowest cost economies of scale concept towards customer oriented strategies based on wide market differentiation and specialisation. The impact of this scenario on policy makers is far reaching. It makes particular demands upon the industry financing system, its ability to embrace greater uncertainty and longer term time horizons and to support the link between ownership and control. It has already brought increasing recognition of the limitations of the UK system in this respect. In particular it is argued that the powerful influences on publicly quoted companies of a relatively small number of institutional fund managers who are themselves under pressure to perform in the short term may dictate against longer term investment decisions being taken. This problem is recognised at senior level in British Industry. Sir Hector Laing[70] for example, questions a situation whereby managers of a business may be discouraged from taking risks by the attitude of their owners, the shareholders, discouraged from undertaking research, from investment and innovation and from increasing market share. He argues that this situation cannot continue for long. "Where the owners of an enterprise are those who manage it, the goal and the means of achieving it do not come into conflict."

If the re-emergence of the small firm is indeed a trend of major importance then it will call into question even more so the ability of capital markets to respond in the future. This is an issue of European importance. Increasingly as public policy

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[69] Illeris 1989
[70] Laing 1990

in Europe is dictated from Brussels the critical importance of preserving competition particularly within the wider European market will need to be recognised. There has been a substantial growth in mergers and acquisitions to help larger firms cope with the uncertainties of the single European market[71]. Yet in the forty industry sectors which are likely to be greatly affected by the European Market (and which account for over 50% of total manufacturing employment in the community)[72], there are a great many industries operating in markets influenced by non tariff barriers with major implications for small business for example: food products; textiles; shoes; clothing; mechanical and electrical engineering; communication and transport. Preserving competition in these sectors as well as in finance and insurance where small firms play a considerable role is a major challenge.

Implications for the Management of Institutions and Assistance for SME Growth

The arguments above have major implications for those who manage the various institutions (private and public) in the small business support environment. Perhaps the major challenge is that, if they are to cope adequately with both the growing importance of small firms and with small firms growth, they themselves need to be entrepreneurial in nature. It has been argued elsewhere[73] that the most effective support agencies' for small enterprise will be those designed on the model of the entrepreneurial business itself. This means embodying a number of the "essences" of an entrepreneurial organisation identified above within the support agencies own organisational structure. Such an approach calls into question advisory agencies with rigidly controlled standards tied in, for example, to targeted numbers of counsellings, or trainees, counselling times, number of visits, and numbers of clients. And it also questions national training programmes with over-emphasised "cost efficiency" and volume at the expense of effectiveness. But the challenge goes much farther than this in dictating that advisory and other services to small firms respond flexibly to the differentiated needs of different local environments, develop their own innovations and their own standards, are free to build their own networks and partnerships and indeed to offer differentiated rewards in targeting upon, and succeeding with, different

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71 European Commission 1990
72 Europepan Commission 1991 p.114
73 Gibb and Manu 1990 p.10-27

customer groups. This major challenge is a one currently being faced by the new private sector led Training Enterprise Councils in the U.K. with their local orientation but U.K. Treasury control.

The wider challenge in respect of official support to the development of an entrepreneurial institutional network is to place it more and more in NonGovernmental Organisations. This of course implies losing a considerable degree of central control and creates difficulty in obtaining a standardised feedback. The reluctance of the U.K. government to back, more substantially, the Local Enterprise Agency movement in the U.K. in the 1980's is arguably an example of these fears at work. A further problem in supporting local networks (and a problem with Local Enterprise Agency development in the U.K.) is that they may differ in strength, depth and capability from one locality to another. They are often heterogeneous in construction relying upon different partners with different degrees of commitment. As with the small firm, each is "unique". An even more major problem is that, partly as a consequence of the above, the capable 'actors' within local networks may vary from one locality to another depending upon the personalities involved[74]. As with the entrepreneurial business, a great deal of the effectiveness of the SME entrepreneurial support organisation is tied up in the leadership.

One major challenge for all those concerned with managing local institutions is the strength of their own network. The credibility of the adviser, counsellor, trainer, industrial development officer, local government promotion official and even banker or venture capitalist may in the future substantially depend upon the quality of their own network. Indeed, arguably, the really effective local development animateur will be one who is a community entrepreneur seeking to build partnerships, find resources and link personal networks. It has been argued that the community entrepreneur will "seek projects that can reduce economic risks being imposed upon the community"[75]. The motivation and commitment of the various "partners" in the field of support for small and medium enterprise development to networking locally is not always high, their being a "competitive" edge to small enterprise support activity. The challenge therefore that faces the local network support agency (as it faces the entrepreneur) is to be competitive but to harness as much co-operation as possible in pursuit of meeting the customers needs to the highest possible quality standards. At the ultimate level of

[74] Atterton & Gibb 1989
[75] Johannisson 1991

"voluntarism" increasing interest has been shown in the operation of networks of entrepreneurs within specific industry sectors in a region. Such networking has been deemed to be highly successful in respect of the industrial districts in Italy[76]. As yet too little is known of their workings and possibly too much has been written from the viewpoint of economists focussed upon production and economic transactions leaving aside possibly, equally important, wider personal, social and cultural networks.

Within the above scenario building local networks will be as important for commercial as non-commercial operations. Yet the structures of many commercial organisations stand in the way of this. There has, for example, in the U.K., been increasing interest by a highly centralised banking system in creating a better environment for small business customers and indeed, in supporting the networking of local managers. The central problem, however, remains that the "local" bank manager does not stay for long enough in one location to become part of the community over time. He does not grow or decline with his local branch. If he is successful he/she will be highly mobile. Judgements of customers are therefore more likely to be made by impersonal "reductionist" analysis of financial ratios rather than by broader 'know how' and 'know who' in the community. Relationships developed between bank managers and entrepreneurs may be disturbed with sometimes uncomfortable consequences[77]. The response of the U.K. banking system to this challenge has been to create regional Corporate Business Banking Centres, which for firms over a certain size and growth potential provide a special department and set of relationships which will hopefully facilitate greater continuity. At the same time this may weaken the relationship of the entrepreneur with the local bank manager and may also weaken the ability of the banker to understand the business within the context of the very local network[78]. In essence, however, as with any centralised public service, a highly centralised banking system may allow very little opportunity for differentiated approaches at the local level in terms of marketing and meeting customer needs or even in terms of wider flexibility to become more involved in the community. In the U.K. and, if the European Commission is to be believed, in many countries of Europe the availability of specialised finance at the regional level of small enterprise development is still a barrier to growth[79]. There are those

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76 Goodman et al 1989
77 Binks 1991
78 Dennis, Dunkelberg & Van Hulle 1988
79 Ernst & Whinney 1990

who argue that there are still major gaps in venture capital funding of technology businesses and in particular the absence of more "hands-on" approaches[80].

The 1980's has seen a wide range of experiments in the provision of (mainly subsidised) assistance (other than finance) to small and medium enterprises. This has covered virtually all sectors and segments of the small firms "market" with special programmes for, among others, women, ethnic minorities, youth, the long-term unemployed, spin-offs, growth businesses and new technology based firms. Much has been learned from these experiments and there is an increasing European network for exchange of practice in the design of counselling and training programmes with an increasing focus upon the competency of those who seek to deliver such programmes[81]. As a result the view that, in designing training and counselling services, the small enterprise is merely "large writ small" has lost considerable ground although there are still many gaps in the provision of "appropriate" counselling and training systems for small enterprise development. Many questions still remain concerning the organisation and delivery of such assistance. The rationalisation of services into "one-stop" shops providing a focus for integrated assistance has many advocates: but it still needs to be carefully evaluated against the alternative of a more widely differentiated and very local assistance environment[82]. Advocates of a local network approach would arguably be more in favour of the "second stop shop" concept where all network institutions and personnel have a perfect knowledge of each others capability and the motivation and commitment to signpost effectively upon the basis of sound information, rather than hang on to their own clients. Undoubtedly, however, for certain kinds of companies particularly New Technology Based and high growth firms the integration of finance and other resource provision with hands-on advice, assistance and support for management development can have a major impact[83]. A fruitful area for future study in this respect, particularly in the U.K., would be the degree to which small and medium firms which have enjoyed such integrated assistance have been better able (or otherwise) to survive a recession largely induced by a monetary clamp-down and high interest rates.

A major managerial challenge in the institutional context, however, relates to support for internationalisation particularly within the context of the Single European Market. There are a wide variety of programmes and projects (and

[80] Rothwell 1990
[81] Cedefop 1991
[82] Gibb & Haskins 1987
[83] KMPG 1987 p.114

numerous acronyms) for support of small and medium enterprise development funded through the European Commission. Arguably the key criteria to be applied to European intervention in these matters should be that such intervention: added real additionality to indigenous country programmes and activities; facilitated the transfer of experience of companies and of the networks that interact with them across Europe and perhaps the exchange of best practice; and facilitated co-operation between companies and institutions in a manner that leads to European added value. It is doubtful whether all Commission activity would conform to this criteria in respect of small business. In an editorial[84] to a recent conference on cooperation in the European Community the comment is made that the Community has developed a distinctive mode of operation in technology and related areas. Yet while this mode embodies a great deal of goodwill towards SME's the major area of expenditure on science and technology still largely reflects the priorities of the major European firms. "It is not clear that the situation and potential of small firms is actually fully taken into account even in terms of the competitiveness criteria which is the primary objective of the framework programme"[85]. The attempt to introduce a fully integrated SME policy and associated programme across Directorates General in the Commission, via the setting up of the SME Task Force in the early 1980's (and later a special Directorate) is also commented upon in the editorial referred to above. The bulk of the conference apparently underlined the "lack of studies of small firms, small economies and the cooperation phenomena which would inform us on the kind of firm and sector specific issues we need to address in policy terms." There also seems to be an absence of, or weakness in, wholly independent evaluation of Community SME initiatives as a basis for reformulation of institutional and assistance development.

By way of summary it is important to point out, particularly at this period of time, when great attention is being paid to the development of small enterprise support institutions and assistance in Central and Eastern European countries, that there is as much to learn from mistakes in the West as from successes. In the context of the above arguments such lessons might include the need to: create support networks at the local level differentiated in relation to local needs; create institutions in an entrepreneurial mould with capability for a differentiated, flexible and innovative response with an opportunity to become integrated into the local community; support networks of SME's themselves but within a

[84] O'Doherty 1990
[85] O'Doherty 1990

competitive small firm environment; give due weight to Non-Governmental institutions and associations in this respect; recognise that merely providing premises, workshops, technology centres or science parks does not in itself create additionality without the lessons from the above points being embedded in their design; and the need for real flexibility in finance and possibly a differentiated financial system with an emphasis upon local flexibility and an overall financial structure which does not, because of the nature of its institutionalisation, lead to short termism and risk aversion. Finally it is important that particular attention is paid in institutional development to providing mechanisms for the small and medium enterprise to articulate its needs and to play its role in corporate social responsibility and influence at the local, regional and national level. Arguably, the experience of Germany with its Chambers of Commerce and Handicraft would indicate that without some degree of "institutionalisation" of small business then the small business voice will be weak. There is always a danger of "top-down" policy decisions articulated by civil servants or large company representatives from major industrial associations untempered by representativeness of, or empathy with, the smaller business.

Supporting the Growth Process in the SME itself - The Key Issues

Reflecting the changing climate noted above, increasing attention has been paid in recent years to supporting the existing SME in its growth process. In this respect it should be clear, from much of the above argument, that in the economy as a whole, SME growth is a function both of the decisions taken by large companies as to their optimum organisation structure, ownership and management as well as decisions taken by entrepreneurs (defined as enterprising owner managers) themselves.

SME Growth Out Of Large Companies

The evidence as to the volume of small business growth achieved via the route of large company disaggregation and spin-off is clouded. There is some evidence to reinforce the view that such disaggregation did occur among large firms in the 1980's in a number of European countries[86]. The managerial philosophy of greater large company effectiveness via 'smallness' has, however, been reinforced

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[86] European Commission 1990

by a number of eminent writers, of which the most influential are Drucker and Peters. Drucker[87] quite clearly perceives the break away from the 'worship of bigness that characterised the first three quarters of the century' - although in questioning size he is no advocate of small is beautiful only that 'the right size for a given task or a given organisation will become a central challenge' and largely determined by the 'optimal information system'. Peters[88] is in agreement in arguing that 'while there are different ways of doing business, none of them has a patent on the future'. Nevertheless he leans towards the 'chaos' of entrepreneurship, and the associated differentiation targeted upon customer needs, upon maximising sub-contracting and concentrating upon the essential. Much of his argument is focused upon a view of the demise of the mass market, on market fragmentation and upon the micro. This view is now supported by a variety of other writers[89] arguing broadly that 'big companies stay innovative by behaving like small entrepreneurial ventures' accepting the 'essential chaos of development' and avoiding detailed early technical or marketing plans. This requires tolerance of entrepreneurial teams within companies pursuing competing alternatives but within a clearly conceived framework with goals and limits. These writers and others, have done much to make the study of the entrepreneur, in both large and small organisations, respectable. This in itself has yielded a whole new literature on the management of management buy-outs, management buyins, spin-offs and technology transfer. Much has been learned by this process in the West of relevance to the challenge in Eastern Europe: and there are some interesting examples of de-concentration and spin-off in former communist countries and an associated growth of consultancy groups specialising in this field[90].

A key component of the decentralisation / disaggregation issue in the large company context is the management of the partnership relationship between large and small firms. Increasingly the label 'strategic alliance' is used. This expression can cover a range of activities including: operating joint ventures; cross licensing; cooperative agreements; collaborative research and development; equity investment; and handling and distribution agreements; with a wide variety of different motivations[91]. A great deal still needs to be learned about the simple partnership role between large firm and small firm supplier. The existence of

[87] Drucker 1989 p. 167-224
[88] Ibid p.46
[89] Quinn 1985
[90] Kremser 1991
[91] Anwar 1991 pp 13-16

partnerships of this kind with a long term strategic orientation does not seem to be prevalent among British companies. Nor is there a great deal of evidence of large company assisted spin-outs into independent entrepreneurship. (there is some experience of this in the UK assisted markedly by some venture capital companies - see for example the 3i's 'Break-out Programme'). By and large, however, the evidence available on management buy-outs in the UK demonstrates that, despite initial high gearing, performance has improved over time[92].

This brief review of the relationship of large company decision making to small firm growth will not be complete without mention of franchising. This allows the large organisation (the franchisor) to expand its business with limited resources to greatest affect. There has been major growth of franchising in Europe in the 1980's. It still however approaches nowhere near the same importance as in the United States where it accounts for over a third of all retail sales and approximately ten per cent of Gross National Product. Franchise activity is by and large focused on the service sector with its major formats being: the manufacturer/retail franchise; the manufacturer/wholesale franchise; the wholesale and retail franchise; and the trade mark/trade name licensor/retail franchise[93]. The way is open to rapid expansion of franchise activity both in Western and Eastern Europe in the 1990's. It also has considerable potential in manufacturing which is as yet unexploited.

The final link between large business management and small enterprise growth is via the Corporate Social Responsibility activity of large firms. This is perhaps most advanced and best exemplified in Europe by the UK via the role of Business in the Community and the associated development of over three hundred and fifty Local Enterprise Agencies representing, by and large, public / private partnerships in aid of local enterprise development[94]. As part of its local community development policy - big business has shown it can lend itself to support of counselling, training and other programmes aimed at supporting the growth business. These activities are most frequently directly outside of the development of policies and programmes associated with the maintenance of the mainstream business and of its links with small and medium customers and suppliers. But they are, arguably, an impartial strategic part of ensuring that the local (and national) business environment is sympathetic to the larger firm.

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[92] Chiplin, thompson, Wright & Robbie 1989
[93] Stanworth 1990 p.173-177
[94] Grayson 1990

Managing The Growing SME

The greater academic focus upon the independent growing company in recent years reflects the shift of policy interest away from small business initiation associated with job creation. It follows recognition that only a very few of the very large pool of independent small business will grow beyond twenty or thirty employees most remaining with a handful of workers. Seen from a utilitarian view point (not always the main focus of academic work) a fuller understanding of the growth process and factors influencing it will lead, hopefully, to improved guidelines for creating a more appropriate 'climate' and institutional/assistance support structures.

There is a significant and growing literature on growth which has been reviewed elsewhere[95]. Much of it reflects the background of the academics working in the field and a number of different approaches can be identified as follows:

- Approaches which explore the impact of **entrepreneurial personality** and capability on growth including the owner managers personal goals and strategic vision.

- Approaches seeking to characterise **small firm organisation development** through stages over time and monitor the influence of the owner manger.

- Approaches broadly embraced within the term **'business management'** which focus upon the importance of business skills and the role of functional management, planning, control and formal strategic planning.

- Approaches which are more **sectoral** in scope and which often have their base in industrial economics. These include sectoral studies pertaining to regional development focused upon specific industry sectors or sub-sectors, for example, high technology firms.

Personality dominated approaches range from those underpining the traditional role of the entrepreneur in the economic literature[96] (as risk taker, bearer of

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[95] Gibb & Davies 1990
[96] Hebert & Link 1988

uncertainty, innovator, creator of new combinations, planner and organiser, arbitrator and change agent) to those seeking to link the personal characteristics and goals of the owner manager with strategic and innovative behaviour[97] to the work of McClelland[98] and other writers[99] focused upon achievement motivation and behavioural traits. There is a substantial literature, which is as yet still controversial, particularly in respect of its ability to link personal traits clearly with performance. There is also a growing literature which seeks to provide typologies of the entrepreneur in the tradition of Smith's original distinction between artisan and opportunistic mode[100]. And finally there have been attempts to relate business growth directly and indirectly to entrepreneurial ability as measured by education and training or by general and specific knowledge and skill based competencies[101]. There are also some attempts to mix personality traits, managerial values, competencies and 'hierarchy theories' as predictors[102]. It has been argued elsewhere that pursuit of most of these models will be fruitless unless a contingency approach is taken together with an approach that concentrates not only upon the characteristics of the entrepreneur, social, psychological, economic but also upon his/her behaviours. Different types of entrepreneurial behaviour are required in different market places to achieve growth: and different traits, skills and competencies will be needed depending upon levels of uncertainty and complexity in the environment[103].

Much of the literature on **organisation development** is either speculatively theoretical or normative: there are a number of attempts to explain the growth of the business in terms of models of stages of growth[104]. These approaches in turn can be categorised into hypothesis concerning: the relationship between personal objectives and business goals including also the influence of the family[105]. They also embrace the influence of networks upon entrepreneurial behaviour[106]. The 'stages' models of growth are in particular open to criticism as generalisations, sometimes normative, advocating the development of professionalism and more

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97 Kets de Vries 1988
98 McClelland & Winter 1969
99 Brockhaus 1982
100 Goss 1991
101 Stanworth & Purdy 1990
102 Miner 1990
103 Gibb 1987
104 Steinmetz 1969
105 Stoy Hayward and Bamford 1989
106 Johannisson 1984

formal bureaucratic structures as the business grows[107]. They fail, however, to produce a model which shows that structures initiate growth rather than respond to it: and there are those who argue that the truly entrepreneurial company, to avoid the seeds of destruction will need to preserve entrepreneurship[108]. This in turn, links with the literature, touched upon above, concerning various models of business development which call into question the necessary concept of largeness. Finally, under this grouping can be considered the growing evidence demonstrating how the networks of the entrepreneur change as business develops and their importance to various types of business, particularly technology businesses[109]. There is as yet little evidence as to how these networks change over time and how they impact upon the potential to growth.

Overall it is clear that there are a number of influences on growth including: the personal objectives of the entrepreneur; the family; and the networks. There are also several theories of stages of growth of the business and some concerning the growth and development of the entrepreneur himself/herself. So far there is little hard evidence as to how these factors are predictive of subsequent growth.

The same might be said of the literature on **business management** approaches to growth. Much of this focuses upon the ability of the firm to take rational decisions about product/market development and profitability and associated ability to plan development, operationally and strategically. The product/market scope approach of Ansoff[110] provides the basis for much of this literature which in turn leads on to rational business planning models. The degree to which such models are predictive or indeed describe successful behaviour is open to question. The same might be said for models developed around financial predictors of business success using ratios of past performance to predict future capability[111]. These in turn are used to support 'control' models of business development. All of these approaches are open to the criticisms made above concerning the absence of a model. They can indeed lead to excessive concentration upon cash and cost price relationships rather than the variety of the factors influencing growth from the organisation or customer side. Concern with finance has also led to a number of studies which seek to emphasise the

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107 Flamhotz 1986
108 Stevenson & Jarillo-Mossi 1986
109 Mazzonis 1989
110 Ansoff 1965
111 Storey, Kesey, Watson & Wynarczyk 1987

importance of the external financial environment in creating the conditions for small firms growth[112].

The importance of managerial resource, of team building and of managerial slack[113] in the growth process have traditionally been emphasised. In the rational decision making model this has been explored in depth particularly in respect of the role and influence of planning, operational and strategic upon the growth potential of business. There is now growing interest in the strategic vision of the entrepreneur[114] and its influence upon growth, with the development of associated concepts such as strategic orientation, and strategic awareness[115]. These seek to build upon what is empirically known about the unstructured irregular, incremental and reactive response of small firms to planning[116]. There are many empirical studies which suffer similar difficulties in terms of definition.

The above approaches are useful in providing partial frameworks for understanding the way in which small firms might grow through product/market combinations and the various influences at work. But they fail to show clearly how different approaches in dealing with these factors influence positively, or negatively, growth. The difficulty with many of the business development led explanations of small firm growth potential is that they rely upon cross sectional analysis which clearly demonstrates that larger companies have more formal organisation, more formal planning and more formal control systems than small. However they do not explain whether this is a result of growth or a cause. In the absence of evidence 'the current accepted practice in the business financial community is still that the firm with business plan will be the one with the better growth potential'.

The broad **sectoral** approaches, referred to above, frequently focus upon pragmatic analysis of industry sectors and the impact of external factors and constraints. By and large, however, they fail to demonstrate the effectiveness or otherwise of different types of support mechanisms (counselling, training, etc.) on the growth of small business, neither do they point convincingly to the influence of external factors such as taxation, deregulation, labour relationships as keys to growth. There are a number of studies examining in particular the

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[112] Hall 1989
[113] Penrose 1959
[114] Westley & Mintzberg 1986
[115] Haahti 1989
[116] Christensen 1989

growth of technology businesses and their management and there is some evidence of correlation between the educational ability of managers their technical ability and growth[117]. Falling within this category are studies of the nature of the relationship between large and small firms discussed above. While it is clear that decisions taken by large firms to share technology and provide R & D and financial and managerial support for small businesses can influence growth potential, in practice there is a lack of detailed evidence. There is evidence that, for example in the UK, companies are cutting down on their suppliers to focus upon a hard core[118]. But there is less evidence as to whether this is accompanied by the building up of closer relationships designed to foster the growth of associated companies.

The above brief review has touched upon a great deal of work designed to throw light upon the growth of small and medium business. The analysis of the literature fails to provide convincing evidence of the determinants of small business growth as a base for informing policy makers and more importantly managers. The root of the problem is the absence of a comprehensive theory of small and medium enterprise development which brings together all the relevant parameters into a model and indicates how each part interacts with another. The production of such a theory and explanation in the near future is unlikely.

DUBS own research lends support to this view. An in-depth survey of one hundred growth companies and an even more intensive case study approach to twenty of these firms demonstrates that there are many different ways to grow including:

- by dependency on a single or limited set of customers as a subcontractor

- as a consultant leading on to product design and development

- on the basis of a single product in an expanding market

- by product and/or market diversification

- by means of full or partial programme of acquisition and/or merger

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[117] Davidsson 1989
[118] Gibb & Olsen 1991

- by failure and reconstitution
- by starting off as a team with firm ambition to grow
- by gradual transition from local to national to international markets
- by tackling national and international markets from birth and
- by a process of franchising and licensing

The difficulties in providing a predictive model are sharply outlined in the contrast between two of the largest and fastest growing companies in the study both in the food business, one with £35m turnover the other with a £20m turnover (l991). The smaller of the two grew from zero to £20m in seven years and has all the 'classical' features of the company beloved of the venture capital investor namely: team management; cellular growth; preservation of entrepreneurial culture; strong personal ambition; substantial use of external advisers; involvement of equity/venture capital; internationally networked; training oriented; highly innovative product/market development; quality niche products; state of the art technology business; personal strategic horizons and adequate control. The contrasting company is singly entrepreneurially led, owned by a man with limited formal education; shuns equity, regards banks as parasites; believes that training is learning in the hard school of life, has been in financial difficulties on many occasions and found a way out, is tied into largely one product and so on. The only common factors are a very high level of personal commitment, personal networking and a strong orientation to the customer rather than to a broader based 'market' approach.

The research also demonstrates that over a period from 1985 to 1990 rapid growth can come from a variety of different companies of different sizes and scales for example.

- Rapid growth from start-up to several hundred thousand pounds (within three years).
- Very spectacular growth from start-up to a turnover exceeding £10m.- £15m within seven years.
- Second stage growth, (after consolidation at a turnover of circa £1m within a period of 3 to 5 years from start-up) to several million pounds.

- Second stage very fast growth - after consolidation as above at approximately £10m - to £50m over a period of 3 - 5 years.
- Growth of mature companies (over twenty years old) - increasing turnover by several hundred per cent in the space of five years after earlier years of little or no growth.

Each of these sets of companies faced different markets ranging from consumer and industrial services to the manufacture of consumer and industrial goods to various forms of sub-contracting. The research fails to identify any individual or group of predictors although it is possible to characterise common features relating to the strengths and weaknesses of companies at the various levels of activity identified above. But even here there are distinctive critical differences depending particularly upon the breadth and depth of the market place. Sub-contracting companies for example have very different problems from those that are seeking to establish themselves in national or international markets. And there are equally significant differences between services and manufacturing based companies.

For those concerned with supporting the growth of owner managed firms the above review indicates that there is no simple way of 'picking winners' and therefore of selecting out certain companies for special treatment. But enough is known about the key influences upon the growth process in general for policymakers and advisers to provide the right kind of environment.

It demonstrates the importance of encouraging larger firms to work closely with SME suppliers, to build alliances of various kinds focused upon quality and the customer. It illustrates the importance, for example, of emphasising personal enterprise competencies in the process and content of training. It indicates the scope for facilitating networks in support of small enterprise development owned by the enterprises themselves. It underlines the potential dangers of over-concentration upon the business plan, rational planning models and narrowly focused financial criteria in assessment of business potential by advisers and financiers alike. And it underlines the importance in management development programmes of concentrating upon team building and strategic thinking.

Overall Conclusion

The paper has attempted to provide a broad view of management of the growth of small and medium enterprises differentiating between: the management of policy; the management of institutions and assistance in the support environment; and the management of business, both large (insofar as it might generate small growth businesses) and small businesses themselves. It arguably, has been able to identify a number of important issues at each of these levels which hopefully provides an overall framework for those wishing to reappraise approaches to SME growth. It has identified, in the context of the broader environment for small business development, the importance of re-appraising traditional approaches to examination of the small firm's role in the economy and the particular importance of focusing upon issues of ownership, structure and interdependency in partnerships and ownership. It has questioned the traditional economies of scale/cost efficiency models and the way in which they reflect upon small business in the economy. It has posed questions about the measurement of productivity and the quality of life in small business and equally has challenged the conclusions to be drawn from a conventional economist's transactions cost model for explanations of the smaller firm's existence.

In drawing policy implications from this it is argued that there is much to learn from mistakes in the past as from successes. There are important issues in terms of preserving competition in the market place, maintaining a market place that: allows mobility of labour and job hopping; lowers the opportunity costs for entrepreneurship; that understands the nature of dependency between large and small and between small businesses themselves; fosters institutions and policies to facilitate dispersal of ownership and the closer relationship between ownership and control of the business; places an emphasis upon factors affecting small firms competitiveness oriented to the market rather than cost reduction; recognises the importance of the industrial service sector; and most of all recognises the significance of a decentralised political base allowing differentiation in policies. This is a challenge to the simplistic macro approach to management support for the smaller enterprise development which focuses on such measures as: deregulation; reduction of taxation; provision of substantial incentive to wealth and income accumulation; and generally adheres to the free market economy model, Chicago style.

With respect to the management of support institutions it has been argued that the critical issues are those relating to the design of entrepreneurial organisations allowing essential flexibility and differentiation to meet local needs in an entrepreneurial mould. The importance of non-governmental organisations and informal business networks has been stressed. The paper has also, however, emphasised the weaknesses of the small firm in articulating its needs and the consequent onus upon government departments in particular, to listen more acutely to the small firm than is necessary with the better organised pressure groups of the large company sector. Approaches which will encourage the integration of small firms assistance on a network basis rather than through a bureaucratic one-stop shop model, have been outlined as has the partnership concept between central and local government and business and other associations. Particular attention has been paid to the problems of providing the right kind of financial structures and decision making at the local level. Finally the onus upon the European Community to add real value to existing practice and facilitate exchange of comparative experience and competence in support has been emphasised.

Small business is about the structure of ownership and nature of transactions in the economy. It is also therefore about decisions that both large and small companies take concerning the optimum management of their operations. The role of large firms in creating spin-offs and spin-outs and in developing relationships with their sub-contractors and other small firm partners therefore has been stressed. Attention has also been drawn to the implications of pursuing entrepreneurial styles of management within the large firm through the organisation of decentralised operations embracing also the issue of social responsibility. Finally reference has been made to the potential use of franchising models to achieve rapid business growth and development.

A review of the literature on managing growth of existing small businesses has revealed a large number of different approaches but no overall convincing model of predictive ability. It has been argued that such a model is unlikely to emerge in the foreseeable future if ever. The best that can be done, of use to practitioners, is to bring together the acknowledged relevant variables influencing growth within a framework in such a way that they can be used for appraisal by the entrepreneur himself/herself, the adviser, bank or financier or indeed the academic. DUBS own research underlines the point that there are many different ways to achieve growth and some very radical differences in the nature of growth firms. It also serves as a reminder that there are potentially different phases of growth of businesses (if not stages). Businesses can grow rapidly from birth although there are significant differences in the scale of growth. They can also grow after a period of stagnation/consolidation and also well into maturity, there being, however, no common triggers other than of course the ambition of the entrepreneur(s). For those who are regularly involved with the entrepreneur and his/her advisers, considerable caution is called for in dealing with academic prescriptions about 'picking winners'. Nevertheless enough is now know about the important components in the growth process to be of considerable practical value to those who have the awesome task of assisting adequately the growth of the SME.

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