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Small Business Productivity – A Leading Question?

Professor Andrew Henley, Cardiff Business School, Cardiff University

Executive summary

The UK has a long tail of lower productivity firms contributing to stagnant overall productivity growth. Interventions to support small firms, developed over the past 20 years, to improve management and leadership skills have the potential to address this. It is important to understand if such programmes are effective and if so, why. Good evaluation evidence is quite sparse. However, consensus has emerged that for small business the quality of leadership may matter at least as much as the introduction of specific formal management practices. Small business leaders learn to lead as much through networking and the sharing of tacit knowledge, as from formal teaching. Nevertheless, the opportunity costs of participating in leadership development programmes remains a significant constraint.

The productivity challenge for small business

The UK has a serious business productivity challenge – productivity growth has been largely stagnant for the last 15 years since the Global Financial Crisis. Furthermore, there are very pronounced regional disparities across the UK, with much lower productivity in the north and the west than in and around London and the south-east. These are typically much wider than in comparable advanced economies. One further feature is that the distribution of productivity (that is the value of output produced per employee or per hour worked) reveals a long tail of less productive businesses - typically small and medium sized enterprises (SMEs). This matters because without productivity growth firms will not create the value added needed to improve real wage levels and prosperity. As Nobel Prize Winner Paul Krugman puts it: “productivity isn’t everything, but, in the long run, it is almost everything”. So recent small business support policy and practice has focused on raising the leadership skills of SME owner-managers to help them ~~to~~ raise productivity in their organizations. Do these interventions work, and if so, why?

Background

Why are some businesses more productive than others? The reasons for this can be many and varied and concern a wide range of productivity drivers and enablers, including employee skills, innovation, investment, and management and leadership practice (McCann and Vorley, 2020). Furthermore, productivity is influenced by a range of external drivers such as infrastructure



investment, the existence of strong entrepreneurship and innovation ecosystems, and whether the outside business environment is conducive to long term investment in both fixed assets and human capital.

A body of research from across the world highlights the potential productivity gains from introducing improved management practices, although much of this analysis concerns larger firms (Bloom et al., 2013). Several SME studies have been conducted, identifying benefits for productivity from certain HR and operational practices (Henley, 2022). Over the past couple of decades universities, regional economic development programmes, and independent business support agencies have rolled out training programmes to support entrepreneurial leadership in SMEs. Content and delivery methods may vary but they focus typically on helping SME owner-managers act more strategically, delegate with greater confidence, improve management practices and systems (such as performance targeting and monitoring), and address the sense of isolation or “imposter syndrome” reported by many SME owners. The Help-To-Grow Management programme, funded by the UK government and currently delivered by university business schools, is one such example.

Key findings

Do these programmes shift the dial on business productivity? Here the evidence is much sparser, and formal programme evaluations more difficult to conduct. However, where formal evaluation has been possible the results are positive (for example Goldman Sachs, 2018; Roper et al., 2020). Evaluation requires an assessment of the “counter-factual” case – that is comparison of outcomes (growth, productivity) with a balanced control group who did not take part in the programme (Storey, 2006).

So why might small business leadership development programme work? The first point is that it is more likely that leadership attributes, skills, and networking ability matter in smaller businesses – more so than the adoption of formal management practices, which in turn presume the existence of the kind of formal organizational structures less often found in the smallest, entrepreneurial businesses. Small business development practitioners, both in educational institutions and in consultancies, have generally reached good consensus about what works well – namely approaches to programme design which create peer-to-peer learning communities and the sharing of tacit knowledge between entrepreneurial leaders. In turn these support improved vision and self-confidence.

Policy and practice recommendations

Understanding of what works in leadership development intervention for entrepreneurial business owners has improved significantly over the past two decades. The facilitation of peer-to-peer learning and exchange of tacit knowledge is at least as important as the transmission of expert knowledge. The opportunity costs faced by SMEs in participating in support programmes arise more from perceived time costs than from programme fees. The latter can and often are offset by public funding; the former are less easily addressed. More work is still needed on how SME leaders understand and frame productivity, particularly as it is not a primary performance



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outcome, but rather the means to the ends of adding value and generating profit. This must be set in the context of the pressing need for 'clean' productivity growth which can engage net-zero transition. This may require shifts in leadership mindsets towards seeing this transition as a source of business opportunity rather than one of meeting compliance costs. However, those who fund and deliver programmes need to design-in good evaluation methods from the start, in order to provide robust assessment of the benefits to SMEs. Those benefits may take time to emerge as SME leaders take time to absorb knowledge and apply it to their own contexts. Support is therefore better if it follows a slow-burn approach rather than a short intensive period of training and development. There also remains the challenge of delivering SME support at sufficient scale and levels of participation to generate significant regional or national impact for wider productivity improvement.



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