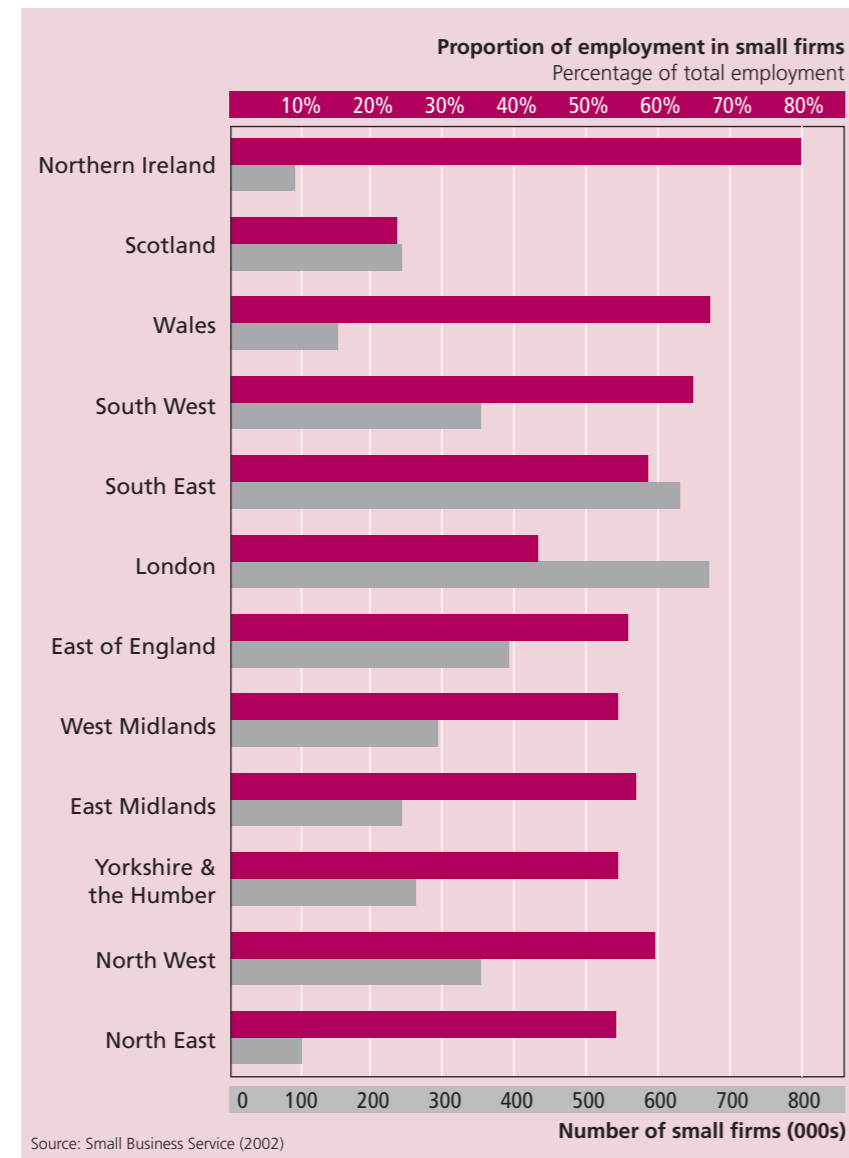


Small businesses matter...

- Small businesses account for a substantial part of the UK economy. There are 3.8 million small businesses employing less than 50 people, over 99% of the total.
- Over two-thirds (68.2%) of enterprises have no employees and micro businesses with employees (but less than ten) account for a further quarter (26.2%) of the total.
- Over a third of all employment is in small businesses.
- About four million people need the skills to manage a small business.
- About 393,000 new businesses are currently starting up each year in the UK. Omitting people with prior experience still leaves just under a quarter of a million people each year needing the ability to start a business.

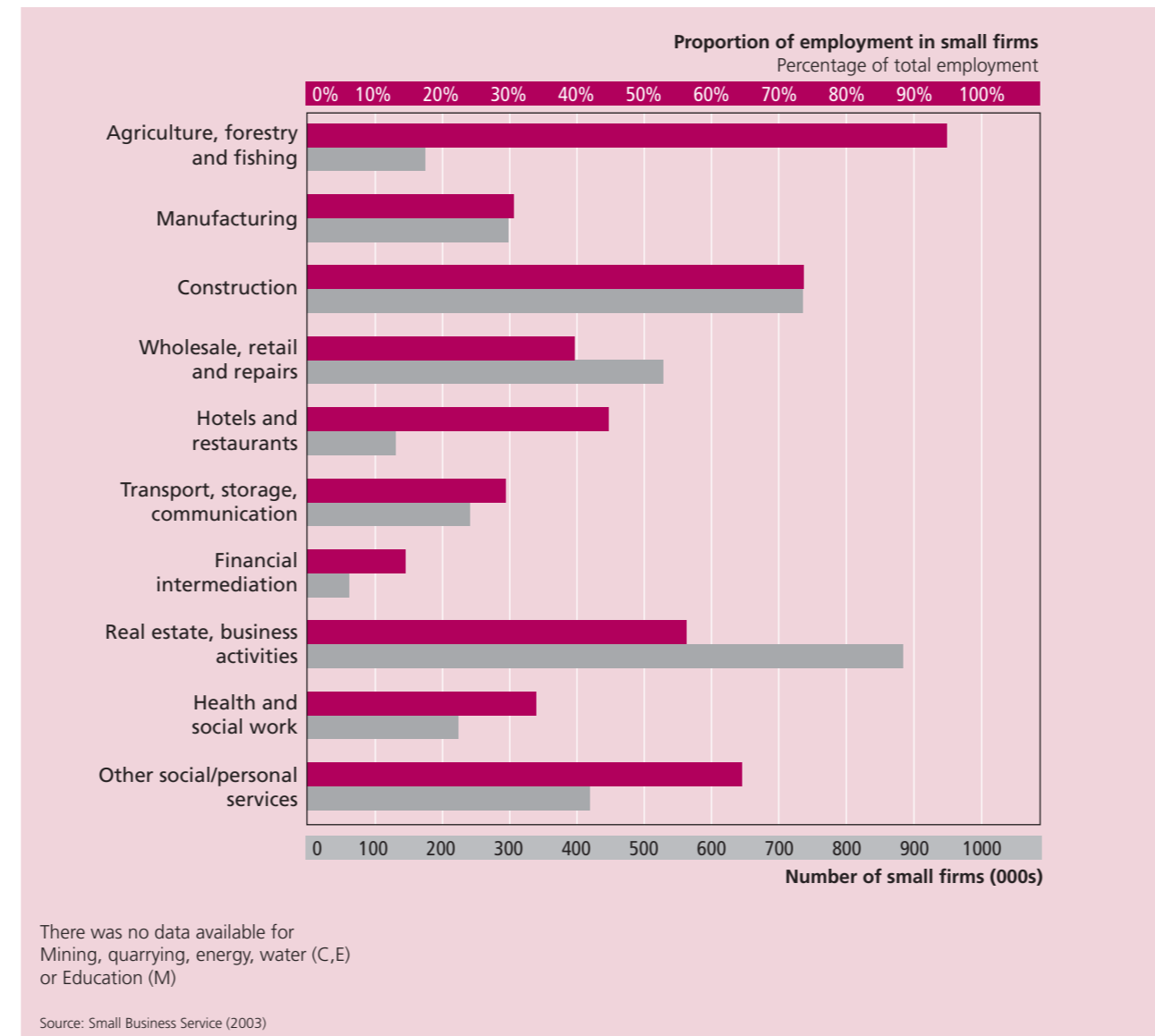
... in every area

- Small businesses predominate in every country and region of the UK. The North East has the lowest proportion of small businesses (98.8%) and the South West the highest (99.4%).
- The greatest numbers of small businesses are in London (670,000) and the South East (630,000). These regions also have the largest number of business start ups.
- The proportion of employment in small businesses is more varied, ranging from well under half of the total in London (43.0%) to over three quarters in Northern Ireland (79.9%).



... in every industry

- Small businesses predominate in every broad industrial sector, although figures are so small that they are no longer published for mining, quarrying, energy and water. The highest proportions of small businesses are in agriculture, forestry and fishing (99.9%) and construction (99.8%).
- The greatest numbers of small businesses are in real estate, renting and business activities (882,000) and construction (734,000). The greatest numbers of new businesses in 2002, based on VAT registrations, were in real estate, etc. (63,200) and wholesale, retail and repair (32,700).
- The proportion of employment in small businesses is far more varied. It is highest in agriculture, etc. (94.6%) and construction (73.5%).



Management skills in small businesses

Running a small business means being able to handle a wide range of jobs. The SFEDI business start-up and business development standards set these out in detail. In our recent research, small business owners and managers described a diverse range of skills they needed, including:

Business strategy and analytical thinking

- visionary
- strategic and analytical thinking
- managing change
- decision making
- problem solving
- setting goals and business planning
- spotting and seizing opportunities

People abilities

- communication
- motivation
- emotional intelligence
- team working
- build confidence
- giving social and emotional support
- ability to listen and engage

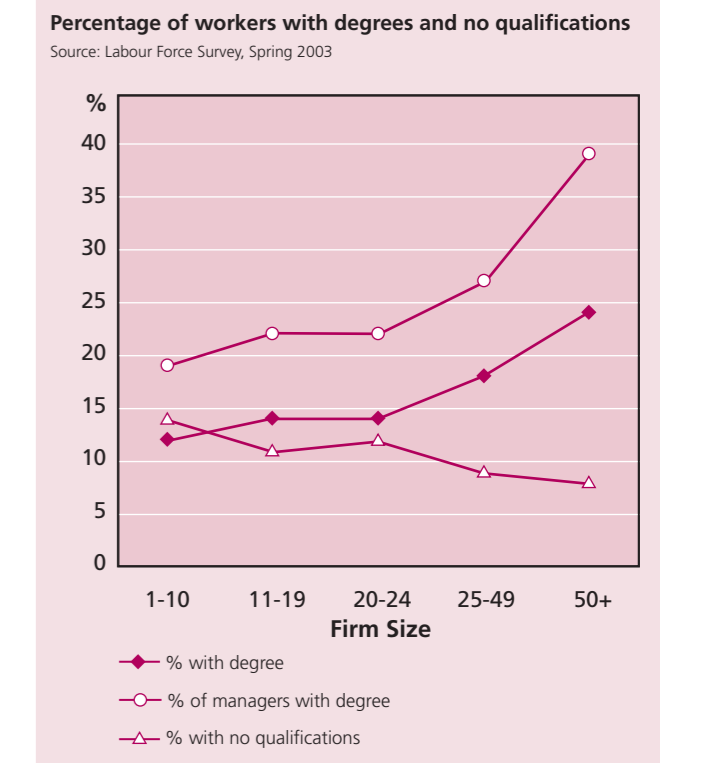
Functional or task-based abilities

- financial awareness
- marketing
- delegating
- organisational skills
- technical skills
- multi-tasking

The very preponderance of small businesses means that they will be incredibly diverse. Allied to differing business objectives and management structures this means that different skill sets will be required. Skill needs will also change as a business develops or its environment alters.

Substantial scope for development

- Managers in small businesses are less likely to have degrees than those in larger businesses. The proportion of managerial degree holders in businesses employing 1 to 10 people (19%) is less than half that in medium and large businesses (39%).
- Workers in small businesses are more likely to lack any formal qualifications. 14% of staff in businesses employing 1 to 10 people have no qualifications, compared to 8% in medium and large businesses.
- The annual number of graduates in business and administration studies continues to rise, reaching 38,700 in 2003. This is still only about one sixth of the number of people who start a business each year without prior experience.
- Skills deficiencies are at a broadly similar level for small businesses and their larger counterparts. The exception is the smallest micro businesses that encounter far fewer difficulties in terms of a lack of proficiency amongst existing staff but far greater problems when recruiting.



Constraints and support requirements

- Small businesses have to focus on the short-term and survival, so undermining an appreciation of longer term benefits. Past research has shown training to be reactive, targeted at specific problems, crisis-driven or fire fighting in nature.
- Small businesses find it difficult to spare time for managers or key workers to engage in training. Cost is also a major constraint. Average costs for small businesses are about double those for the largest businesses.
- It is not therefore surprising that small businesses are less likely than large businesses to provide formal training for employees. Just over half (59%) of very small businesses (employing 1 to 4 people) provide on-the-job training. A third (33%) provide off-the-job training compared to almost all (93%) of very large businesses (employing 500 or more people).
- In a recent survey in the Black Country very large majorities of small businesses said it was important or very important that learning, development and training support:
 - were available at times convenient to the business (86%)
 - involved 'learning by doing' rather than 'chalk and talk' (90%)
 - were available in short, 'bite size' sessions (86%)
 - were delivered by people with small business experience (80%)
- The most commonly reported areas that owner/managers had struggled with and would have found further support useful were marketing and sales, managing money and business planning or improvement.

The importance of informal learning

The same survey confirmed previous research findings in showing that small business managers learn most frequently from experience. Three in five said their improved performance since starting the business came from learning from their mistakes.

Learnt from mistakes	60%
Other people in the business	36%
Professional advice	25%
Other	18%
Books, articles or internet pages	17%
Other businesses	16%
Training course	11%
A coach or mentor	9%

Suggestions for action

Increasing learning and development in small businesses will require approaches that recognise the constraints they face and exploit and enhance the opportunities for experiential and informal learning. Flexible support for learning is needed to meet the diverse needs of small businesses and to meet the Council for Excellence in Management and Leadership's challenge for an approach "based on joining entrepreneurs in their world and tapping seamlessly into the activities undertaken as a normal part of running the business".

Based on our research and work with small businesses over the past two years we are suggesting the following programme of action:

- **developing a web-based database of provision**
Provision means not only formal training courses but also events, mentoring schemes, books, membership and advisory organisations, books, CD Roms and any other relevant resources.
- **providing more short courses and one-to-one coaching**
Tailoring provision to small business needs will mean developing more short learning activities that can be accommodated alongside work priorities.
- **developing a unitised credit framework as a benchmark**
This will provide a framework against which provision can be accredited and hence funded.
- **quality assuring provision as small firm friendly**
Small businesses need to know that provision is fit for purpose. SFEDI endorsement offers a kite mark of quality.
- **involving small businesses in the development of provision**
Provision needs to be developed with, not just for, small businesses, using feedback and trusted intermediaries to minimise the burdens on business.
- **providing more small business networking opportunities**
Business clubs, breakfast meetings and similar events can provide a forum for reflection and exchange of ideas without unduly interfering with the working day.
- **developing a knowledge base of owner-manager experiences**
This would be an electronic forum where owner-managers could find help and advice couched in their own language.
- **creating an extended business mentoring system**
The challenge is to develop a mentoring network that can offer any small business, not just start-ups, mentors with the specific skills and experience they need.

Further Information

Copies of the full Skills Assessment 2004 and information on other SFEDI research is available from the SFEDI research team.

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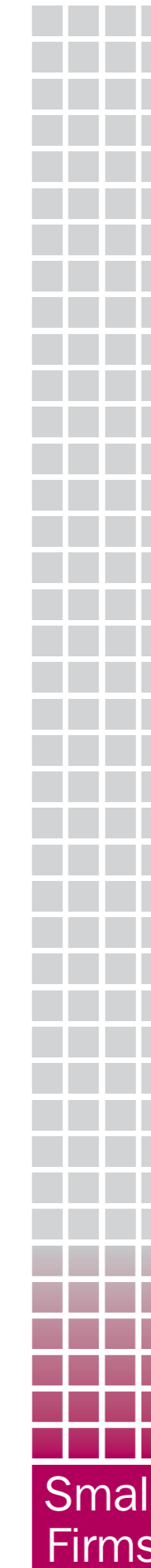
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Small Businesses Skills Assessment 2004

Executive Summary