

# **Leadership Development in SMEs: Designing a customised solution**

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## **Abstract**

This paper reports the outcomes of a two-phase investigation into leadership development in SMEs (Small and Medium Enterprises) in the South West of England that aimed to devise an educational programme matched specifically to their needs.

Phase One aimed to determine the demand for leadership development in SMEs in the Region by means of face-to-face interviews with 20 SME directors and was supported by interviews with leadership experts/practitioners. Phase Two used the outcomes of this research to develop a leadership development programme for SME leaders, comprising a number of different elements to be compared and contrasted.

Evaluation of the programme revealed a demand for leadership development amongst SME leaders in the Region, but that this is primarily for practical input and peer discussion in a flexible, informal environment. A number of lessons were identified and presented as recommendations for future leadership and management development initiatives, including content, timing, marketing, funding and delivery.

## **Keywords**

Leadership, management, development, programme, SME

Word Count: 5285 words

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## **1 Introduction**

Despite the continued increase in public and private-sector investment in leadership and management development in the UK, evidence indicates that the majority of this provision continues to be supply-led and fails to meet the needs of Small and Medium Enterprises (SMEs) (CEML, 2002a). In 1998 the British Chambers of Commerce survey confirmed that “existing skills deficiencies in sales, management and administrative staff were adversely affecting competitiveness in almost one-third of small firms”. More recently, the Federation of Small Businesses survey of 22,000 British SMEs revealed that “only 9% of respondents stated that they were satisfied or very satisfied (1%) with the usefulness of government funded business support services” and “49% were dissatisfied with the lack of suitable labour” (Carter, Ennis, Lowe, Tagg, Tzokas, Webb and Andriopoulos, 2000).

The current paper reports the outcomes of an investigation into leadership development in SMEs in the South West of England which attempted to address this issue by devising an educational and support programme matched specifically to the requirements of SME leaders.

The aims of this project were twofold: firstly to identify the leadership development needs of SMEs in the Region and secondly, to deliver a pilot educational programme tailored to these requirements. To address these aims the project had a two-phase structure; the first phase looking at the demand/need for leadership development in SMEs and the second, the provision/supply of such education and support.

The programme was conducted by the Centre for Leadership Studies (CLS) at the University of Exeter from July 2000 to June 2001, with funding from the Department for Education and Employment, Marchmont Observatory (European Social Fund), South West Regional Development Agency, and University of Exeter Reach-Out fund (HEFCE).

## **2 Phase One: Research**

The first phase of the project aimed to identify the main challenges facing in SMEs in South West England. To address these questions, it was deemed that a primarily qualitative approach would be most appropriate, combining a number of key elements: literature review, expert interviews, interviews with SME leaders and a discussion forum.

### **2.1 Literature review**

The research began with a literature review to identify previous research and work on leadership/management challenges in SMEs. The search was limited to national and regional-based work targeted at smaller companies and published within the last ten years. A variety of relevant papers were identified, ranging from small-scale investigations of training programmes to wide-scale surveys of business practices and challenges. Of particular note were two recent large-scale surveys: the South West Employers Survey (Prism Research, 2000) and a study by the Federation of Small Businesses (Carter et al., 2000). Since completion of this project a number of other significant reports have been published, including CEML's review of, and strategy for, leadership and management skills development in the UK (CEML, 2002b).

### **2.2 Expert interviews**

In addition to the literature review, attempts were made to help determine current thinking on leadership in SMEs by discussion with leadership experts and practitioners. In total, four 45-minute interviews were conducted in addition to a two-hour brainstorming session.

All interviewees emphasised the importance of leadership in organisations of all sizes and a pressing need to address leadership development in SMEs in particular. They agreed that much of the current leadership support from government and educational institutions tends to fail to reach small firms, perhaps due to the differing agendas of the public and private sectors, and inappropriate modes of delivery.

The reluctance of senior SME managers to participate in formal leadership development programmes was discussed, as was the potential problem that the people who really need leadership training the most may be those who don't think they need it. The primary concern within SMEs, it was proposed, is keeping the company running on a day-to-day basis and, therefore, strategic leadership is not always high on the agenda.

All interviewees generally believed that leadership skills and capabilities can be learnt or "released" through appropriate education and experience, and that the essence of good leadership is common across all organisations, irrespective of sector or size (even if contextual differences may impact on the precise nature of the leaders' role).

### **2.3 SME interviews**

The main content of the Phase One research was based upon a series of semi-structured interviews with senior SME directors.

#### *Procedure*

Following the literature review and expert interviews an interview schedule was developed to explore the following issues: organisational structure, strategy, barriers, location, role, staff, and training and development. It was felt that these sections would give a good overview of the main challenges facing businesses and their approach to training and development. No direct reference was made to "leadership" per-se as it was felt that this may bias responses and that challenges with a leadership dimension may not be recognised as such by the SMEs themselves.

Research participants were selected from the University of Exeter Business Relations Office database with additional contacts from the Bristol and Western Engineering Manufacturers Association. In total 40 people were contacted of whom 20 were subsequently interviewed. All interviewees were of the most senior level within their organisation, based in the South West of England and the majority (12/20) were in the manufacturing sector.

Interviews lasted between 30 and 90 minutes, with all being conducted by the same researcher. Respondents were assured of confidentiality and each interview was recorded and fully

transcribed. A second researcher, in collaboration with the interviewer, performed content analysis of the transcriptions in order to identify core themes.

### Interview findings

All interviews were recorded, transcribed and then analysed. Free-form content analysis revealed four main themes:

- *Strategic concerns*: Most interviewees viewed organisational change in a positive way and nearly all agreed that in order to survive they must embrace change within their organisation. All expressed a desire for business growth and saw it as key to long-term corporate survival. The majority were looking to obtain growth “organically” through improved productivity and effectiveness rather than large-scale recruitment and/or acquisitions.
- *Human resource concerns*: Most interviewees believed that they maintain a committed and motivated workforce and that the skills of their staff are key in dealing with change. Although in-house training is often implemented to address the development of workers with technical skills, the development of managerial-level employees is generally rather more ad-hoc. A small, but significant number of organisations were facing serious challenges with regards to succession planning and the next generation of senior managers.
- *Leadership concerns*: There was a general recognition of the importance of leadership in SMEs, particularly with regard to developing a strategic outlook and the ability to cope with change. It was argued that the SME director needs to combine elements of both leadership and management in their role, and of the skills deemed necessary, delegation was considered as perhaps the most important. The ability to free oneself up from day-to-day operational concerns to consider the longer-term strategic future of the organisation was seen as a key challenge for most interviewees.
- *External issues*: A variety of other issues were raised which can be broadly grouped into the SME’s relationship with the external world. These included: location (good quality of life but geographically isolated), information gathering (keeping up-to-date not only with industry news

but also global trends), external support (a need to draw on external expertise but often feeling that the available sources are inadequate), and legislation (coping with an ever increasing burden of regulation and legislation).

## 2.4 Discussion forum

Once the research interviews had been completed and a preliminary analysis performed, participants were invited to a half-day workshop to explore how the work could be best carried forward and fed into a leadership development programme for SMEs.

In total 20 people attended: eight SME Directors; four representatives from partner organisations; one training consultant; and seven members of staff from the CLS. During group work, participants were divided into three sub-groups to address the following questions:

- *What is the key leadership issue for SMEs?* Following much discussion, two of the three groups failed to reach consensus on this issue. The group that did reach agreement believed the central issue to be about “letting go” – the leaders ability (or inability) to hand over responsibility for operational issues so that he/she can focus on the strategic development of the organisation.
- *What is the best method for the delivery of leadership development to SMEs and who should participate?* It was widely agreed that there is a need for leadership development opportunities tailored for SMEs and that this should include a variety of elements to be selected according to the particular requirements of the individuals and organisations.
- *What extra learning input would improve your performance?* It was proposed that a pragmatic programme assisting the development of skills such as delegation, time management and team work would be most beneficial as this would equip the leader with the necessary skills to free-him/herself-up to focus on more strategic issues.

Following the group work the floor was opened up for general discussion. The main points were as follows:

- *Development of the next generation of SME leader:* There was widespread agreement that a key concern within SMEs is the development of future leaders. Current leaders therefore need help with the selection and identification of potential leaders, the “fast-tracking” of such individuals to help them rapidly acquire the necessary skills, and exposing future leaders to situations where they can acquire the experience and credibility to be accepted by subordinates.
- *Addressing different levels of need:* It was agreed that any provision should be matched to the needs of different people within the SME. Current leaders should be offered support and opportunities that help them respond to current challenges, whilst future leaders should be given the skills, knowledge and experience that will help them develop within the organisation.
- *Commitment of training providers and participants:* It was agreed that for any leadership development programme to be effective a high degree of commitment is required from both participants and providers. Furthermore, providers must be perceived as credible and experienced by participants from a SME environment – i.e. they should, perhaps be older, with considerable practical experience outside academia.
- *Funding:* It was felt (by participants) that any leadership programme for SMEs should be at least partly subsidised in recognition of the heavy operational impact of releasing senior people for development and the wider economic benefits that may result from their involvement.

## **2.5 Discussion**

The Phase One research revealed a wide range of findings on the nature of leadership in SMEs and how current and future SME leaders could be helped to develop their skills.

### *Growth orientation and perceived barriers*

The general dissatisfaction with increasing legislation and the low availability of suitable labour supports findings from the South West Employers Survey (SWES) (Prism Research, 2000) and Federation of Small Businesses (FSB) (Carter et al., 2000). Likewise, increasing competition and the development of markets were found to be major concerns for small businesses.

The desire of respondents to grow their businesses in a steady manner also supports these two studies. The SWES found only 20% of respondents wanting to grow their business “very strongly” but 50% wanting to grow “gradually”; and the FSB reported similar findings, with 15% wanting to grow “substantially” and 53% to grow “moderately”<sup>i</sup>. In our study, interviewees claimed that their company needed to increase its profits year-on-year simply to enable staff pay and progression opportunities and inward investment.

The importance of leadership/management skills in dealing with change and securing company growth and survival was also recognised by the FSB.

“The factor believed to be of most importance to the future survival and growth of the firm was the capabilities and skills of the owner.” (Carter et al., 2000: 7)

Our research indicated that one of the major perceived difficulties in regard to long-term company survival is the development of the next generation of SME leader. Such people are seen to be necessary for two main reasons: initially to relieve the existing leader of some of their day-to-day operational concerns and, ultimately, to take on responsibility for running the company once they retire. This is an issue that seems to have been overlooked in much previous research and also in many of the government led initiatives for encouraging entrepreneurship (which tend to focus on business start-ups and developing the skills of the owner-manager).

There appears to be a commitment amongst current SME leaders to ensure the survival of their business as an independent concern once they leave, not particularly through a desire for money, but more out of a wish to keep their employees in work and an emotional attachment to the firm. The SWES found only 16% of respondents with a long-term aim of selling the business and even fewer (4%) wanting to make their fortune. On the other hand, 27% wanted to earn a “decent living” and 49% hoped to see the company “grow to its full potential”.

These findings, combined with the observation that many British SMEs have reached a state of business maturity, indicates that attention should now be directed as to how we can help these companies survive and find new ways to innovate and deal with change.

“Overall this profile is one of business maturity, with more than 20% of firms being over twenty years of age, and over a quarter (26.4%) between eleven and twenty years of age. Firms with this degree of maturity have moved beyond the start-up phase and the difficulties associated with business formation, and may be starting to address issues of market change and even business succession.” (Carter et al., 2000: 18)

### *Attitudes of SMEs towards leadership training and support*

Our research indicates positive attitudes towards leadership training and support even if many of the respondents did not seek formal training themselves. To a certain extent this supports Hyland and Matlay’s (1997) “training paradox” notion, but is perhaps more symptomatic of the way in which SME directors learn.

In SMEs a great importance is placed on informal work-based learning which, in many ways, hides the true amount of education going on (Matlay, 1998; Gibb, 1997). Vickerstaff (1992) identified that formal training poses a difficulty to SMEs in three main areas: resourcing the training effort (not only financially but also in terms of releasing staff, especially at a managerial level); finding suitable training opportunities (not only is much of the current provision inappropriate but neither do they have the resources to search for better provision); and in terms of managing staff development (SMEs tend to have little in the way of formal training plans and needs assessments). He concluded that much existing training provision was seen to be too generic with too little emphasis on specific business concerns. He also, like us, found that many SME managers/directors are “home-grown”, with considerable company-based knowledge but limited formal experience of broader management competencies and it is these skills, particularly people management, that they would like to receive further training and support on.

The South West TECs training needs analysis discovered that, to a large extent, SMEs address their difficulties internally, rarely turning to external sources such as governmental business support, but that of all their training needs, the development of existing managers was the most likely

area where they would look for help from outside the firm (Enterprise Plc and Prism Research, 2000).

Indeed, whilst it seems to be generally agreed that effective leadership/management is one of the keys of company success, formal training is perhaps not the best way of learning these skills. Raffo et al. propose that “business owners/managers regarded reflecting on context-specific work and real-time problem solving within and without a community of practice/practitioners in their sector as providing the richest vein of learning in operating their business successfully” (Raffo, O’Connor, Lovatt and Banks, 2000: 216).

## **2.6 Phase One Conclusions and Recommendations**

The Phase One research led to the identification of a number of leadership development needs in SMEs and a context in which they could be addressed.

Contrary, perhaps, to initial expectations, there was a clear understanding of the importance of leadership amongst the research participants and an obvious display of many leadership characteristics acquired through experience. There was a general realisation, however, that rapid change and increased competition are making it increasingly necessary to develop a strategic approach and plan for effective succession in the organisation.

The SME environment differs from that of larger organisations and as such, different requirements must be placed on training and support provision. Any programme targeted at SMEs should be flexible, have a strong practical basis, come from a credible source and have a measurable impact within the organisation. What’s more, the SME leader must be motivated to participate through recognition and use of their existing skills and experience.

As such, leadership development provision for SMEs, rather than teaching current managers “how to lead”, should instead build upon their current skills and prepare them for the development of the next generation of leader. Particular emphasis should be placed on the importance of skills such as delegation, time management and strategic thinking and training/education should be delivered through an informal, flexible approach.

It is likely that such an approach to leadership development will comprise several elements tailored to the requirements of users, will be relevant to the needs of both current leaders and future leaders, and will be flexible and pragmatic enough to fit within the operating environment of SMEs.

### **3 Phase Two: Educational Programme**

Phase Two of the project built upon the outcomes of the Phase One research to develop and pilot a leadership development programme for SME managers.

#### **3.1 Procedure**

The aim of this part of the project was to compare and contrast a variety of approaches to leadership development. Four types of activity were included:

- *Topic sessions*: A series of stand-alone seminars, which were held in the early evening (6-8pm) and were primarily didactic in nature. In total, four sessions were run over a period of just over two months, on the following subjects: change leadership, delegation, time management, and strategic business planning<sup>ii</sup>.
- *People skills course*: "People issues" were identified as a clear concern for the SME directors in the Phase One research and this part of the programme was devised to enable participants to explore this area in greater depth. The course comprised five sessions over a period of 11 weeks, each looking at a specific issue related to dealing with people at work. Sessions lasted three hours (timings agreed by participants) and involved a good deal of group work and discussion as well as more structured input. The content of individual sessions was as follows: personality profiling (two sessions), groups and teams, succession planning, and managing conflict.
- *Facilitated workshops*: The Phase One research indicated a desire, on behalf of SME leaders, to have the opportunity of discussing their own leadership issues with other leaders in different industries/sectors. The workshops were, therefore, designed to offer them the opportunity of sharing personal experiences and case studies with the aid of a trained facilitator. A total of four 2½-hour sessions (timings agreed by participants) were run over a period of three months.

- *Consultancy visits*: The final element of the educational programme offered SME directors the opportunity of receiving a heavily subsidised one-day leadership consultancy. Four such events were included in the programme budget and allocated on a first-come-first-served basis.

These four approaches differed in the degree to which they required commitment from participants and also in the degree to which they were specific to particular organisations. To increase the likelihood of attendance once registered, and also to make the pilot programme more “realistic”, small financial contributions were demanded from participants. An experienced trainer in his/her field delivered each session.

In addition to the main educational programme, three further elements were included: a programme web site, a review of other SME training/support within and outside the Region, and a final forum to reflect on the educational programme and how it could be improved.

### **3.2 Outcomes/evaluation of Phase Two educational programme**

#### *Participation*

In total 24 people, from 19 different organisations, attended at least one session of the educational programme. Analysis of attendance figures revealed the following:

- The recruitment figures clearly indicate the importance of personal contact in recruiting and targeting participants. Relatively high interest and participation rates were demonstrated by participants from the Phase One research and those contacted directly, but very low rates from those contacted via more general marketing.
- The attendance figures indicate three distinct patterns of participation: the first (n=12) only attended evening topic sessions; the second (n=6) attended a large number of sessions from all components of the programme; and the remainder (n=6) attended a variety of sessions on a more ad-hoc basis.
- Participants were generally of very senior levels within the organisation.

- Although most were located within a half-hour radius of Exeter (where all sessions were delivered), several of the more committed participants travelled significantly further.
- Many people had difficulty in managing to attend all sessions (especially those during the daytime) even when the programme organisers made strong attempts to agree dates and times with them in advance. In several cases, people were unable to confirm their attendance until shortly before the event and at many sessions there were 2-3 who failed to turn up on the day.

### Session evaluation

The evaluation of individual sessions was primarily based upon a single-page questionnaire distributed to participants following each session. Questions covered subjects such as the organisation, content and usefulness.

Overall, ratings were very positive on all dimensions although course sessions tended to be rated as most beneficial for professional development. It was felt that many course and topic sessions would have benefited from being longer and certain topic sessions could have done with more group discussion and practical application. Workshops, although well rated, often suffered from a shortage of participants.

### Overall programme evaluation

An overall evaluation was performed by means of a survey at the end of the programme. Most respondents said they had found all sessions helpful and interesting. Of particular note, however, were the ones on personality profiling, strategic business planning, time management and managing conflict. The main reason for missing sessions was “lack of time” rather than lack of interest or money.

Peoples’ reasons for participating were fairly diverse, but primarily revolved around personal development and developing skills to better manage others. Nearly all respondents indicated that they would be interested in pursuing further leadership development, of which the most popular were leadership workshops/discussion groups and short informal courses.

Recommendations as to how more SME leaders could be encouraged to participate in the programme generally involved developing closer links between SMEs and the University, and using word-of-mouth and networking.

Final comments implied that participants had found the programme helpful but that there were still problems in applying the principles and finding sufficient time to invest both in and out of the company.

### Company consultancies

When the educational programme was devised it was expected that the consultancies would be particularly popular, as a heavily subsidised way of gaining expert advice on real issues. In reality, however, demand turned out to be low; with only five companies demonstrating any significant interest and only three eventually taking up the offer (one company received two visits).

Although, specific contexts varied, each consultancy ended up dealing with development of the senior management team through individual and team profiling. With the exception of one, all the consultancies were conducted too late in the programme to perform any real evaluation, and in that case, the consultancy led to further development work, including additional visits.

It is significant, however, that in all cases the demand for consultancies arose as a direct result of involvement in other aspects of the leadership programme rather than a particular desire for “consultancy” per-se. This implies that the consultancy element of the programme supplemented, rather than replaced, the educational sessions and was dependant on the participant knowing who would be invited into the company.

### **3.3 Final forum**

The final forum, run after all educational elements had been completed, gave participants the opportunity of discussing the preliminary outcomes of Phase Two and exploring how the programme could be carried forward for wider-scale implementation. In total 21 people attended, 10 of whom were SME managers. The main issues arising from this event have been incorporated into the recommendations in the next section.

### 3.4 Phase 2 Recommendations and Conclusions

Following the Phase Two educational programme, it was concluded that there is a demand for leadership development in SMEs in the South West of England. More specific recommendations (in no particular order of importance) included:

- *Content*: The content of sessions was well received although they may benefit from being stand-alone and offering increased opportunity for peer discussion.
- *Timing*: It was agreed that the best time for taught sessions is probably the early evening and that they should last up to three hours.
- *Recruitment and marketing*: It was agreed that the recruitment of participants for initiatives such as this is most effective through direct personal contact. Attempts should, therefore, be made to encourage existing participants and other people in regular contact with businesses to promote the programme (e.g. Small Business Advisors, Business Link, etc.).
- *Sector focus*: In the current programme it became evident that SME leaders from different sectors shared many of the same difficulties and challenges. It is thus recommended that initiatives such as this not be limited by sector, but rather encourage participation from many areas of activity. This also helps reduce the level of perceived business competition between participants.
- *Practical orientation*: The practical nature of the programme is central to securing the involvement of SME leaders and should offer pragmatic solutions to real problems and a number of “quick win” topics.
- *Best practice*: To maximise on the potential benefit of this programme it would be useful record examples of best practice and case studies from real SMEs which could be used during sessions.
- *Further development opportunities*: For many subjects, considerable interest was shown in exploring them in more depth, perhaps with other members of the management team or in “higher-level” courses. The current programme, therefore, should act as a gateway to further opportunities such as consultancy, mentoring and accredited training.

- *Target population:* Attendance in the Phase Two educational programme indicated that this programme is best suited to senior SME directors and managers. The Phase One research, however, also indicated a need for the provision of fast-track leadership development to potential future leaders and perhaps more consideration can be paid as to how this could be achieved.
- *Networking:* As the importance of developing personal relationships has been shown to be important in recruiting participants, it can be argued that initiatives such as this should attempt to make use of existing networks such as business forums, supplier networks and trade associations. This will be important, not only in “spreading the word”, but also in developing relationships between participants such that they will feel more comfortable and prepared to discuss issues within the group environment.
- *Funding:* The lack of resources (both financial and other) in SMEs means that they are generally reluctant to invest in a project unless they have a clear understanding of the benefits. For a programme to be successful, therefore, two conditions are likely to encourage attendance: some “quick win” elements, which show the direct benefit of the programme and a low financial commitment (especially at the outset, until participants have identified the benefits). It is, therefore, preferable for programmes such as this to be low-cost, or free, in the initial stages, even if ultimately it must become self-funding.
- *Delivery:* SME leaders are often sceptical of “academics” and “consultants” and it is thus important that sessions are delivered and facilitated by skilled and knowledgeable tutors who are seen as credible.
- *Use of Internet/email:* The current programme showed a low use of the Internet as a learning resource for SME leaders although they were receptive to email communications. It is thus recommended that, where e-learning opportunities are offered the emphasis is, at least initially, placed on using the medium of email rather than the Internet. The dissemination of email newsletters with active links to the web is perhaps one way of encouraging increased use of the Internet and should be explored in future programmes.

- *Wider view*: Finally, it was argued that leadership development in SMEs should be viewed within the wider arena. Attempts should be made, where possible, to link the current programme with initiatives elsewhere in the Region and beyond and to draw upon the wealth of experience within SME participants to contribute towards policy and strategy.

#### **4 Next steps**

The outcomes of this research and pilot have contributed towards the establishment of a major regional initiative for leadership development in the South West “Leadership South West”. Please visit [www.leadership-studies.com](http://www.leadership-studies.com) or contact the author for further details.

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<sup>i</sup> Note that there is a discrepancy between the number of firms looking for high growth (15-20%) and those who actually achieve it (4%).

<sup>ii</sup> Although, several of these are topics are more commonly associated with "management" than "leadership", they were presented in a way which emphasised the leadership aspect – i.e. how using these skills can allow the leader to free him/herself up from day-to-day operational concerns to focus on more strategic issues.