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Enhancing Entrepreneurial Leadership and Growth in Small Firms

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Executive summary (around 100 words)

Although small firms (less than 20 employees) are responsible for the creation of most new jobs, very few grow into larger firms. Most entrepreneurs/owner-managers lack the leadership and managerial skill necessary to grow their businesses. LEAD (Leading Enterprise & Development) and associated programmes have proved extremely effective in providing the leadership expertise necessary for entrepreneurs to facilitate the survival and growth of their small firms in the longer-term. The basis of the LEAD approach is that participating entrepreneurs are encouraged to become part of a learning *community of practice*. The community provides a safe space in which participants are encouraged to share knowledge and experiences. The emphasis is on individual entrepreneurs finding a leadership approach that works for them and their employees rather than imposing *one best way to lead*.

Statement of the policy or practice issue. (Replace with your own sub-heading. Why is the issue important. Think about what you want the key take-away(s) to be from the brief.)

Because most small and micro firms do not grow this acts as a real constraint on the UK economy. Key institutions such as GEM (Global Entrepreneurship Monitor), OECD (Organisation for Economic Cooperation and Development) and the World Bank do not offer a coherent message about how national policies can boost business start-up survival and growth. The entrepreneurial leadership skills necessary for small firm growth are best acquired *via* active learning in a cohort of owner-managers. Effective entrepreneurial learning means spending time working on the business rather than working in the business. In other words, entrepreneurs must be encouraged to reflect on their current leadership practices as a basis for developing a more strategic approach.

Background

Based on UK Office for National Statistics (ONS) database, 239,600 firms were founded in 1998. Fifteen years later, only 26,162 (10.9%) of the original cohort of firms, established in 1998, still existed. Of the 22,229 remaining firms with 20 or less employees, the majority stayed the same size or decreased in size (Anyadike-Danes, Bonner, & Hart, 2011; Anyadike-Danes & Hart, 2018). The major implication is that most UK new firms simply do not grow; there is very little evidence of start-up businesses becoming 'gazelles' (Aldrich & Ruef, 2018). In the period 2010 to 2021, the annual increase in the number of new firms with less than 20 employees increased by approximately 25%. However, there is no evidence to indicate that survival and growth rates improved on the 1998-2013 figures.

The failure of new firms to survive and grow contributes to a substantial churn in employment and this also acts as a constraint on the UK economy. There are three key institutions that focus on policies to encourage the creation of economically sustainable new businesses: GEM, the OECD and the World Bank. However, based on data from these three institutions there appear to be no straight-forward solutions to improving the relationship between national policy initiatives, entrepreneurship and economic development. Despite the conflicting evidence, as far as the UK is concerned, there is support for the hypothesis that new firms are responsible for most new jobs (Anyadike-Danes & Hart, 2018). Unfortunately for the UK economy, as indicated above, few new firms develop into more resilient larger firms with the potential for a substantial impact on national economic growth.

Discussion

The entrepreneurs responsible for most small firms lack the leadership and managerial skills required to grow their businesses. They also tend to be isolated from other entrepreneurs and owner-managers because of the day-to day pressures associated with managing small businesses. The LEAD programme, created by academic staff at Lancaster University (Gordon, Hamilton, & Jack, 2012; Kempster & Cope, 2010; Kempster, Smith, & Barnes, 2018), has been delivered by a range of organisations across England and Wales over the last 20 years. The LEAD mantra is that entrepreneurs/owner-managers should spend time 'working on the business' rather than 'working in the business'. This is similar to the idea of 'strategic space' (Jones, Macpherson, & Thorpe, 2010), which refers to the need for owner-managers to extend their social networks (by joining local business communities) to access new knowledge and expertise as well as delegating meaningful responsibilities to employees. Creating appropriate routines and processes help embed good practice within the organisation so that owner-managers can focus on strategic rather than operational issues.

LEAD and similar programmes focus on the importance of social learning in which all members of a cohort (generally between 25 and 30) are encouraged to share knowledge and experiences as a basis for meaningful learning. LEAD is based on a range of approaches including master-classes, action learning, coaching, mentoring and peer-to-peer learning. An essential element of the programme is a two-day residential which is designed to build trust between members of a cohort as the basis for genuine knowledge-sharing about the problems of leading a small business (Jones & Macpherson, 2014). The effectiveness of the LEAD model[1] in promoting small firm growth by enhancing leadership skills has been confirmed by the need to meet ERDF (European Regional Development Fund) requirements in terms of increases in turnover and jobs created.

Policy recommendations

The LEAD approach has proved extremely successful in improving the leadership skills of entrepreneurs/owners-managers over the last fifteen years. Furthermore, there are clear links between entrepreneurial leadership and longer term small firm growth in terms of increased turnover, profit and employment. However, such programmes need financial support as most of those managing small businesses are unable or unwilling to pay commercial rates for such training. Success is based on the creation of a *community of practice* (Smith, Kempster, & Wenger-Trayner, 2019) in which participants build trust and share their real concerns and insights about managing small businesses. The main policy implications are as follows:

- improving entrepreneurial leadership skills means creating a genuine learning community;
- requires regular and long-term face-to-face engagement that cannot be replicated on-line;
- needs time to build trust between participants as the key to knowledge-sharing and learning;
- programmes must be guided by experienced and committed staff;
- such programmes require additional financial support (from government).

Practical implications

Acquiring new leadership skills means that entrepreneurs/owner-managers must be willing to spend time out of the business to ensure that they benefit from being part of a learning community. They must be realistic about their limitations and be open to new ways of thinking and new ways of working (although this is often uncomfortable in the early stages). They must also be willing to participate in creating a community of practice by sharing their knowledge and experiences. Participants must:

- be prepared to adopt new approaches to leadership;
- be willing to 'open-up' about the day-to-day problems they face in their business;
- be willing to instigate new working practices in their businesses;
- recognise that they are not alone in needing to acquire new leadership skills;
- appreciate the links between effective leadership and small firm growth;

[1] Staff at the Brett Centre for Entrepreneurship at the University of Liverpool Management School have delivered leadership training to over 350 entrepreneurs/owner-managers since 2010.

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