

IS THERE A LINK BETWEEN SMALL BUSINESS LEADERSHIP AND PRODUCTIVITY?

EXECUTIVE SUMMARY

Business owners with strong leadership qualities have been proven to be more successful – and this is often said to be one reason why some firms are steaming ahead, sometimes referred to as the ‘frontier’ while others are falling behind, sometimes known as ‘laggards’.

Several previous research studies have looked at the link between leadership and the productivity and performance of small businesses, including a focus on:

- Improving human resource management systems and skills
- Leadership development programmes, highlighting best practice and good programme design, including action learning, peer learning networks and peer mentoring.

A review of the research shows that more evidence – such as ‘designed-in’ evaluation methods - is required to back up the anecdotal evidence that SME productivity is boosted by better leadership. Given the high costs of providing and delivering support at scale, targeting of receptive successful businesses is likely to be more effective. It’s not just the laggards that need support.

LONG TAIL PRODUCTIVITY

Although the UK has many frontier, high-productivity firms, it also has lots of firms that are struggling with their productivity. These are often referred to as the ‘long tail’.

Why are some firms more productive than others? The enablers and promoters of productivity growth are complex and vary by sector and with the type, size and age of firm. However, one part of the explanation might be related to qualitative drivers such as leadership and management.

This isn’t a new idea – the Bolton Report published in 1971 identified low levels of management skill in SMEs as a hindrance to business performance. Many government reports and initiatives to tackle this have since followed.

Over the past two decades, various programmes across universities, institutions, funders and independent delivery consultants have been introduced to support interventions for SME owner-managers with entrepreneurial leadership.

What does the the experience of these programmes and research evidence tell us about how smaller firms can boost productivity from within? We know that struggling small businesses often have:

- a reactive focus on operational issues to the exclusion of strategic thinking
- a reluctance or lack of confidence to delegate effectively
- a sense of isolation which restricts opportunities to acquire informal knowledge and learning from peers
- a lack of impact of human resource management systems and practices
- the absence of operational management procedures such as performance targets, the provision of training and development, performance indicators for remuneration and promotion, and tactics for addressing under performance



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DOES BETTER SME LEADERSHIP LEAD TO GREATER PRODUCTIVITY?

Research has not yet reached clear conclusions about the relationship between SME leadership and productivity. This is because most of the available quantitative evidence links performance to the adoption of a set of human resource or operational management practices, rather than exploring the productivity-leadership link specifically.

For a range of issues, these sorts of HR practices are not always easily applied in smaller firms. So it is risky to draw a firm conclusion that

lower productivity arises in SMEs because of a leadership deficit.

However, small business leadership development practitioners do appear to have reached agreement about 'what works' – methods of programme delivery which facilitate peer-to-peer learning and knowledge sharing between participants, which helps with improved leader vision and self-confidence. But again, solid evidence on how this then affects business performance is scarce.

HOW TO IMPROVE THE EVIDENCE?

1. Develop a stronger conceptualisation of how best to measure leadership quality in the context of evaluating SME performance.
2. Conduct more research into how SME leaders understand and frame productivity in their businesses, which may contrast with the emphasis on growth or job creation in policy narratives.
3. Create surveys that include multi-factor productivity outcomes to better reflect how much leadership quality connects to the wider context of the business.
4. Analyse the extent to which improved SME leadership can support innovation for 'clean' productivity growth in pursuit of pressing zero-carbon priorities.
5. Design formal quantitative evaluation of productivity outcomes into surveys.
6. Take the long view - the benefits of changes in leadership quality and of leadership support interventions may take time to fully emerge, so using improved longitudinal data will allow for better analysis on the leadership-productivity relationship.
7. Regularly review models of funding to support leadership development at scale, particularly given the size of the SME population and apparent reluctance of some businesses to understand the need and benefits of undertaking these types of programmes.

