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Small business diagnostic: what does it tell us about SMEs?

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SMALL BUSINESS DIAGNOSTIC: WHAT DOES IT TELL US ABOUT SMES?

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ABSTRACT

This paper outlines the findings from a study of 241 small business owner-managers who were asked to complete a diagnostic assessment questionnaire designed to examine their management practices. This was part of a best practice benchmarking study being undertaken by the University of Western Australia (UWA) through its MBA program. Commencing with a pilot study of 21 owner-managers engaged in a business development course run by the Centre for Entrepreneurial Management and Innovation (CEMI) in 2005, the use of the diagnostic tool continued via the MBA program as a teaching mechanism for students studying small business management. The diagnostic assessment tool examines 12 areas of management practice across a range of measures. It compares the firm's performance against best practice standards and also seeks comment from the owner-manager over problems they are experiencing in each area. The findings from this study suggest that most owner-managers have a relatively good understanding of their customers and how to satisfy their needs. Most were also getting adequate information on key areas such as cash flow, supply and stock turnover. They also indicated an active engagement with outsiders to help keep them informed of trends in their market. However, few had formal business or marketing plans and quality assurance systems. Few also had a systematic approach to product and market assessments, quality control or the development of new innovative approaches to the development of products and services. There were major differences between firms based on size, with micro-enterprises demonstrating much less formality or the use of outsider support than their small and medium sized counterparts.

Key words: small business, owner-managers, diagnostic assessment.

INTRODUCTION

Small to medium enterprises (SMEs) comprise the backbone of most economies. Firms with fewer than 250 employees make up over 99% of the businesses found throughout the 34 advanced economies that comprise the Organisation for Economic Co-operation and Development (OECD) (OECD 2010a). However, the majority of these firms are micro-enterprises with less than 10 employees. For example, in 2009 there were an estimated 2.05 million actively trading businesses in Australia, of these less than one percent was large firms with over 200 employees. Yet within the vast number of SMEs 60% were micro-enterprises with no employees other than the owner-manager (DIISR 2011).

According to OECD research SMEs provide a high proportion of the employment within their economies as well as a significant amount of the value added (OECD 2010a). This is also the case in Australia where SMEs contribute about 71% of all employment, and 58% of industry value added (DIISR 2011). However, most small businesses are not fast growth, entrepreneurial companies that emulate what has been described as the "Silicon Valley Business Model" (Cohen 2010). Such high growth firms comprise no more than 1% to 2% of all firms and most small business owners do not have such ambitions for growth (OECD 2010a). Further, most SMEs are not high-tech, but low to mid-tech in nature, with more modest ambitions and levels of innovation (Hirsch-Kreinsen, Jacobson and Robertson 2005; Reboud, Mazzarol and Soutar 2014).

DEVELOPING THE MAINSTREAM SME COMMUNITY

Despite this lack of rapid growth the majority of SMEs still play a significant role in the national economy. This is particularly the case for the established small and medium firms that employ. With unemployment rates across the OECD hovering around 8% or higher (OECD 2013), it is important to strengthen the existing stock of SMEs. Most are low to mid-tech firms operating across a wide range of industries and experiencing steady but modest growth or at least profitable, sustainable operations. They represent what might be described as the "ordinary SMEs" (Mazzarol, Reboud and Clark 2011).

Government policy has been focused on the development of SMEs due to the expectation that such firms can assist with the generation of new jobs, and stimulating economic growth. This is a pattern that has been seen since the 1980s with the research undertaken by Birch (1987) that suggested SMEs were the primary source of new job creation in the United States. This recognition of the importance of SMEs and entrepreneurship to the national economy stimulated a strong interest by governments and academic researchers in small business and new venture creation.

A major feature of many government-backed initiatives and programs run by universities has been the encouragement of new venture creation via business start-ups. However, the success rate of start-ups is low, with a high rate of "churn over" whereby the majority of newly created firms do not survive their first three years. In fact it has been estimated that around 43 new firms will need to be created in order to produce 9 new jobs a decade later (Nightingale and Coad 2014).

Research by the Kauffman Foundation (Reedy and Litan 2011) has indicated that since the Global Financial Crisis (GFC) of 2008-2009 the trend is towards start-ups that have little or no job generation capacity. For example, in the period 1999-2000 around 4.6 million new jobs were created in the United States as a result of start-up activity. The average employment for each start-up in the 1990s was about 7.5 people. However, by 2010 the average start-up employs around 4.9 people and most don't employ at all. In the period 2000-2010 job creation in the USA through start-up activity plunged to 2.5 million. According to Reedy and Litan (2011):

> *"Summing up, one key undisputed finding emerges. The employment that a new business cohort is born with in the United States is likely the maximum employment that business cohort will experience in its lifetime."* (p. 13)

Investment in new business start-ups is therefore problematic as a mechanism for fostering economic growth and job creation (Nightingale and Coad 2014). However, it might be argued that investment into high-growth firms or "gazelles" is equally problematic. While such firms may – if successful – generate significant economic and employment returns, by their nature they are high risk ventures. For example, a high-growth firm is one that has been in operation for more than 5 years, has had average annual growth for three consecutive years of more than 20% and had employed more than 10 people at the start of the measurement period. A gazelle is a firm with similar average annual growth, but one that is less than 5 years old with 10 or more employees at the commencement of the measurement period (OECD 2010b).

By this definition high-growth firms comprise around 3% to 6% of all businesses and gazelles around 1% to 2% of all firms (OECD 2010b). Further, the nature of such rapid growth, particularly for younger firms such as gazelles makes these businesses particularly prone to failure. The nature of rapid growth is that it is highly risky and requires highly competent management able to adapt quickly to external and internal factors (Smallbone et al. 1995). For SMEs to take up the challenge of growth they must have both a desire to do so and the capacity to undertake this potentially risky process. For small business owner-managers to sustainably achieve growth they will need to enhance their management skills (Agarwal and Green 2011).

ASSISTING OWNER-MANAGERS WITH A SMALL BUSINESS DIAGNOSTIC ASSESSMENT

If the quality of management and management control systems is a critical element in the success and future growth of an SME, then attention should be given to enhancing the management skills of small business owner-managers. There is evidence that benchmarking and formal quality assurance systems adoption in SMEs can play an important role in enhancing small business performance (McAdam and Kelly 2002). For example, a study of 86 SME manufacturers in Australia found that most firms used financial measures to assess performance, but that as the firms increased in size the range of non-financial measures used increased. Further, firms led by professional managers were more likely to use a wider range of performance measures than those led by owner-managers (Perera and Baker 2007).

It is also important to provide small business owner-managers with opportunities to improve their management skills if such firms are to become more successful and sustainable (Kilpatrick and Crowley 1999; Curtin, Stanwick and Beddie 2011). Enhancing managerial competencies and business systems has been identified as important to the longer term performance of SMEs (Man, Lau and Chan 2002; Pansiri and Temtime 2008). Many owner-managers have the skills to deal with the strategic, operational and financial management requirements of their existing market, but are challenged when they seek to grow or when their market conditions change (Romero and Gray 2002). Other research into management practices within Australian SMEs suggests that there is a need for greater improvements in the adoption of 'high performance' management practices (Wiesner, McDonald and Banham 2007).

During 2005 the Centre for Entrepreneurial Management and Innovation (CEMI) ran an executive management development program targeted as small business owner-managers. As part of this program CEMI developed a small business diagnostic tool designed to help the owner-manager review their business management practices. The program also involved mentoring and peer-to-peer coaching and support (Mazzarol, Reboud & Olivares 2006). Since then the diagnostic tool has been used in the UWA MBA program as a teaching mechanism for students, as well as providing benefits to small business owners who agree to participate in the process of completing the diagnostic.

This report provides an overview of the findings from a sample of 241 small businesses that have participated in the diagnostic assessment since its introduction in 2005. The responses included firms from Australia and Singapore where the MBA program was run. The report is largely descriptive in nature and provides a snapshot of the findings with some observations made as to the meaning and implications of these findings for research, education, policy and practice.

BACKGROUND TO THE DIAGNOSTIC ASSESSMENT TOOL

As noted above the **small business diagnostic** was developed as a mechanism for assisting small business owners to better understand their business operations and examine both strategic and operational aspects of the management process (Mazzarol, Reboud and Olivares 2006). The questionnaire associated with the small business diagnostic has 124 items. The items from which the diagnostic was designed include international benchmarks and formal management standards including ISO9001 (quality management), BMS4581 (business management systems), ISO4360 (risk management), ISO15504 (information technology), plus items developed specifically for the tool.

The questionnaire collects information on the owner-manager of the business including their past use of and attitudes towards outside assistance. It also gathers financial information on the business and examines the firm's gross profitability and break-even. However, the core of the small business diagnostic is the 12 areas of management performance which are listed in Table 1.

The benchmarking undertaken in the diagnostic assessment examined these 12 distinct areas of management competencies against international best practice and provided the owner-manager and their mentor with a baseline from which to commence. The purpose for developing this diagnostic tool was to assist businesses, small or large to quickly determine areas of their business which were not performing to expectation, or needed to be improved. Using these tools will enable a business to develop a well-constructed management operating system (Fassoula and Rogerson 2003). Each of the key areas drawn from the ISO standards is briefly described in the following sub-sections.

TABLE 1: MANAGEMENT PERFORMANCE BENCHMARKS

Section	Description
1. Marketing & Sales	How well the owner-manager systematically generates new business and tracks existing sales.
2. Customer Interface	How well the owner-manager monitors customer satisfaction and seeks to generate customer delight.
3. Financial Management & Performance	How well the owner-manager monitors their financial performance and seeks to gain control over the business.
4. Management Intent	How well the owner-manager sets a future strategic direction for them and for their business.
5. Process Capability	How well the owner-manager seeks to establish formal planning and control measures for processes within the business.
6. Internal Integration	How well the owner-manager matches their planning and performance via KPI benchmarking data.
7. Products	How well the owner-manager monitors product performance and develops new products and services.
8. Quality	How well the owner-manager creates systematic quality assurance within their business.
9. Management Information	How well the owner-manager obtains regular data on business trends and performance levels.
10. External Integration	How well the owner-manager builds around them a strategic information and support network.
11. Operations	How well the owner-manager integrates marketing and sales with their operations management.
12. Strategy & Innovation	How well the owner-manager builds a competitive advantage and seeks to add real value to their business.

ISO 9001 QUALITY MANAGEMENT SYSTEMS REQUIREMENTS

This benchmark is one of the most widely recognised management standards and has been adopted by many small firms (Karapetrovic, Rajamani and Willborn 1997). The current methodology of Plan-Do-Check-Act (PDCA) used in this standard provided the substance to link all the standards used together. Using the PCDA component of the *AS/NZS 9001* creates a common platform and language that allows a small firm to more effectively meet customer requirements and satisfaction, reduce non-conformity and provide quality products or services (Sohail and Hong 2003).

ISO 4360:199 RISK MANAGEMENT STANDARD

This was selected because it was felt that regardless of size, from a best practice perspective, an effective management system needs to incorporate elements of risk management. Using this risk management standard was also driven by the fact that organisations normally use it to reduce liability while seeking re-insurance yet they rarely understand the potential to use it as part of their daily operational processes. The key areas that were looked at in depth while developing the diagnostic tools in relation to using this standard were: i) communicate and consult; ii) analyse risks; iii) evaluate risks; and iv) monitor and review.

ISO 15504-1 INFORMATION TECHNOLOGY-PROCESS ASSESSMENT

This standard was selected as it contains a Process Assessment Relationship containing three interlinked components: i) process assessment; ii) process capability determination and iii) process improvement. These form the basis of an effective management operating system that is important in the implementation of quality management systems (Naveh and Marcus 2005). It is this standard that defines process improvement methods allowing the evaluation of processes in terms of strength, weaknesses and risks. The other component is process capability. The standard uses this as a tool that enables balance between the pros and cons of changing, redesigning or implementing a new process.

BMS AS/NZS 4581:1999 MANAGEMENT SYSTEM

These *Integration* standards were chosen because they clearly outline the components which are common to all management systems regardless of the type or size of the organisation as many such standards are viewed as only appropriate for large firms (McAdam and McKeown 1999). This standard also defines the roles and responsibility for management of any organisation, specifically the communication path required, internal and external stakeholders, suppliers, customers, etc. It also clearly defines the process by which management should control the daily operations of the business. The diagnostic tool covered the key elements for running a business successfully, and this standard clearly defined how to manage a business. An added benefit of using this standard was that it allowed for easy linkages to other standards used in the development of the diagnostic tools.

This combination of recognised standards was seen as optimum in terms of validity and acceptance (Stickley and Winterbottom 1994). The standards used for the development of the diagnostic tools were carefully studied and specific elements were selected to show a coherent relationship for the development of each section of the questionnaire used in the diagnostic tools. The combination provided a complete solution to improve overall performance of a business (Shea and Gobelli 1995; Thor 1996). The tools aimed to operate as a change agent without significant capitalisation in areas such as information technology or a change management expert. A comprehensive approach to diagnostic benchmarking was considered appropriate for small firms (Haksever 1996).

The diagnostic assessment tool was also administered to a control group of owner-managers drawn from well-established and ostensibly well benchmarked firms such as major food service franchisers and pharmacists. The purpose of this was to provide a base line comparison for the owner-managers engaged in the program. These benchmarks were developed into the set of 12 management performance indicators which are outlined in Table 1.

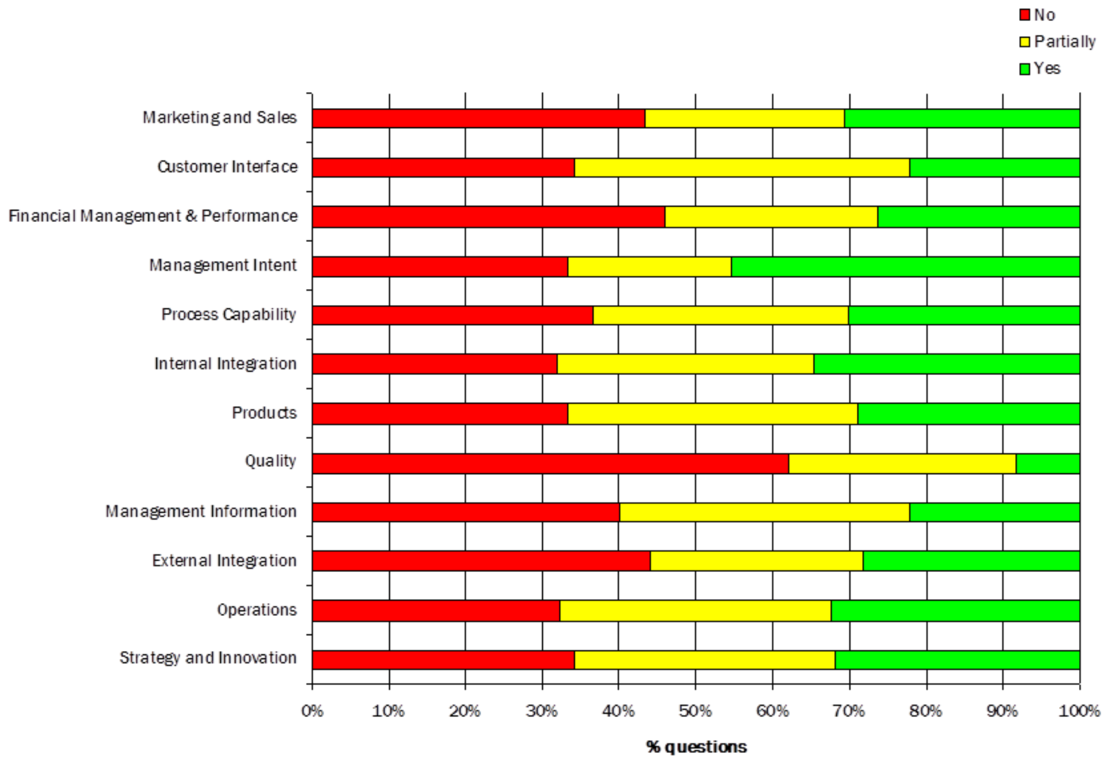
THE BAR AND RADAR CHARTS OF THE DIAGNOSTIC

The small business diagnostic provides a report on these 12 areas and issues two graphs displaying the results. This includes a bar chart as illustrated in Figure 1 and a radar chart as illustrated in Figure 2. As shown in Figure

1 the bar chart gives an immediate snap shot of the owner-manager's performance on these 12 areas displayed in the "traffic light" colours of red, yellow and green. This allows the owner-manager to quickly identify areas of concern (shown in red), and those that need less urgent attention (shown in green). Where a large area of red is found attention can be given to the specific items that make up this area of the diagnostic and corrective action taken.

For example, in Figure 1 there are many items showing substantial areas of red. However, the area of greatest concern is "Quality", which has both a large red area and a very small green area. By drilling down into the specific items that comprise this Quality section the owner-manager can examine areas of management practice that require attention.

FIGURE 1: THE BAR CHART OF SMALL BUSINESS PERFORMANCE

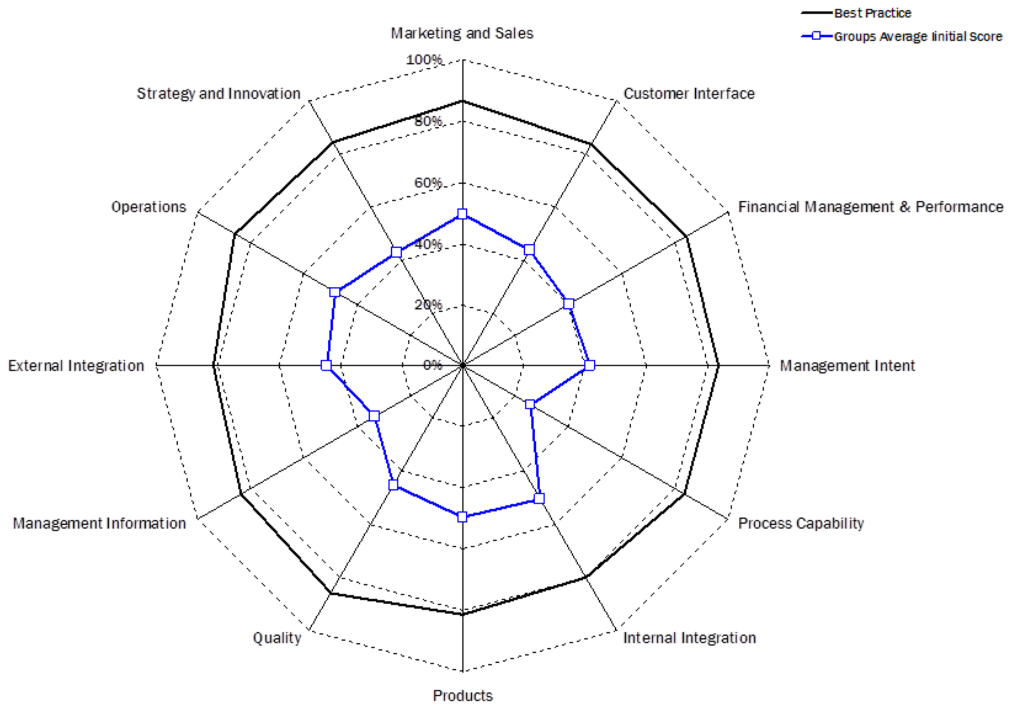


As shown in Figure 2 the radar chart gives a different perspective of the same 12 areas. However, this time they are compared against best practice benchmarks and the owner-manager can readily see how their business management performance compares to international standards.

The radar chart depicts the 12 areas on a plot in which the centre of the radar represents zero and each axis on the chart radiates out to 100%. The outer black line indicates best practice and the blue line the reported performance of the firms. Data from the diagnostic has been converted to a ratio so as to account for the different scales used to measure the 12 areas. By examining this radar plot the owner-manager can quickly see how close or far away they are from best practice.

From this diagnostic analysis the owner-manager can prepare a road map for future business development aimed at correcting any areas of weakness or deficiency in their management performance. It serves as an important foundation for future learning requirements and helps the owner-manager seek outside assistance in areas where this is deemed necessary.

FIGURE 2: THE RADAR CHART OF SMALL BUSINESS PERFORMANCE



RESULTS FROM USE OF THE DIAGNOSTIC TOOL

The management development program undertaken by CEMI in 2005 with 21 small business owner-managers used the diagnostic tool as a pre-test and post-test evaluation measure. Figure 3 shows the “before and after” scores on the diagnostic with the initial scores displayed in green and the follow-up scores in blue.

It can be seen that the initial scores were generally quite low across all measures. By contrast the follow-up scores displayed a significant improvement in the performance of these firms. There were many factors that influenced this. The diagnostic tool was not the primary factor in these improvements, its role was to provide a starting point for the owner-managers to identify where within their firms changes or improvements were needed.

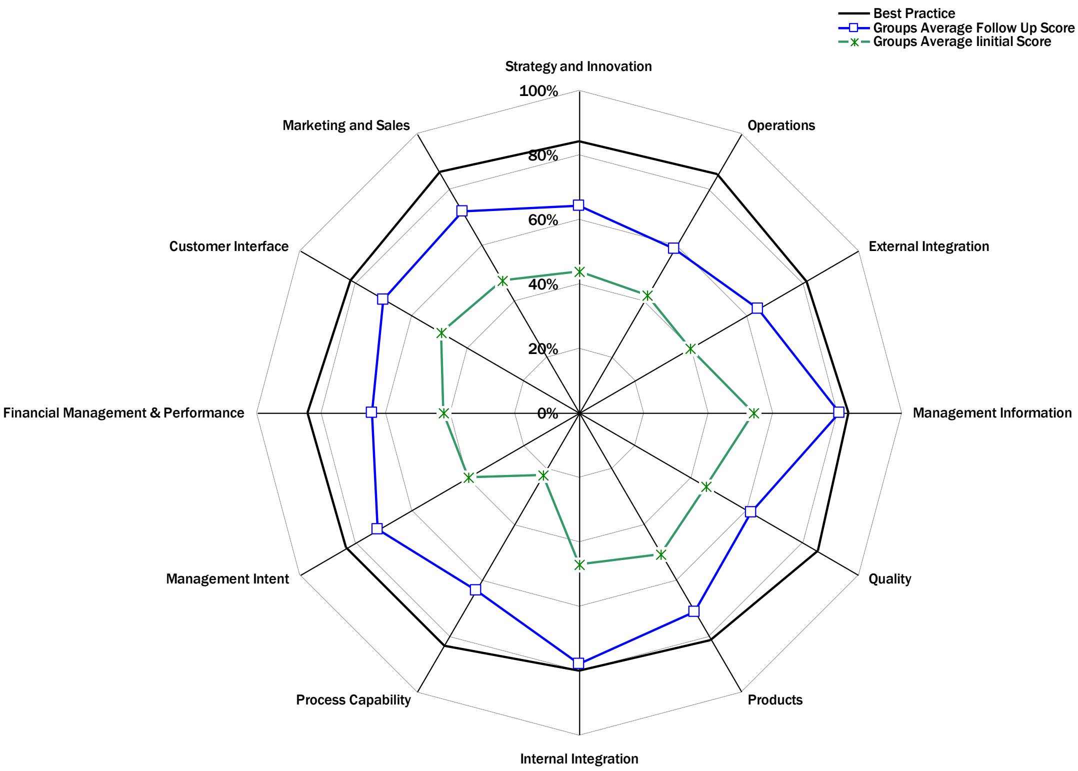
With this “benchmarking” as a starting point, the owner-managers were able to work with their mentors (business consultants who met with the owners outside of the management development course in small group and one-to-one counselling and coaching sessions), on business improvement activities. The course also helped the owner-managers by providing them with information and concepts that they could take back and apply into their firms.

The learning undertaken by these owner-managers can be illustrated from the following comments they made at the end of the program:

> *“I’ve been doing courses on small business management for too many years now, and there are a lot of courses out there, but the way this course was structured has done me a lot of good. As far as my own business, the course has been fairly dramatic in the last four months. I have implemented so many things; I have increased my staff members by two…it has made me look at my whole business structure, organisation, how we conduct business, the way we appear in the general public’s eye and how we*

differentiate ourselves from others." (Male owner-manager, construction firm, over 20 years in business)

FIGURE 3: GROUP PERFORMANCE OF THE OWNER-MANAGERS IN THE CEMI DEVELOPMENT PROGRAM



"This course has made us do at least two things; first, it has made us go back to basics and to start to fill in the gaps that we have missed, because sometimes when you are trying to run a business you just run along and don't stop to think. Second, it has made us focus on the future and working on the business rather than in it. That has probably been the most significant thing, to step outside our day to day and really think about where we are going." (Female owner-manager, building supplies retailer, over 5 years in business)

"Having this course to point me in the right direction has really been invaluable. Rather than going from day to day I now have a much clearer sense of vision…having a clear path and your ideas set down is a real help. Also, having a better understanding of who my customers are and what they want from me was very important." (Female owner-manager, music retailer, under 5 years in business)

"Strategic management is now part of my role as Managing Director and I am encouraged by the improved understanding of my role and the roles of other managers in the firm, the course is also providing me significant help to structure theses aspects that I am increasingly finding are so very important. That old cliché of working on the business is gaining clarity. To work effectively on business new skills are required as the operator's skills working in the business are not applicable although the knowledge from within is useful. My business had progressed with a number of business elements before commencing the course but now has the benefit of being able to improve those elements and fit them in better context. I have also been able to identify and address factors that were not previously evident particularly the relationship with other Directors, roles and review of strategic direction significantly improving cohesion and effectiveness." (Male owner-manager, professional services firm, over 20 years in business)

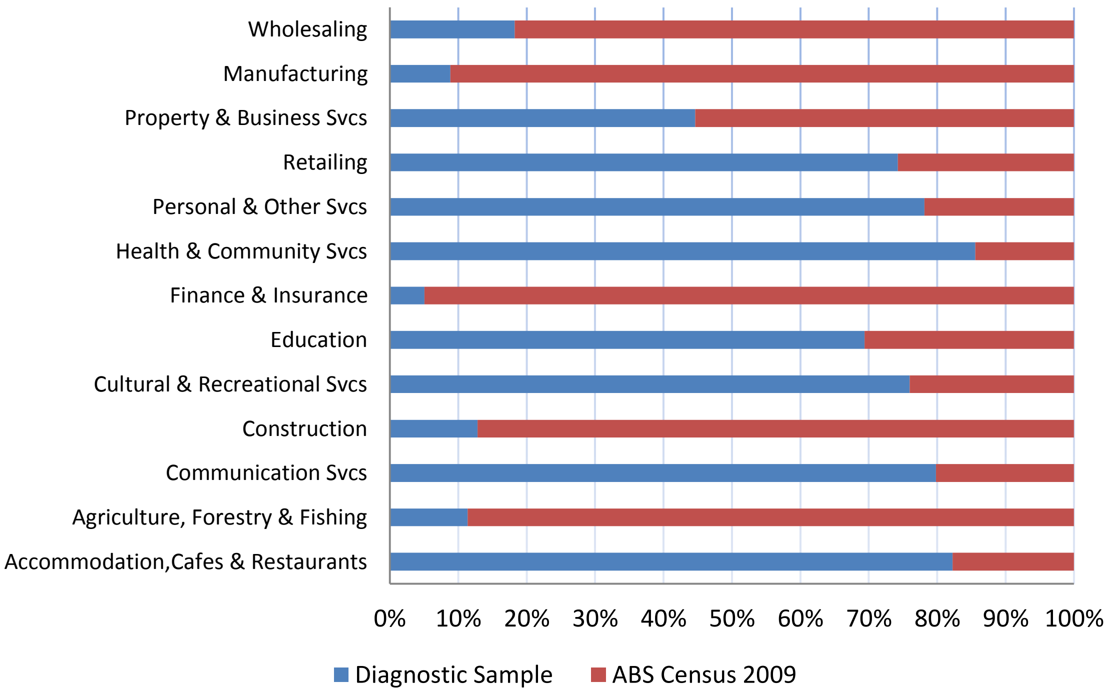
Post-course evaluations undertaken with the owner-managers indicated that 11 new employees had been hired by the participating firms as a result of the program. Furthermore, 40% of the owner-managers reported a significant increase in sales over the period covered by the program, with 30% reporting having weeded out poor or "dog" customers, 20% having experienced significant improvements in their profitability and 10% having experienced significant reductions in costs. All owner-managers reported experiencing a significant improvement in their strategic focus and general sense of direction as a direct result of undertaking the program (Mazzarol, Reboud and Olivares 2006).

AN OVERVIEW OF THE SAMPLE

The sample from which this review of the small business diagnostic is drawn comprises 241 small firms interviewed over the period 2005 to 2010. The majority of respondents (90%) described their role in their firm as "owner-manager", the rest described themselves as either "executive-manager main-shareholder" (2.5%), "executive-manager shareholder" (2.9%), "executive-manager non-shareholder" (4.1%) or some other title (0.4%).

As shown in Figure 4, the firms were drawn from a range of industries. One of the most dominant groups was retail Pharmacies (health and community services 26.5%) that were collected as part of the Pharmacy Management unit for the UWA Master of Pharmacy.

FIGURE 4: INDUSTRY SECTORS OF SMES



Compared with the overall SME population in Australia the sample is heavily weighted towards services. As shown in Figure 4 the proportion of firms from areas like accommodation, cafes and restaurants, communications services, health and community services, retailing and personal and other services were much higher than found in the true population. The reverse is true of areas such as construction, agriculture, forestry and fishing, finance and insurance, manufacturing and wholesaling.

AGE AND SIZE OF THE FIRMS

Most of the firms (65%) were under 10 years old with 41% less than 5 years old. The next most common type of firm was those aged over 20 years. These findings are illustrated in Figure 5. It is worth comparing these results against the census data provided by the Australian Bureau of Statistics (ABS).

According to ABS data around 44% of Australian SMEs have been in operation for less than 5 years, 14% between 6 and 10 years, 22% between 10 and 19 years, and 21% over 20 years (ABS 2011). This suggests that the age profile of the sample was fairly congruent with the known population of SMEs.

FIGURE 5: HOW LONG HAS THE BUSINESS BEEN IN OPERATION?

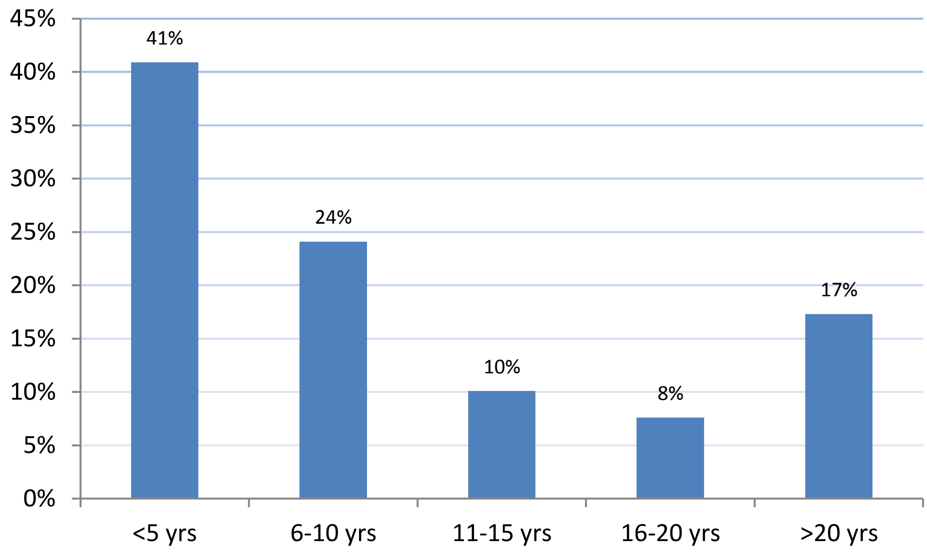
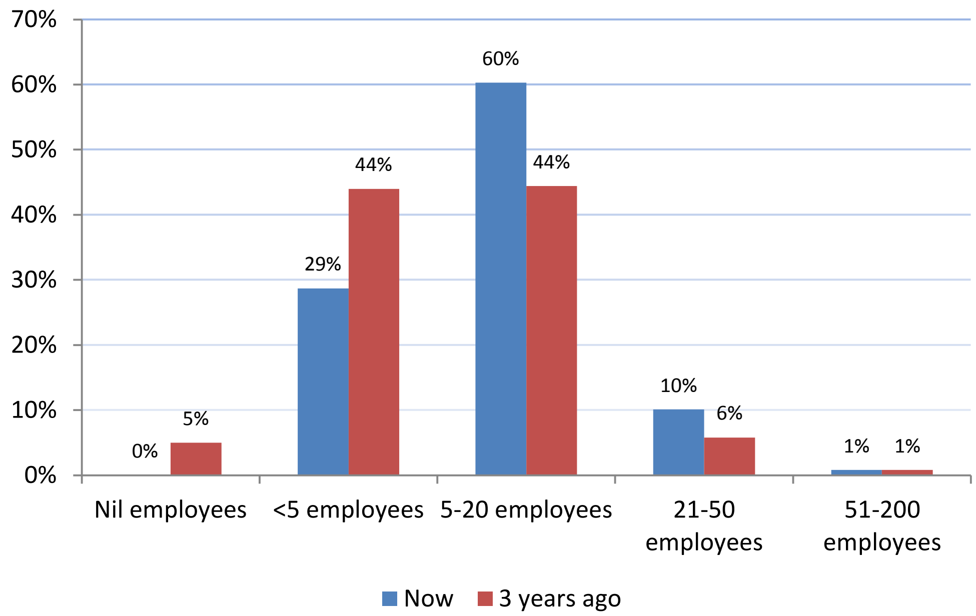
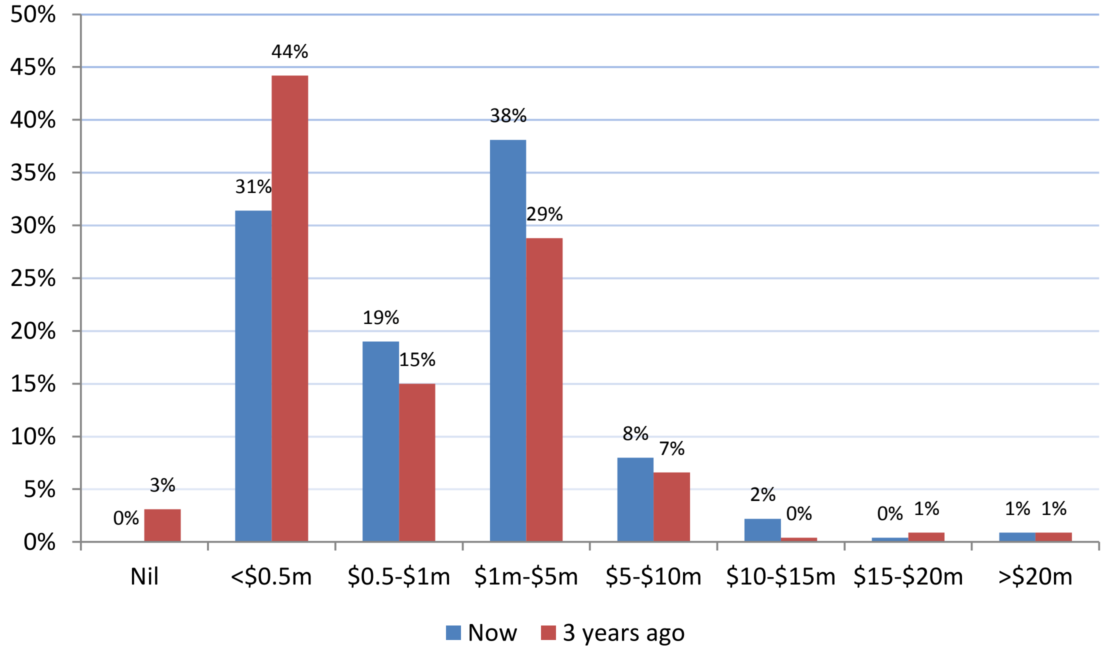


FIGURE 6: HOW MANY EMPLOYEES DOES YOUR BUSINESS HAVE NOW AND THREE YEARS AGO?



In terms of firm size, all firms had fewer than 200 employees in keeping with the Australian definition of what an SME is. However, as shown in Figure 6, the majority of firms had fewer than 20 employees, and most had experienced growth in employment size.

FIGURE 7: WHAT BEST DESCRIBES YOUR FIRM'S ANNUAL TURNOVER NOW AND THREE YEARS AGO?



This growth in the size of the firms' employment base was also evidenced in their annual turnover reporting. As illustrated in Figure 7, the majority of firms had reported annual turnovers of between $500,000 and $5 million. However, while 3% reported nil turnovers three years prior to the interview (presumably as these firms were not yet created), all firms were now trading. Also, as shown in Figure 7, more firms reported higher annual turnovers at time of interview than had existed three years before. This suggests a degree of growth in these firms, with strong increases in the proportion of firms reporting turnovers in the $1 million to $5 million range.

ASSISTANCE AND OUTSIDE SUPPORT

The owner-managers were asked a series of questions relating to their use of outsiders for assistance. When asked if they actively seek out individuals who may be able to assist them with their business problems and approach them for help, the majority (71%) said that they did. The majority (76%) also felt that they could be more active in seeking business assistance and advice.

No statistically significant differences were found in these responses in relation to the age of the business, however differences were found in relation to the annual turnover. The owner-managers from smaller firms (e.g. those with less than $5 million in annual turnover or fewer than 20 employees) were found to be less likely than their larger counterparts to actively seek outside help.

As shown in Figure 8 the micro-firms with fewer than 5 employees were significantly more likely to report that they did not actively seek outside help for business problems than their larger counterparts. The larger the firm became the more outside help was actively sought.

A similar pattern emerged in relation to the annual turnover of these firms. As shown in Figure 9, the micro-firms with annual turnover of less than $0.5 million were significantly less likely than their larger counterparts to actively seek outside help for business problems. By comparison the firms that had annual turnovers of between $1 million and $10 million were more likely to seek outsider assistance.

FIGURE 8: DO YOU ACTIVELY IDENTIFY AND SEEK OUT INDIVIDUALS WHO MAY BE ABLE TO ASSIST YOU WITH A BUSINESS PROBLEM AND APPROACH THEM FOR HELP? (EMPLOYMENT SIZE)

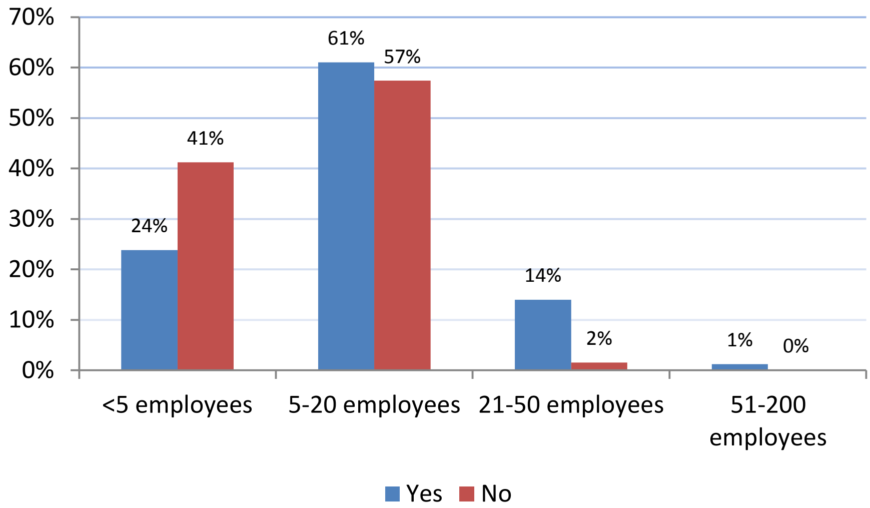
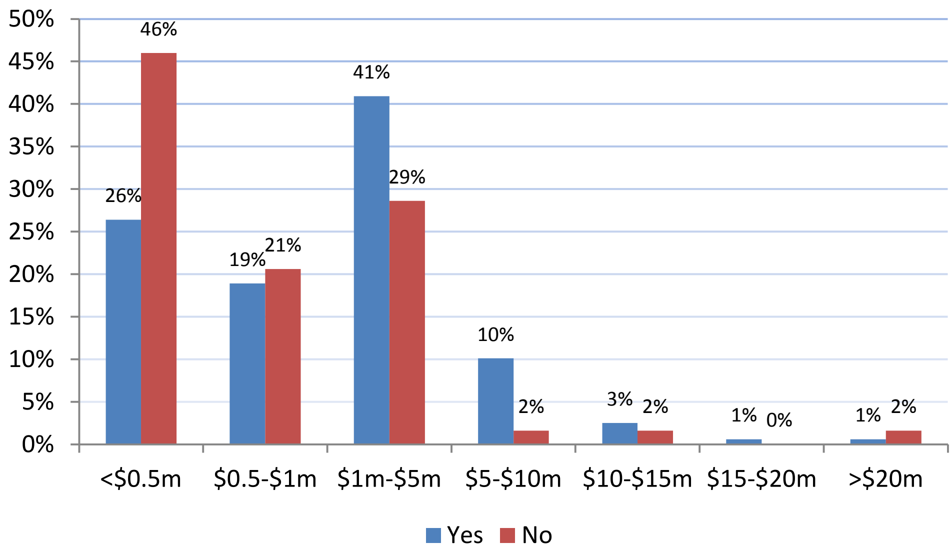


FIGURE 9: DO YOU ACTIVELY IDENTIFY AND SEEK OUT INDIVIDUALS WHO MAY BE ABLE TO ASSIST YOU WITH A BUSINESS PROBLEM AND APPROACH THEM FOR HELP? (ANNUAL TURNOVER)



These owner-managers were also asked to indicate what type of people they sought assistance from. As shown in Table 2, the most common source of external advice came from professionals such as accountants, who were also considered as being the most valuable. Other business owners were also a common and highly valued source. However, the value placed on advice from family members was broadly equal to that of other business owners. Of less importance were friends, with business associations and government small business support services considered of less value; particularly the latter that most did not use or value highly.

TABLE 2: ADVISORS USED AND PERCEIVED VALUE OF THEIR ADVICE?

Advisors	Use	Value (0=no value; 10=max value)
Professional service providers (e.g. accountants)	85%	5.96
Other business owners	77%	4.77
Family	72%	4.45
Friends	75%	3.85
Business associations	61%	3.54
Government services	39%	2.22

While no differences were found between firms by size in relation their use of family, friends and other business owners, significant differences were found in relation to the use of professional service providers.[1] While 75% of micro-firms (e.g. those with <5 employees) reported using professional advisors, 25% did not. By contrast 88% of small firms (e.g. with 5-20 employees) reported doing so, 96% of mid-sized firms (e.g. with 21-200 employees) reported using professionals.

The small and medium sized firms were also significantly more likely than the micro-firms to make use of business associations. Further, mid-sized firms were found to be significantly more likely than their smaller counterparts to make use of government advisory services. For example, 63% of medium sized firms reported using government services, compared to only 40% of small firms and 29% of micro-firms. No significant differences were found between firms of difference sizes in relation to how much value they placed on these sources of advice.

USE OF BUSINESS "ROUNDTABLES" AND MENTORS

The owner-managers were asked if they had previously participated in a business "roundtable" program aimed at sharing their experiences with other business owners. Only 33.5% of respondents reported having done so. Of these 80% reported that they had found the experience of value.

The owner-managers were also asked if they had previously used a business mentor before. Once again, only 30% indicated that they had done so. When these responses were examined against firms by size no significant differences were found in relation to involvement with business roundtables. However, in terms of the value of participating in "roundtables", small firms were significantly more likely than their counterparts in micro or medium sized firms to have a positive view of this peer-to-peer business support.

Significant differences were also found in relation to the use of business mentors. Owner-managers from medium sized firms were significantly more likely to have used mentors than their counterparts from micro and small firm.

These findings suggest that as firms grow larger they are more likely to seek the advice of outsiders, in particular professional advisors and government advisory services. Firm size also seems to be related to the owner-manager's engagement with mentoring services. The lack of interest in using government advisory services found in these firms is consistent with findings from other research (Jay and Schaper 2003).

[1] As tested using Pearson chi-square tests to a 95% confidence interval (e.g. $p < 0.05$).

Past research evidence suggests that outside advisors can help small business owners adapt to environmental changes in their markets and/or to implement organisational change (Bracker and Pearson 1985). This research also suggests that small businesses perform better when they seek support from a range of outside advisors (Kent, 1994). Business mentoring is also a potentially valuable activity for small business owners (Gartner et al. 1992; Timmons and Spinelli 2004). It is important to note that where professional advisors or "consultants" tend to provide specific advice, a business mentor is someone who provides support for the owner-manager, counselling them but not seeking to do the work for them, instead helping them to find their own solutions and learning as they go (Johnson 1992; Gibb 1984).

Financial performance

The owner-managers were also asked to provide financial data on their firm. This included information relating to total sales, plus variable and fixed costs. From these figures the diagnostic took calculated their firm's gross profit, gross profit margin and break even sales. Not all owner-managers were willing to provide this information. However, the majority (78%) were willing to supply this information. Overall the total sales figures for these firms ranged from $5,000 to $27 million with a mean of $2.1 million. Gross profit margins ranged from -100% to 100% with a mean of 51%.

Table 3: Financial performance (average for sample)

N = 187	Micro-firms (<5 employees)	Small firms (5-20 employees)	Medium firms (21-200 employees)
Total sales	$604,360.99	$2,249,525.04	$5,638,391.44
Total variable costs	$388,948.88	$962,079.55	$1,938,497.80
Total fixed costs	$96,987.52	$341,194.60	$732,364.95
Gross profit	$201,025.25	$1,097,318.49	$3,699,893.64
Gross profit margin	46.6%	51.6%	65.4%
Break even sales	$246,688.98	$749,479.25	$1,963,105.98
Break even gap	$677,274.49	$1,323,150.30	$3,675,285.46
Break even margin	47.4%	49.5%	54.2%
Net profit	$106,056.01	$757,053.36	$2,967,528.69
Net profit margin	21.6%	25.9%	36.3%

As shown in Table 3 these figures varied by firm depending on their size. Not surprisingly the sales turnover and related variable and fixed costs increase along with the size of the firm. Of more importance are the gross profit margin, break even margin and the net profit margin.

Gross profit margin

The gross profit of a business is the amount of money left over once variable costs, also known as cost of goods sold (COGS), are deducted from the firm's total sales revenue. By dividing the gross profit by the total sales a percentage figure is produced. This is the firm's gross profit margin.

The gross profit margin (gross margin) is an important financial indicator that helps to determine how quickly the firm can reach 'break-even', or the point at which sales revenue is equal to both the variable and fixed costs. A gross margin of say 50% will potentially help a firm reach break-even faster than a gross margin of only

25%. Firms with higher gross margins can also afford to see overhead or 'fixed costs' rise without undue impact on their net profit or 'bottom line'. They can also apply changes to pricing without significant risk to profitability as might be the case where margins were thinner.

As can be seen from Table 3, the average gross margin for the micro-firms in the sample was 47.4%, while that of small firms was 51.6% and for medium sized firms 65. 4%. As a general rule, if a business is seeking to grow it should have higher than average gross margins. This is because the additional profit generated from every sales dollar collected will help to provide more cash flow into the business and help to maintain working capital.

Higher growth generally requires the firm to increase its fixed costs (e.g. employees, assets), and working capital requirements will typically rise. Many firms that seek to grow will find they are constrained by a lack of working capital (e.g. cash and other liquid assets) to pay bills and wages, or fund new assets. In these circumstances the firm will be forced to seek either additional debt or equity.

Break-even

As noted above, break-even is where the total sales generated by the business are equal to the total costs (i.e. fixed and variable costs). If a business cannot reach break-even it will be operating at a loss and this can only be sustained by borrowing or injecting more equity into the business. There may be periods during the year or for longer periods of time when a firm will not reach break-even. This may occur in the early start-up years, or after a business has launched a new product or service that will not see it 'turn a profit' or reach break-even in its establishment phase.

However, as a general rule the aim of any owner-manager should be to achieve break-even and operate their business in profit. It is important that owner-managers know what their break-even sales and break-even gap are. A firm's **break-even sales** figure is the level of sales required in a given period to ensure that the business makes a profit. The **break-even gap** is the difference between the actual sales made by the firm and the break-even sales. This indicator provides the owner-manager with a measure of how many sales are required to reach break-even.

When the break-even gap is calculated as a percentage of sales the **break-even margin** is created. This figure is a useful tool for monitoring the firm's trends towards profit or loss over time. Calculating and monitoring break-even is important when a small business is in start-up mode, or if it is seeking to grow. As noted earlier, rapid growth will often impact on the firm's working capital and knowing how many sales are needed to reach break-even, and how the break-even gap is widening or closing, can be very useful. Small business owner-managers should generally seek to keep their break-even down and work to reducing the break-even gap. Where a firm can reach break-even quickly it is likely to be financially sustainable.

As an indicator the break-even margin should be larger not smaller. For example, a firm that has sales turnover of $100,000 and total costs of $100,000 will have a break-even gap of zero and a break-even margin of zero. However, if it were to lower its costs by 25% the break-even margin would rise to 50%, and if it lowered its costs by 50% the break-even margin would rise to 67%.

As shown in Table 3 the break-even gap margin was between 47.4% for micro-firms, 51.6% for small firms and 54.2% for medium sized firms, while the average for all firms was 49%. This suggests that the break-even margin is increasing with the size of the firm, which suggests that these larger firms have achieved a slightly better break-even position.

Net profit margin

The final key financial indicator is the firm's net profit margin or 'net margin'. This is a measure of the firm's net profitability and reflects the net profit or what is left after both variable and fixed costs are deducted from sales. If the net profit of a business is rising it suggests that the owner-manager has been exercising good control over costs, usually fixed costs or 'overheads'. As a result the net profit margin should be rising and any decline in this figure should be cause for concern.

According to the ABS (2014) the net profit margin of Australian firms fell from an average of 13.2% in FY2010-2011, to 12.8% in FY2011-2012, and then to 11.3% in FY2012-2013. The average net profit margin for the firms in this sample was 25.5% suggesting some relatively good levels of profitability.

Table 4 lists the firms by industry sector along with the average total sales and both gross and net profit margins. It also shows the average gross and net profit margins for Australia firms as reported by the ABS (2014). As shown there were some significant differences between these sectors and between the firms in the sample and the mainstream business population.

Table 4: Average total sales and gross profit margin by industry sector

	Average Total Sales	Average Gross Profit Margin	Average Net Profit Margin	Average Gross Profit Margin (ABS 2013)[1]	Average Net Profit Margin (ABS 2013)
Accommodation, Cafes & Restaurants	$2,973,102	41%	21%	55%	9.6%
Agriculture, Forestry & Fishing	$909,159	44%	10.5%	49%	16.9%
Communications Services	$448,907	78%	16%	35%	11.5%
Construction	$2,437,860	26%	11%	53%	7.9%
Cultural & Recreational Services	$7,412,857	62%	23%	29%	14.2%
Education & Training Services	$1,346,667	63%	7.5%	61%	17.9%
Finance & Insurance Services	NA	NA	NA	47%	23.5%
Health & Community Services	$3,278,614	58%	35%	52%	25.8%
Personal & Other Services	$1,264,001	57%	33%	55%	15.4%
Retailing	$1.374.698	43%	18%	80%	5.6%
Property & Business Services	$1,557,527	46%	21%	21%	4.5%
Manufacturing	NA	NA	NA	76%	4.4%
Wholesaling	NA	NA	NA	84%	3.4%

[1] Sourced from ABS (2014).

Not all firms in the sample were able to report profitable financial situations. Around 6% of firms who provided financial details were reporting net losses. It is worth noting that according to the ABS (2014) around 21% of Australian firms reported making a loss in the period FY2010-2011 to FY2012-2013.

Observations on the financial performance data

The data gathered from these SMEs provides an indication of how many micro, small and medium sized firms operate from a financial performance perspective. Not surprisingly the size of the firm's annual turnover increases with size, but the average micro-enterprise is still reporting a healthy gross profit margin and a respectable net profit margin. The break-even margins of these firms were also quite good reflecting that most of the firms in the sample (at least those willing to report their financial data) were well managed and profitable. Of course not all firms enjoyed this level of success with some firms reporting significant losses, albeit a minority. Many firms also declined to report financial data and this may have reflected a concern over their financial status. Overall, despite some differences, the general pattern of these findings from the sample was consistent with those reported by the ABS (2014).

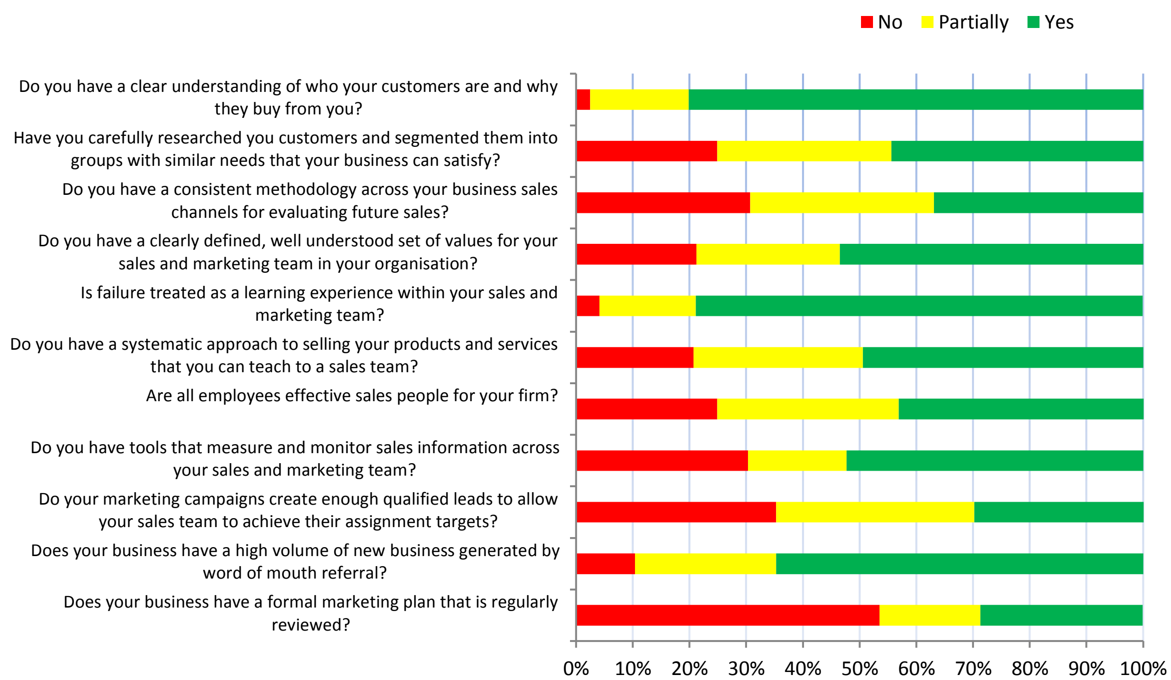
In the following sections the results of the small business diagnostic are outlined across the 12 areas relating to the business performance as described earlier and highlighted in Figures 1 and 2.

Marketing and Sales

The initial set of diagnostic questions related to the firms' marketing and sales activities. Eleven questions were included in this bank of items. As shown in Figure 10 the majority of owner-managers (80%) felt that they had a clear understanding of who their customers are and why they buy from them. The majority (79%) also felt that failure was treated as a learning experience within your sales and marketing team, and that word of mouth was their main source of new business generation (65% agreed).

However, the weakest area was their possession of a formal marketing plan that they regularly reviewed. Just over half (54%) indicated that they did not have a formal marketing plan, and only 29% said that they did possess such a plan. Another area of interest is in relation to the question of whether marketing activities were sufficient to create enough qualified leads to allow the sales teams to achieve their targets. Only 30% agreed that this was the case, with 35% saying no and 35% reporting that it was only partially the case.

Figure 10: Marketing and Sales



An analysis of the relationship between possession of a formal marketing plan and success in generating sales leads from marketing activities was undertaken using chi-square tests. This found a significant relationship between firms that had formal marketing plans and those that were generating good sales leads. For example, nearly half the firms (49%) that reported having a formal marketing plan also reported getting good sales leads from their marketing activity. By comparison 50% of the firms that did not have formal marketing plans also reported not getting good sales lead generation from their marketing efforts.

During the collection of the diagnostic data the owner-managers were asked to comment on each of the 12 areas in relation to things that were of concern to them. An analysis of these comments in relation to the marketing and sales area highlighted a sense many owner-managers had that they lacked the necessary skills and resources to undertake marketing, the following comments are typical:

> *"I don't have a lot of marketing experience. To me, I do a 'roundabout' way of marketing and I constantly look at what others are doing".*
>
> *"I could be more targeted in my marketing efforts".*
>
> *"We don't do any marketing. Our marketing strategy is to do no marketing".*
>
> *"My main problem is time and keeping on top of marketing. Website needs urgent attention as does the email database."*
>
> *"I am branching into a new avenue with organised tours soon, which will require a level of marketing that I am not currently performing."*
>
> *"We don't invest sufficient in marketing".*
>
> *"I have no marketing team".*
>
> *"I don't have the money to invest in a marketing team."*

Another common theme emerging from the comments was in relation to customers. This related to the need to both attract and retain customers. For example:

> *"We have to have new designs frequently to keep customers coming back".*
>
> *"I don't know if we are reaching all prospective customers."*
>
> *"A problem is not having sufficient recurring customers to increase sales".*
>
> *"Letting customers know that my business is here; settling on my definitive range of products and pricing them accordingly."*

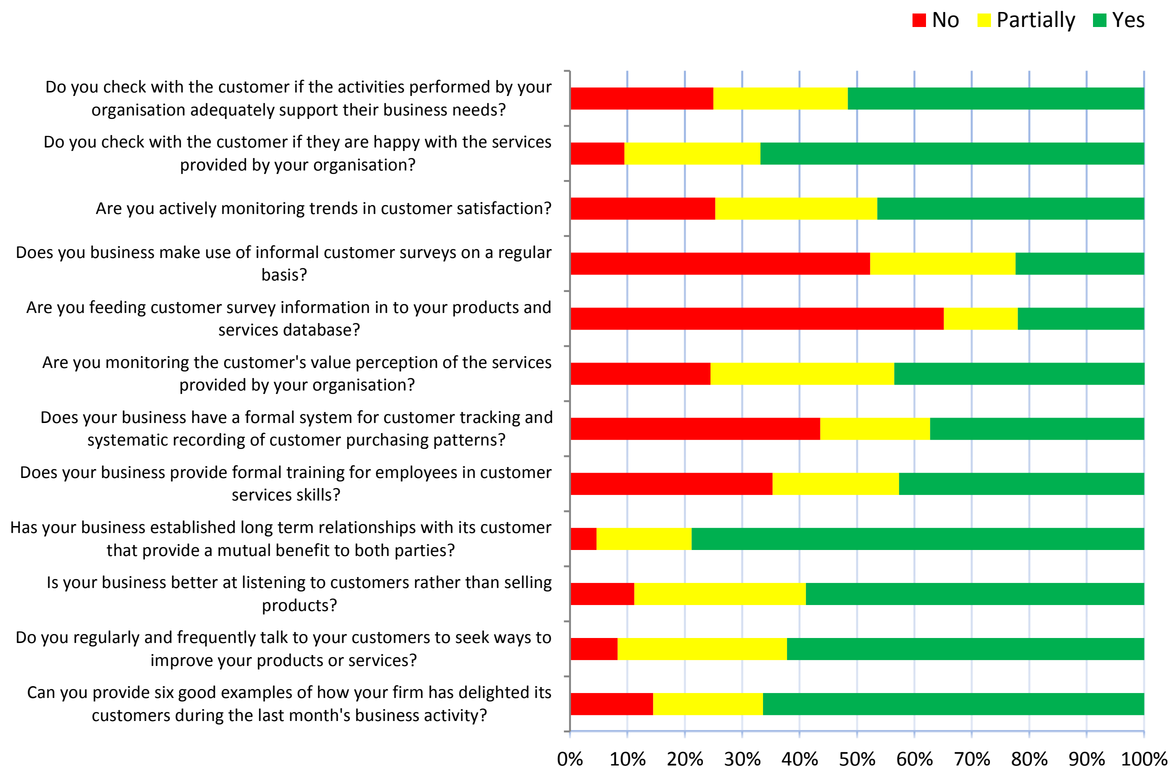
Customer Interface

Customer interface refers to the firm's ability to with the customer and generate "customer delight" by providing an above average experience in how it deals with its customers. A total of 12 questions were used to measure this aspect of the diagnostic. As illustrated in Figure 11 the majority of firms reported fairly strong performance in this area. The strongest of these were the firms' abilities in developing long term relationships with their customers built on mutual benefit. Here 79% of owner-managers reported that they felt this was the case.

The level of customer interaction was also high. For example, 67% of owner-managers reported that they checked to see if customers were happy with their firm's services. The majority (62%) said that they regularly and frequently talked to customers to seek ways to improve their products and services, and 66% said that they could give six examples of how their firm delighted its customers during the previous months. These findings highlight a common feature of small businesses where the owners are often in close and regular contact with customers.

It can also be seen in Figure 11 that there were significant areas of weakness in terms of undertaking informal customer surveys on a regular basis, and then feeding customer survey data into the database of new products and services. Only 22% of owner-managers reported regularly making use of even informal customer surveys and then feeding them into a products and services database. Over half (52%) said that they did not do any regular informal customer surveys, and 65% were not capturing or recording such information. Customer tracking and recording of purchasing behaviour was also a common area of weakness, with only 44% not doing this at all. However, 47% claimed to be actively monitoring trends in customer satisfaction.

FIGURE 11: CUSTOMER INTERFACE



Major concerns raised by the owner-managers in relation to 'Customer Interface' were in relation to keeping customers and satisfying their needs. Some of the following comments are typical:

> *"I need to truly understand what my customers like and want about my food."*
>
> *"We could probably to more to monitor our customers, but it works fine as it is and we are happy."*
>
> *"I do not actively communicate with customers."*
>
> *"Some customers have unrealistic expectations."*
>
> *"We don't have all the stock items that customers want, dispensing could be faster."*
>
> *"However, there is plenty of scope to improve both attitudes and operations to do the little extra things that will delight the customer".*

Another area of concern was how to get effective customer feedback to help understand ways to better service customers and generate customer delight:

"There is no automatic laid down channel to get customer feedback on a regular basis."

"Lack of customer feedback at times, some customers have trouble conveying their message across due to indifference".

"Not having a solid system that can provide management with the customer feedback and preferences."

"A problem is the lack of customer surveys to hear feedback regarding the products/services being provided. We do seek wherever possible to listen to the concerns of our customers, however, providing surveys or requests forms to customers may help increase customer satisfaction by just that little much."

"As the answers to above questions highlight, we are not getting feedback from our customers that the service we provide is appropriate to their needs, and is of a high standard. This feedback needs to be broken down between new business and ongoing customer service."

"Most of my customer feedback comes from my main customers, but it is difficult to develop such a relationship with those customers who come in because they are 'interested' in my shop or range of products. They are often in a hurry or they do not like to be disturbed as they browse through the collection."

"Although we have a relatively small customer base it is possible to ensure frequent communication and open discussion about levels of customer satisfaction. This information is not documented or analysed to track trends. We do not have a formal means of recording this information and do not regularly survey customers for feedback."

Financial Management and Performance

The owner-managers' approach to the financial management and performance of their firms was examined with a series of 16 questions relating to sales trends and how they monitored key financial performance indicators. As shown in Figure 12, the majority of owner-managers reported being generally on top of most of these issues. Sales trends were reported as trending in a positive direction by all but 16% of owner-managers.

Only 45% of owner-managers felt totally happy with the level of their firm's profitability. There was an almost equal division between them in relation to whether their firm's gross and net profit margins were above the industry average. A total of 36% were positive that their gross and net profit margins were above average, while 37% felt that gross profit margins were below average and 35% felt this way about net profit margins.

In terms of financial management 73% of owner-managers said that they systematically monitored their cash flow with a further 14% indicating that they partially did so. However, only 47% were positive that they had well-prepared cash flow forecasts in place, and only 46% were equally positive that they regularly monitored their firm's break-even. More than half (56%) reported regularly monitoring gross profit margins for each product/service or market segment. Yet only 41% were totally positive that they had a well-structured set of financial KPI measures in place.

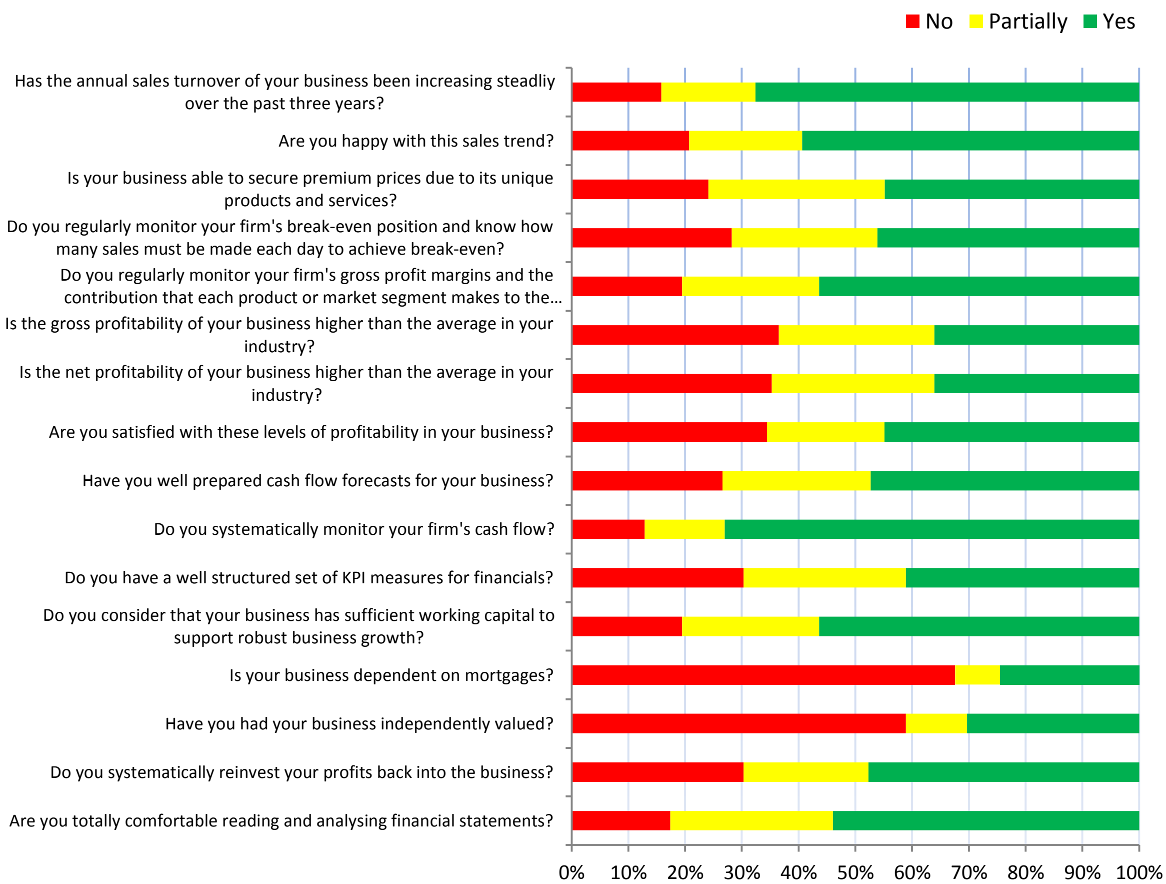
It is worth noting that 54% of owner-managers said that they were totally comfortable reading and analysing financial statements. This suggests that nearly half of these owner-managers were not. A chi-square test of the relationship between being comfortable with reading and analysing financial statements and other financial management activities found some significant differences between those who reported financial skills and those who did not.

For example, owner-managers who reported not being comfortable reading and analysing financial statements were also more likely not to have a well-structured set of financial KPIs. Around 60% of what we might describe as 'financially illiterate' business owners also did not maintain KPIs. By contrast 51.5% of 'financially literate' owners had such KPIs.

Further, while 88.5% of 'financially literate' owner-managers also reported systematically monitoring their cash flow, only 45% of the 'financially illiterate' owners did so. A similar pattern emerged between these two types of owner-managers in relation to having well-prepared cash flow forecasts. The majority (62%) of the 'financially literate' owners had cash flow forecasts, compared to only 19% of the 'financially illiterate' ones. The 'financially literate' owner-managers were also more likely to undertake regular monitoring of the gross profit margins of their products/services or market segments. The majority (71%) of such owners did this level of monitoring compared to only 31% of their 'financially illiterate' counterparts.

These findings suggest that small business owner-managers who are better trained and educated to understand how their firm's financials work may be more likely to set up appropriate financial management systems. As cash flow and profitability are often the most critical challenges facing small firms, improving the level of financial knowledge and skills among owner-managers may be a means of strengthening these firms.

FIGURE 12: FINANCIAL MANAGEMENT AND PERFORMANCE



The majority (68%) of owner-managers reported not being depending on mortgages for the financial sustainability of their business, which is a positive issue. However, relatively few (30%) had had their business independently valued. There was also a degree of equivocation over whether their firm's gross and net profit margins were higher than the average in their industries. It is likely that many did not know what these benchmarks were as such information is often difficult to obtain.

Key problems facing the owner-managers in relation to their financial management were focused around the competencies they needed for managing finances and the systems required for reporting. For example:

> *"I am not very good at handling financial matters in a systematic way, so I need help with people such as accountants and bookkeepers."*
>
> *"I lack financial management skills".*
>
> *"Although I have a very astute and pro-active accountant, I feel that the business would be in a better financial situation if my understanding of it was greater."*
>
> *"Lack of understanding of some areas of financial management."*
>
> *"Not having sufficient financial management knowledge to do formal financial management and performance."*
>
> *"Not controlling financial matters and performance promptly."*
>
> *"Getting the most out of new financial management software."*
>
> *"As the company grows I need to move to more sophisticated financial management systems and have somebody else take on the day to day financial operations – I will find this difficult to delegate!"*
>
> *"Our financial reporting mechanisms are good; however we need more advice on how to manage the financial resources effectively. This needs to be done in the form of monthly KPIs that reflect the performance of the business, and in addition to the quarterly covenant reporting provided to our financier."*

MANAGEMENT INTENT

The area of 'Management Intent' relates to the owner-manager's ability to set a strategic direction for the business and for their personal future. Nine question items were used to evaluate this area, which related to the owner-manager's sense of having a vision for the future, and their ability to share that vision with others. Also examined was their ability to delegate responsibility and to 'blueprint' the business. Finally, these items examined the owner-manager's approach to succession planning.

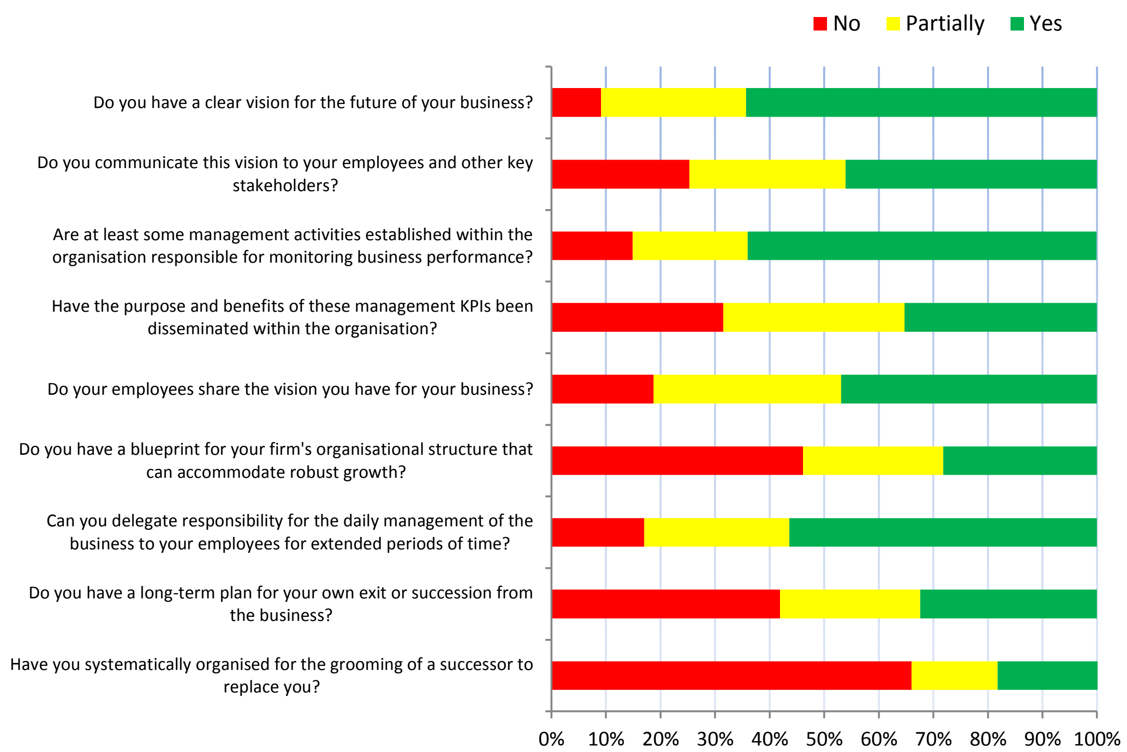
As shown in Figure 13, the majority (64%) of owner-managers were positive that they had a clear vision for their business, and that they had others within the organisation that were responsible for monitoring the firm's performance. However, only 46% reported actively communicating this vision to their employees and other key stakeholders. More than half (56%) of the owner-managers were confident that they could delegate responsibility for the firm's day to day operations to their employees for extended periods of time.

It should not be surprising to find that chi-square tests found that the owner-managers who shared their vision for the future also reported that their employees also shared this vision. A total of 66% of owners who shared their vision also reported that this vision was equally shared by employees, compared to 51% of the owners who did not share their vision who also had employees that did not also share the vision.

This ability to share the vision with employees also seems to be related to other aspects of the firm's management. For example, significant differences were found between the owner-managers who shared or did not share their vision in relation to having KPIs disseminated within the firm, and to have better systems for monitoring established with the management team.

However, areas of weakness were their ability to 'blueprint' the future of their business, and to make arrangements for succession planning. There were also large numbers of owner-managers who reported that they had only 'partially' undertaken many of these tasks. Only 32% reported having developed a long-term exit strategy, and only 18% had commenced systematically grooming a successor. Interestingly, the owner-managers who actively shared their vision for the future of their business were also significantly more likely to have a long-term exit or succession plan than their counterparts who did not actively share their vision.

FIGURE 13: MANAGEMENT INTENT



When asked about specific problems or concerns they were facing in relation to these issues some of the most common responses related to the challenge of them having to carry the burden of responsibility for the business alone without much support. For example:

> *"The success of this business rests solely on me the owner-manager; I cannot delegate and have to actively supervise everyday".*
>
> *"The structure; being that I am the 'conductor' between the customers and the independent contractors".*
>
> *"This business is not systematised enough to get an outsider to manage the business."*
>
> *"As a sole trader, the management side of the business faces on me and because of this the long term management planning has been largely ignored."*
>
> *"Time management – failing to allow sufficient time for planning."*

As seen in Figure 13, succession planning was also a concern for many:

> *"Have no succession plan, my business is me and I do not feel I will have a 'saleable' business unless I remain part of the business. I am in the process of expanding into organised tours that will generate additional income with less 'personalised' service, which should enable me to step back some of the operations."*
>
> *"Lack of forward planning beyond short term performance of my business is a concern. Forward planning and identification of opportunities for the business that is necessary to be established to give us future direction."*
>
> *"Succession planning is always challenging in a sellers' market as the equilibrium need to be found between receiving a fair market price for your asset and a reasonable entry level for your junior partners. I have established a General Management Committee, which consists of my pharmacist managers (2), the business manager, the retail operations manager, and the purchasing manager, which is chaired by me as the CEO."*
>
> *"I have not made a clear decision on the future direction of the business and therefore as such probably lack the necessary focus. An additional problem is that if the value of the business grows to a substantial level there would only be limited potential buyers."*
>
> *"Lack of succession planning and inability to gain time away from customer service to facilitate proper planning."*
>
> *Succession planning and the need to find suitable replacement candidates (we would prefer to promote from within), and managing the financial aspects of transferring shareholding to those individuals and paying out profit share owing to any exiting directors."*

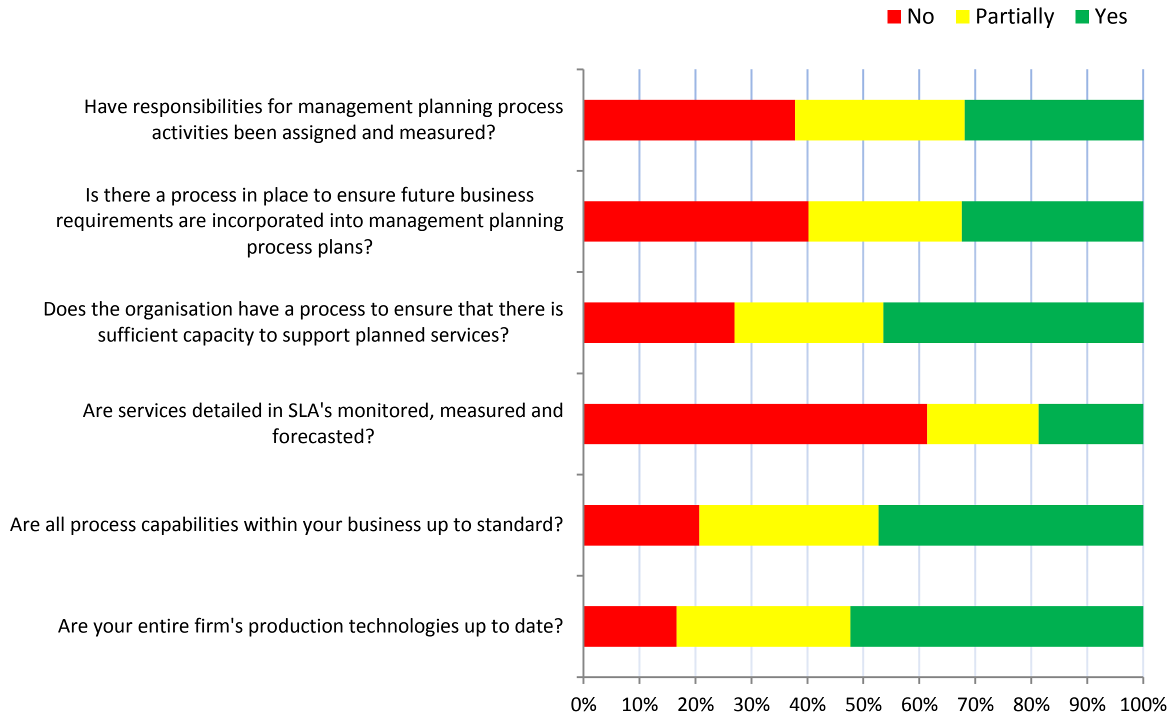
PROCESS CAPABILITY

The area of 'Process Capability' relates to the owner-manager's ability to establish formal planning and control measures that can deal with the operational processes inherent in the business. This includes the delegation of routine management tasks, regular reviews and maintenance of plant and equipment, as well as maintaining best practice via benchmarking.

Six questions were used to measure this area. As shown in Figure 14, the responses from the owner-managers were more equivocal for this area than the previous ones. The most positive responses were in relation to the owner-managers' feelings that their firms' production technologies were up to date, although only 52% were totally positive about that.

About half (47%) of these businesses reported that their process capabilities were up to date and that they had in places processes to ensure that they would have the capacity to meet any future demand. However, only 32% were confident that all responsibilities for management planning relating to process activities had been assigned and measured. This was also the case in relation to having a process to ensure that future business requirements had been incorporated into the planning. Only 19% of firms reported that they had all their Service Level Agreements (SLAs) relating to the maintenance of their equipment and systems up to date.

FIGURE 14: PROCESS CAPABILITY



An examination of the comments made by these owner-managers in relation to the problems or concerns they had in relation to this area identified issues associated with either poor processes or a lack of understanding as to what process capabilities are or how they might be established within the business. For example:

> *"Conflicts sometimes arise from unclear processes".*
>
> *"We have no processes in place."*
>
> *"We do not have a process plan in place."*
>
> *"We do not have a proper process plan."*
>
> *"We're a new start-up so processes are not fully established."*
>
> *"I do not have sufficient time to manage full planning process activities".*
>
> *"I am not sure what a process capability is."*
>
> *"The process capabilities have not been analysed and capacity assessed formally."*

For some of the service firms there was a recognition that insufficient attention had been given to the issue of process capability. As one owner-manager commented:

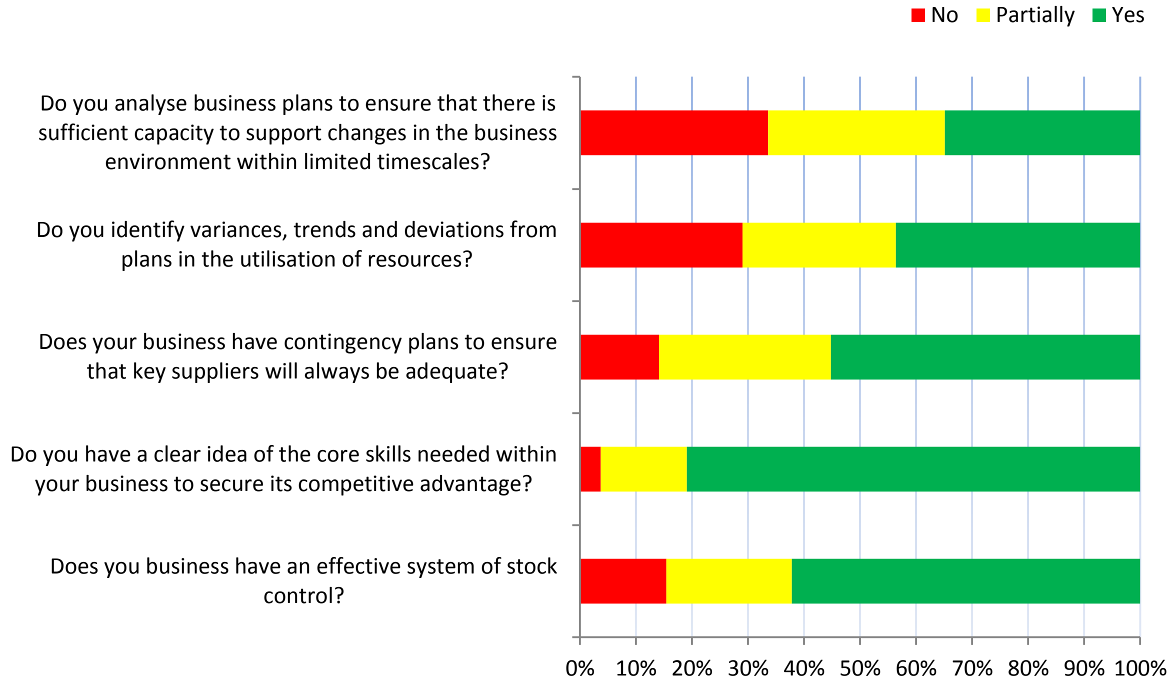
> *"Being a service business the area of process capability is one that has probably not received as much attention as in the case of a manufacturing business. There is considerable room for improvement in that although we are of the belief that most processes within the company are efficient, we have only had a formal system for tracking capacity and efficiency over the past two seasons."*

INTERNAL INTEGRATION

The area of 'Internal Integration' relates to the owner-manager's ability to match planning and performance via the use of KPI and benchmarking data. It involves regular analysis of the business performance against established plans, and the monitoring of any variance between planned and actual performance. In addition this area focuses on contingency planning, identifying the availability of key skills and competencies, plus stock and inventory control.

As shown in Figure 15, most of the owner-managers felt that they handled their internal integration fairly well. In relation to having an effective stock control system 62% reported that this was the case. A further 81% also reported that they were confident of having a clear idea of the core skills and competencies needed to secure a competitive advantage.

FIGURE 15: INTERNAL INTEGRATION



Just over half (55%) of these businesses said that they had contingency plans to address any problems with suppliers. However, there was less agreement over their ability to analyse their business plans to ensure they could react quickly to changes in the firm's environment. While 35% said yes to this item 34% said no. Further, only 44% reported 'yes' in relation to monitoring variances in planned versus actual performance in the use of resources.

The main problems identified by the owner-managers in relation to this area were to do with control over stock and also staff:

> *"Stock control and labour shortages".*
>
> *"Stock control is the main internal integration problem as it is hard to get accurate measurements."*
>
> *"Skills and stock control".*

"I have to check and monitor the stock regularly. I want to find some methods that enable me to effectively control stock with less time."

"We do what we can but it is difficult because we can't control it and it is very hard to keep them committed to the job."

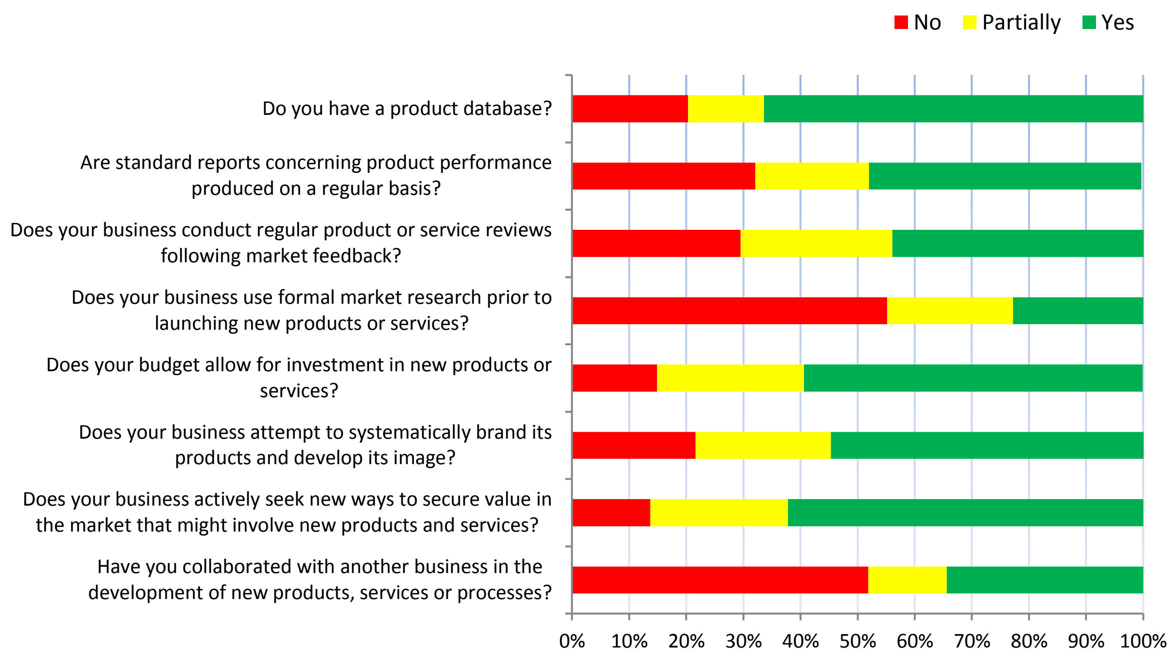
"A more robust stock control system. Especially targeting products that are slow to move etc."

PRODUCTS

The area of 'products' examines how well the owner-manager monitors the performance of products and services, and their ability to develop new products and services. It examines the management of the firm's product portfolio and whether it undertakes regular reviews of products or market research. Also including in this area are the firm's approaches to new product development.

As shown in Figure 16 the majority (66%) of owner-managers reported that they had a product database. A further 62% said that their business was active in looking for opportunities for new products and services, and 59% said that they budgeted for new products and sought to systematically brand them. However, only 23% said that they undertook formal market research prior to launching new products or services, while only 34% reported that they collaborated with others in new product development.

FIGURE 16: PRODUCTS



The main problems facing these owner-managers in relation to products were finding those that were able to offer unique value to customers, that were reliable, innovative and with good profit margins:

"Our main problem is finding good and reliable products."

"There is a lack of new innovative products."

"We need to find professional programs/products to be viable."

> *"My biggest problem is keeping up with new products, removing old products. Also the government regulation of medicines may also create problems in some instances."*

> *"We need to be able to differentiate our products from our competitors".*

> *"A challenge is the low profit margin on new products."*

> *"Exclusivity of products is difficult to do."*

> *"A major problem is the availability of an increasing number of our previously 'pharmacy only' products in supermarkets. We therefore need to identify products and services that we can offer better value on, or better service on, in order to draw customers to our business."*

There were also issues with product quality and the marketing or promotion of products:

> *"An issue for us is our knowledge in promoting our products."*

> *"Public awareness of the product is a problem; also quality issues and education of tradesmen for the new products and materials."*

> *"We need a product database and production of standard reports."*

> *"We think we need a broader range of products that encourage repeat business and increase turnover, but we are not sure what there might be."*

> *"A key issue for us is looking for and finding new products that suits what the business model is. As long as the business is better than the competitors its fine."*

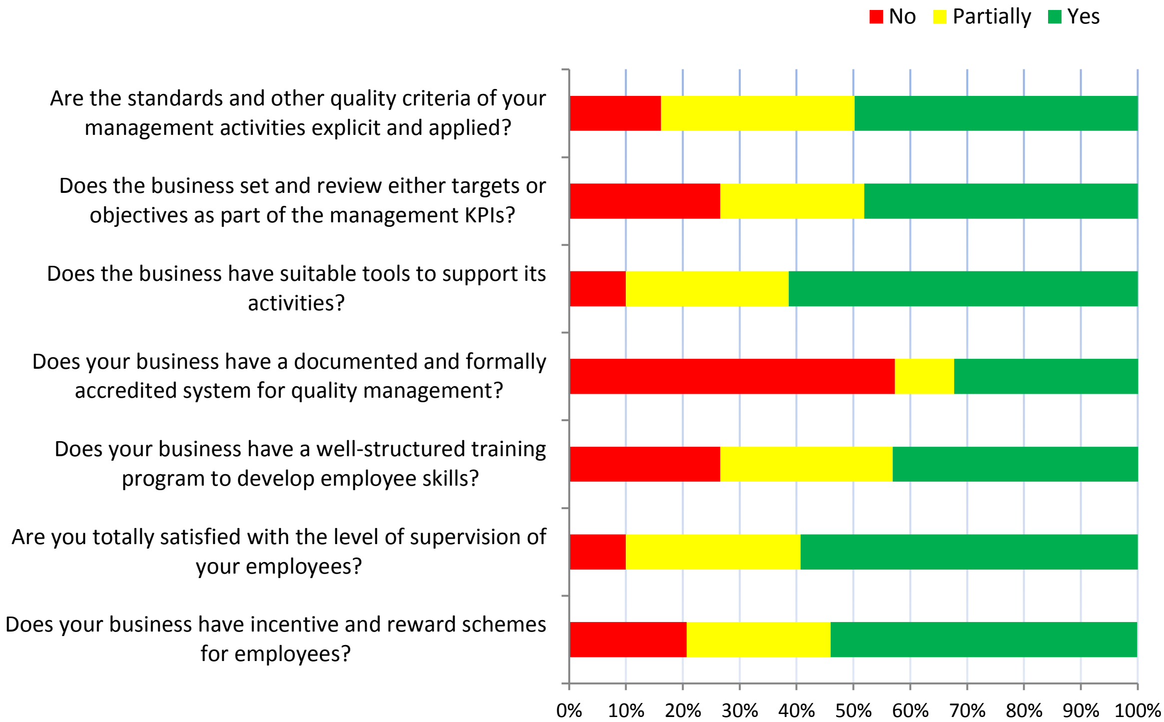
QUALITY

The area relating to 'quality' focuses on how the owner-managers systematically promoted quality assurance within their businesses. This includes setting clear quality standards, using quality performance KPIs and tools like 'balanced scorecard' (Kaplan and Norton 1993; 2001a/b). It also examines the use of formal quality assurance systems within the firm, including use of supervision, training and incentives for employees to maintain quality.

As shown in Figure 17 only half the owner-managers reported that they had explicit and applied quality standards that were regularly reviewed. Further, only 32% reported having a documented and formally accredited quality assurance system in place. Despite this 61% of the owner-managers felt confident that their business had suitable tools to support its activities, and 59% indicated that they were totally satisfied with the level of supervision of employees. It is also worth noting that 54% of owner-managers reported having some form of incentive and reward scheme in place so as to encourage extra levels of commitment from employees.

Further examination of these responses found firms that had documented and formally accredited quality assurance systems were also significantly more likely than their counterparts with such systems, to set and review targets and objectives with KPIs. This was also the case for the possession of tools to support business activities with 86% of formally quality assured firms doing this compared to only 48% of non-quality assured firms. The quality assured firms were also significantly more likely to have made their quality criteria part of their explicit and applied management practices, while also have well-structured employee training and rewards systems in place.

FIGURE 17: QUALITY



The main concerns relating to quality were to do with products, staff and systems. The following comments are typical:

> *"My people are not interacting and communicating enough. In terms of products we supply great quality, customer service is also good."*

> *"Our key problems here are quality of stock and staff service consistency."*

> *"The quality of the service relies on the quality and skills of the employee. Rewards come from satisfied customers and high retention rates, and are less financially oriented than they are based on customer satisfaction."*

> *"The quality of the service delivered depends on the employee providing the service. Higher requirements for employment are desired but difficult to implement due to resistance to change."*

> *"Our products are good quality as is our service if that is what you mean. However, I think our business control is lacking".*

> *"However, a lot of the procedures undertaken are not formalised or delineated as a protocol. There is largely intuitive training taking place."*

> *"We regard quality as very high, but in developing products and selling as manufacturers we have to comply with a lot of rules and regulations, and they change all the time. It is hard to keep up with it sometimes."*

> *"There is limited time frame to maintain good quality product, especially perishable food and coffee beans."*

> *"My problem is high staff turnover and lack of time."*

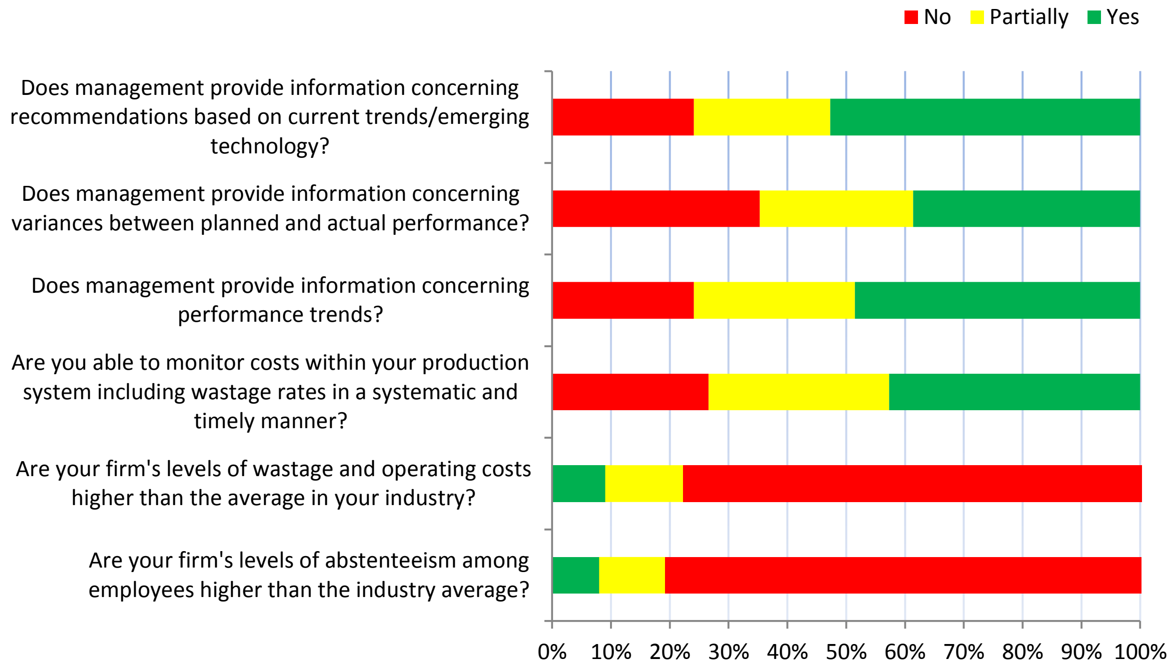
MANAGEMENT INFORMATION

The area 'management information' relates to how well the owner-manager regularly obtains data from trends and performance levels within their business. It deals with the use of performance KPI to help guide decision making and benchmarking.

Six items were used to examine this area and as shown in Figure 18 just over half (53%) of firms were positive that their management systems were providing information relating to trends and emerging technology. A similar number (49%) reported receiving information on performance trends. However, only 43% reported that they were confident they were able to monitor costs and wastage rates. Only 39% had confidence that they were getting information track variances between planned and actual performance.

When asked if the felt their levels of wastage and operating costs were higher than the industry average 78% said no they were not, and a further 81% stated that their levels of staff absenteeism was not above the industry average. This seems particularly high, however cross tabulations using chi-square tests found significant relationships between reportedly below average wastage and operating costs and not having a formal quality assurance management system. For example, 85% of firms that did not have a formal quality assurance system also reported below average rates of wastage and operating cost. By comparison the rate for firms with formal quality assurance systems who reported below average costs and wastage was 65%. In the area of staff absenteeism these figures were 87% for non-formal quality assured firms and 74% for firms with formal quality assurance. Further, the proportion of firms in the formal quality assurance group who reported above average wastage was 18% compared to 6% for firms without, and 13% and 5% in relation to staff absenteeism. These significant differences may be explained in terms of the firms with formal quality systems having a more accurate understanding of their wastage and absenteeism rates.

FIGURE 18: MANAGEMENT INFORMATION



When asked about their main problems within this area the common issues were associated with poor information management, inadequate communication, lack of time to collect data or read reports, and a paucity of reliable data. As the following comments illustrate:

"A problem is the lack of common information sharing among partners."

"There is a lack sharing of information among partners and workers."

"We also lack timely information."

"The business suffers from a lack of tracking and reporting of information. There is a lack of time and systems."

"I think there is a lack of communication between some of the senior staff members with the junior staff. It doesn't occur often, but when it does occur it can be bothersome."

"We have a lack of dissemination of differences between planned and actual performance on projects below the management level. Mid-level project leaders are not receiving systematic feedback in this area."

"The main management information problem is expired stocks. It would be good if there is a system which could tell you when stocks are going to expire – this can reduce wastage."

"Absenteeism amongst staff is a problem because of the early starts and employees spend time in the refrigerated area and there are therefore more sick."

"We do not do very much formal planning or compare with other businesses. We have enough to do with our own business, but it has not really been a problem. The problem is with employees not turning up which makes it hard to plan."

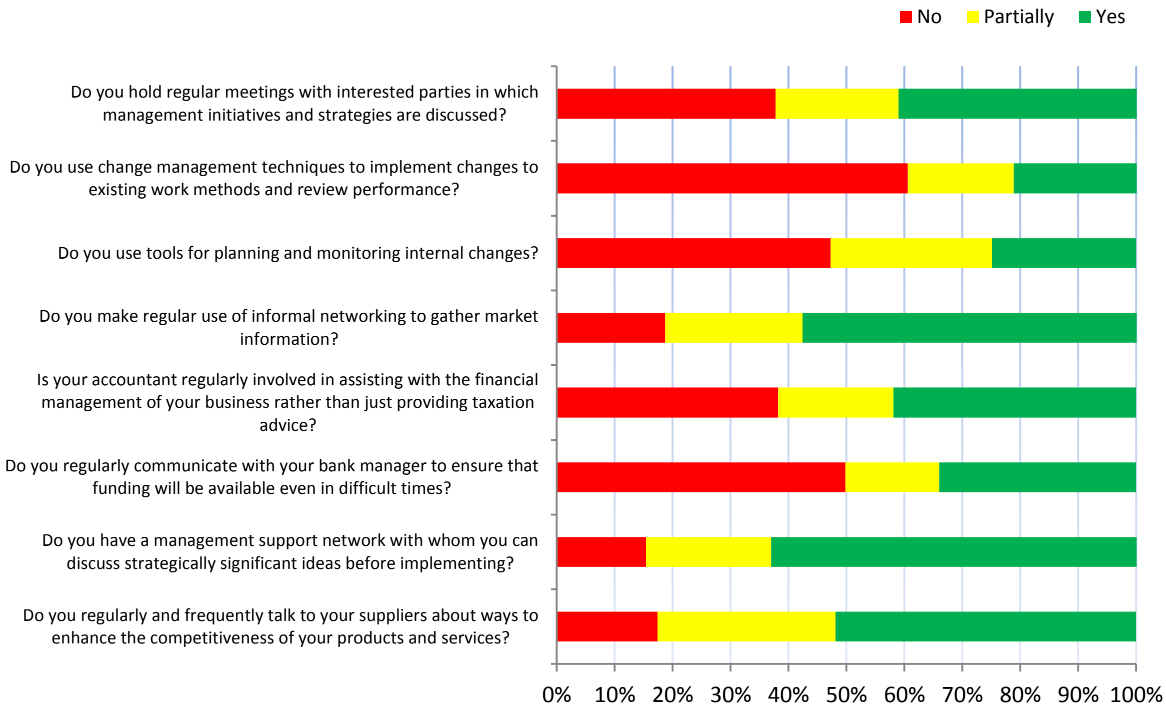
EXTERNAL INTEGRATION

The area of 'external integration' relates to how the owner-manager builds a support network that can provide them with strategic information. This involves networking, gathering marketing and industry intelligence, seeking the help of professional advisors (e.g. accountants), and partnering with key suppliers.

As illustrated in Figure 19 most of the owner-managers (63%) reported that they had a management support network they could turn to for strategic advice and a further 58% indicated that they made regular use of informal networking to gather market information. This suggests a good level of networking among these small business owners. Just over half (52%) claimed to regularly and frequently talk to suppliers about ways to enhance products and services.

However, 61% said that they did not use change management techniques to help implement change within their business. Nearly half (47%) also did not use tools for planning and monitoring internal change within the business. Half these owners did not communicate regularly with their bank manager, and only 42% reported that their accountant was regularly involved in helping the business rather than just dealing with taxation issues.

FIGURE 19: EXTERNAL INTEGRATION



In terms of specific problems the main issues raised by the owner-managers were their need to take a more active role in developing their external relations:

> *"It would be good if the company could establish some form of board or external mentor to aid with the strategic direction of the business".*

> *"It seems clear to me from the answers to these questions that I do not sufficiently use external resources to improve the business."*

> *"There is a lack of communication with external stakeholders."*

> *"The problem is setting aside time to cultivate relationships with my external partners (suppliers, customers, banks etc.), as I am usually too preoccupied with the running of the business."*

> *"My problem is keeping up relationships with suppliers as many are located interstate or overseas. I frequently travel overseas to negotiate supply contracts for the business."*

> *"The coordination of all of these stakeholders and communicating a common theme is vital. I believe we need to improve markedly in this area and engage a fresh set of eyes in assessing our business."*

OPERATIONS

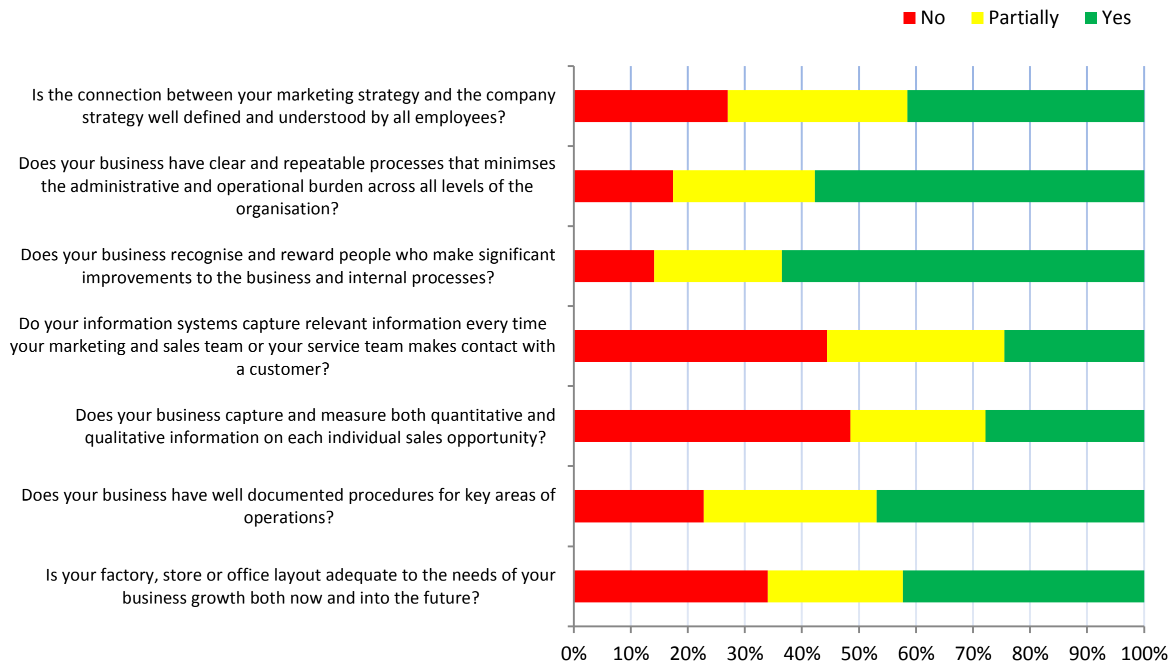
The 'operations' area focuses on the owner-manager's ability to integrate their marketing and sales activities with their firm's operational activities. This included linking marketing and operational strategies, and aligns the firm's resources to deliver value both internally and externally. Seven question items were used to assess this area.

As shown in Figure 20, the majority (64%) of owner-managers reported that they recognised and rewarded people in their business that made significant improvements. A high proportion (58%) also said that they had a clear and repeatable process designed to reduce administrative and operational burdens. However, there was a more negative response in relation to the other items. For example, around half (49%) of these firms did not capture data of either a qualitative or quantitative kind in relation to sales, and 44% did not have systems to track customer contact. This is not surprising given the challenges of conducting such detailed customer tracking, particularly for the smaller firms.

An analysis of the difference between firms in relation to these items and size of business found significant relationships in several areas. Amongst the medium sized firms 85% reported having reward and recognition programs in place for employees who make significant improvements. This figure was 65% for small firms, but only 51.5% for the micro-businesses. Nevertheless it is encouraging to see so many micro-firms doing this.

A similar pattern emerged in relation to having well documented procedures for key areas of operation. Most (73%) medium sized firms reported positively over this, while the incidence among the small businesses was 52% and for the micro-businesses only 23.5%. Given the increasing complexity of operations as a business grows it is to be expected that larger firms will have more systematic management systems than their smaller counterparts.

FIGURE 20: OPERATIONS



When asked about problems relating to operations the most common issues raised were related to the challenge facing these owner-managers in handling all the work tasks required, plus the need to build up their firm's systems as they grew.

> *"I am the main operations arm of the business".*
>
> *"Procedures are in process of being formalised and documented. The business has existed despite the fact that clear operations have not been formalised."*
>
> *"I guess the main thing here we came up with was probably the layout again, which might affect the daily operations, and besides that, the same problems keep repeating and impacting on many aspects*

of the business; the differing future reflections of the business with those of the other franchisees, being one such problem."

"My main operational problem is a lack of systems, tools and procedures to streamline day to day operations. The growth of the business may require new premises sooner than we expected and this presents some cost and management issues for us."

"I am planning to keep most operations as essentially face to face and internet based, with the development of a website."

"A major concern at the moment is the size of the factory, which is not adequate now for growth and they are dealing with this at the moment."

"There is scope to reduce the amount of information contained in the heads of the owner-managers. The company does need to review its marketing strategy as part of the soon to be released strategic business plan."

"We have found making our own 'rules' up as we go along very tedious and time consuming. It can feel very isolated in decision making times due to lack of industry information and support, geographical constraints of professionals that may be able to help and grow the business. "

"Lots of information is currently kept in my head. I have looked at expanding but am concerned about the cost and the loss of full control over operations."

"The information is there to use, but there are no staff to use it properly, I don't have the team to look at the operations side of things too closely."

As these comments show, there was a clear tension within many owner-managers over knowing that they needed to have better systems to maintain operations, and the lack of time and staff to implement these systems and keep them in place. This is a common challenge for small business owners and is compounded by growth, which requires that the owner-manager engage in constant process of "backfilling" or playing catch-up with their systems as the business expands.

Another common challenge facing these owner-managers was the lack of resources such as retail or office floor space, factory capacity or storage space. Also a lack of employees and how to develop the existing staff to meet the demands of a business that is growing.

STRATEGY AND INNOVATION

The final area was related to 'strategy and innovation', which focuses on the owner-manager's ability to build a competitive market position through value adding, innovation, and differentiation of products and services. Within this area are considerations of the protection of intellectual property, customer and market tracking, sales forecasting and business planning.

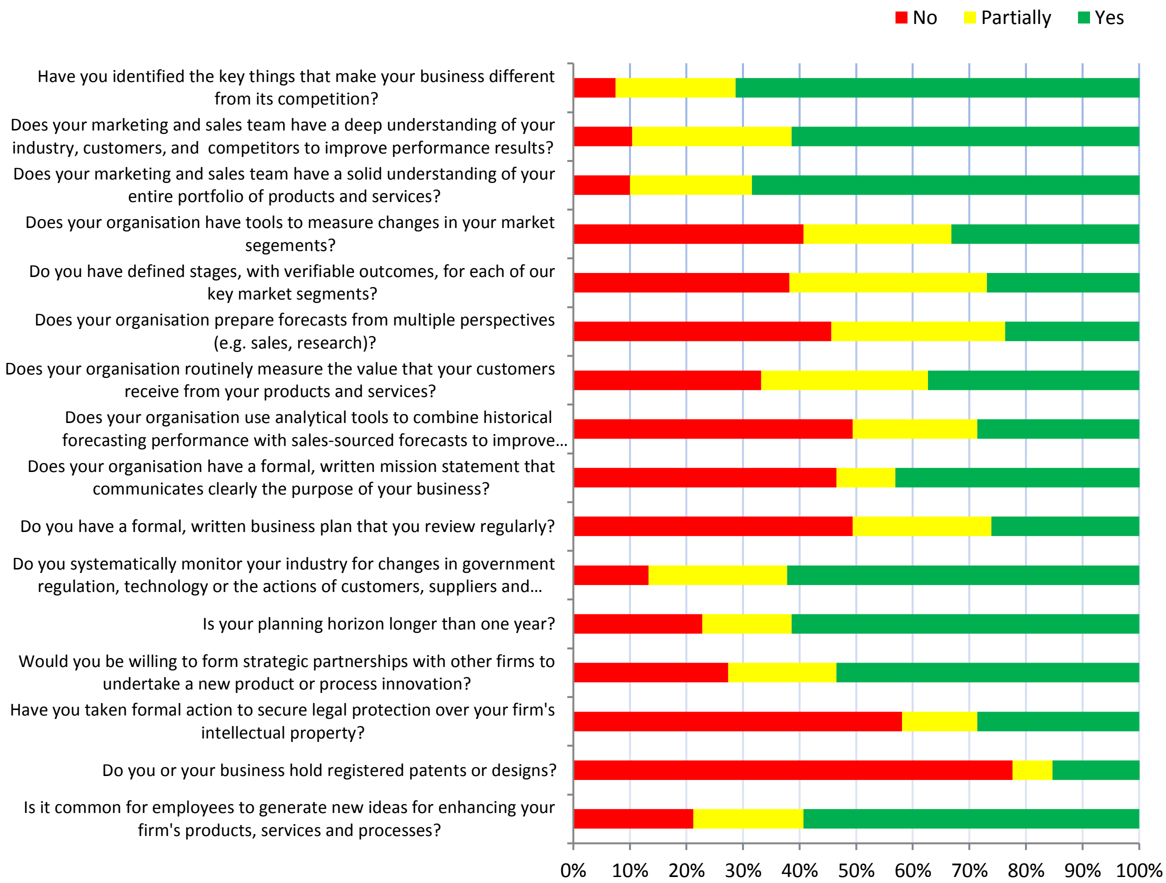
A total of 16 question items were used to assess this area. As illustrated in Figure 21 there was a mixture of responses. The majority (71%) of owner-managers indicated positively that they had identified the key things that made their business different from their competitors. A further 62% were confident that they were able to systematically monitor their industry for changes to government regulation, technology or the actions of customers, suppliers or competitors.

In terms of marketing and sales strategy, 69% of owners were positive that their marketing and sales team had a deep understanding of the firm's entire portfolio of products, and 61% felt that their marketing and sales teams had a deep understanding of their industry, customers and competitors so as to improve performance.

However, only 33% reported a positive agreement that they had in place tools to measure changes in market segments, and only 24% reported preparing forecasts based on good data. There was a fairly divided view in relation to routinely assessing the value each customer receives from the firm's products and services.

With respect to business planning, it is worth noting that only 26% of owners reported positively that they had a formal, written business plan that they reviewed on a regular basis. In fact nearly half (49%) did not have such a plan. However, 43% said that they had a formal, written mission statement, while 47% did not. This reflects the often informal and ad hoc nature of planning in SMEs. Despite this relative lack of formal planning 61% of owner-managers said that their planning horizon was longer than one year.

FIGURE 21: STRATEGY AND INNOVATION



In relation to innovation the picture was less positive. The majority (78%) did not hold any formally registered intellectual property (IP), such as patents or registered designs. Most firms (58%) had also taken no action to protect their IP rights. However, on a more positive level 59% of owner-managers indicated that it was common for employees to generate new ideas for future products or services. There was also a willingness by 54% of owners to form strategic partnerships with other firms in order to develop new products and services.

When these items were examined against the size of the business significant differences were found. For example as the firms grew in size from micro, through small to medium size, it was more likely that they would have indicated a "yes" to the questions in this strategy and innovation area. In particular the following items:

- Having identified the key things that make the business different from competitors.

- Having a marketing and sales team with a deep understanding of the industry, customers and competitors so as to improve performance.
- Having tools to measure changes in market segments.
- Preparing forecasts from multiple perspectives such as market research and sales data.
- Using analytic tools to combine historical performance and sales forecasts to improve prediction.
- Systematic monitoring of industry for changes in government, technology or the actions of customers, suppliers and competitors.
- Having a planning horizon longer than one year.
- Holding patents or registered designs.

These findings are a reflection of the need for more formal and sophisticated planning as a business grows. Few businesses can grow successfully through micro, small to medium size without adopting better planning and management systems, strengthening their formal planning and strategy approaches, or enhancing their innovation (Richbell, Watts and Wardle 2006; Brinckmann, Grichnik and Kapsa 2010).

In terms of the problems these owner-managers had in relation to strategy and innovation, the most common were associated with the need to find the time to undertake such planning, and to also know how to do this task. As the following comments indicate:

> *"I have been too focused on the day to day running of the business."*
>
> *"If my business gets off its feet and grows, I will have to employ a full time manager who is not a family member. At present, I perform all the operations so it's quite demanding".*
>
> *"I don't do formal strategic plans for the business at the moment as I am so busy. I jot down as much as I can informally, but you don't really know until you do it."*

However, there was recognition of the need for business planning:

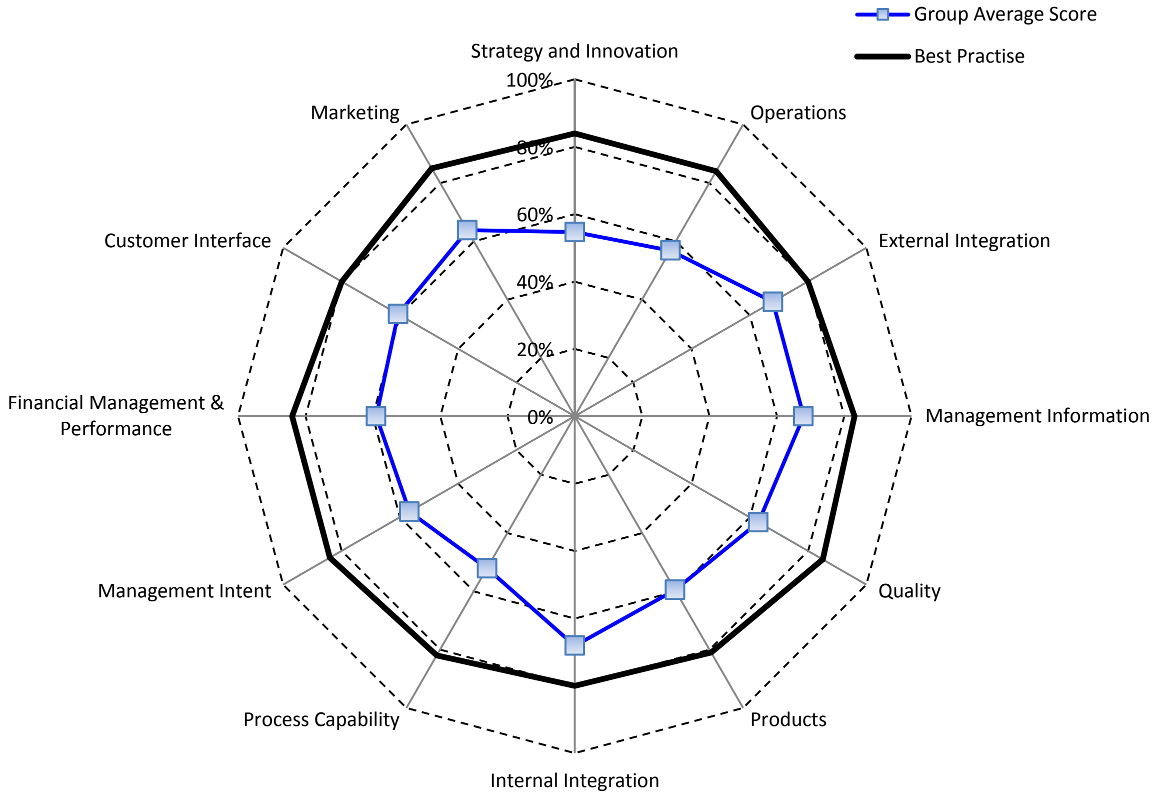
> *"We need to develop and then make use of a comprehensive business plan."*
>
> *"The lack of a business plan is by far the biggest limitation to the strategic capacity of the business. This is something that is presently being addressed."*
>
> *"I simply need a formal written business plan".*
>
> *"My problem is the lack of a current written business and strategic plan with a long term time horizon".*
>
> *"I did most of the formal strategic plans when I initially did up my business plans prior to the business being set up. Right now there is no formal plan at the moment."*
>
> *"My business has a short term rather than long term outlook and no formal written business plan."*
>
> *"Our problem is the need of the marketing and sales team to have an understanding of the industry, customers and competitors, and for them to understand the portfolio of the products and services. To have a formal, written business plan that we can review regularly will be useful."*
>
> *"We have plans but they are not formal and written. We need a more formal and strategic approach".*
>
> *"In this are we have informal processes in place for seeking new innovation and the development of strategies. However, again no formal structures are in place."*

DISCUSSION AND CONCLUSIONS

Figure 22 provides a radar chart plot of the overall performance of all 241 firms across the 12 performance areas. As can be seen, the group average score is well below best practice. Among the strongest areas were internal integration, external integration and management information. Marketing, quality and customer interface were also fairly strong. The weakest areas were process capability, strategy and innovation, management intent and operations.

Although there were many differences between these small firms in terms of size and industry sector, a common pattern of behaviour emerges. Overall these owner-managers were able to demonstrate a close proximity to their customers and a good knowledge of how to deliver the type of products or services that their customers wanted. However, very few had formal marketing plans in place.

FIGURE 22: THE RADAR CHART OF SMALL BUSINESS PERFORMANCE FULL SAMPLE



The relatively strong performance on internal integration and management information is a reflection of their ability to monitor the performance of their business with relatively simple KPI and to keep their finger on the pulse within day to day routine operations. Most had a clear understanding of the necessary skills required to keep the business operating effectively and to maintain their essential supplies of stock or inventory. However, they were less likely to map this data against business plans or to systematically monitor trends and variances in order to get the best out of their limited resources and reduce wastage. Most had reported above average levels of wastage and staff absenteeism, which impacts on the management information score.

Their external networking was also fairly strong as they maintained their informal networking as a mechanism to gather market information. Most also had a support network to whom they could turn to get assistance with strategic decision making. As outlined in Table 2, the most common source of outsider support came from professionals such as accountants, who were also the most valued. However, the use of outsiders was more common among the small and medium sized firms than the micro-enterprises. As shown in Figures 8 and 9, the level of proactivity in seeking outsider support increased with the size of the firm. This study also found that few owner-managers had made any use of business roundtables or mentoring services.

The weaknesses in process capability and operations were to do with the lack of systems. Very few had established detailed service level agreements (SLAs), or plans for ensuring future requirements and processes. There were also major weaknesses in operations relating to the ability of these firms IT systems to capture data on sales activity and then integrate this into the planning process.

From the perspective of strategy and innovation very few firms had formal, written business plans that they reviewed on a regular basis, and about half did not have formal mission statements. Most firms also had very little evidence of any systematic approach to innovation, with little formal IP rights registration. However, what was encouraging is their ability to identify the things that helped to differentiate them from competitors, their monitoring of trends in their industry and longer term planning horizons. The relatively high proportion of firms that reported employees were a key source of new ideas for business improvement was also encouraging.

LEXIMANCER MAPPING OF MAJOR PROBLEMS

As outlined above, there were comments captured in the diagnostic survey tool about problems. These comments were examined using the Leximancer text mining software tool (Leximancer 2011). Leximancer uses word frequency and co-occurrence counts as data to generate empirically validated mathematical algorithms to examine the text and generate "concept maps" (Smith and Humphreys 2006). A "concept" is a collection of words that are found together in the text and are associated with each other.

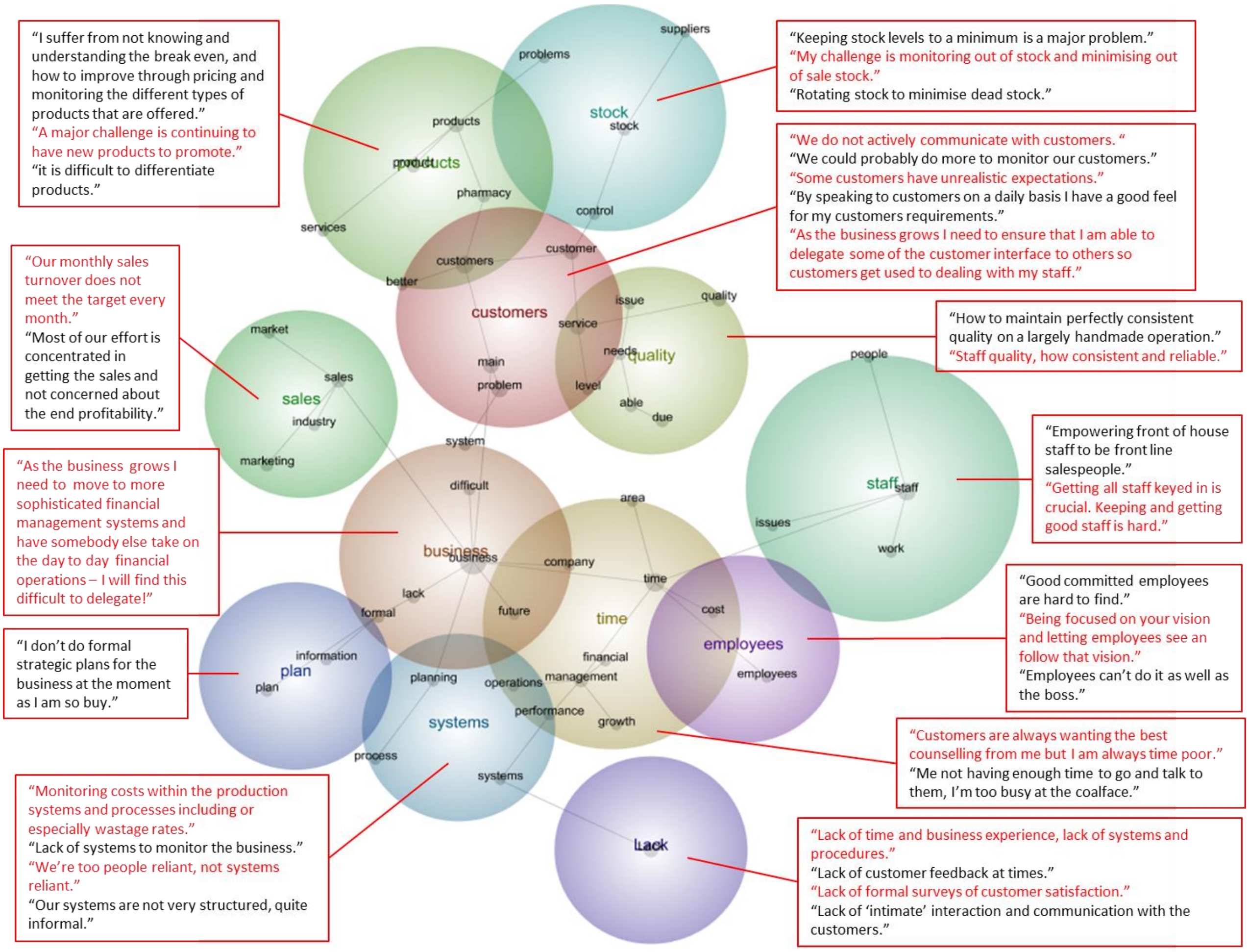
Figure 23 shows the Leximancer concept map for all the comments made by the owner-managers in relation to their problems or challenges across the 12 areas. The bubbles are "themes" within which the "concepts" are shown as words with lines linking those concepts that are related. The size of a bubble for each theme represents the number of time these concepts were mentioned and the grouping of concepts within each theme. The relative importance of a theme is also reflected in the colour of the bubble, with "hotter" colours such as red or brown indicating more importance or frequency than cooler colours (e.g. blue or green).

It can be seen from Figure 23 that there was a cluster of themes associated with the business, the lack of time and resources for planning, plus a lack of systems. Management of staff and the need to spend time developing teams and delegating responsibility were also major issues raised. Finding, training and keeping good employees were also concerns for many owner-managers.

These "internal" issues were counter balanced by the more "external" issues that form the second major cluster focusing around customers. Related to this were problems relating to maintain product and service quality, stock or inventory management, and product/service management. A separate theme was sales, which was related to the core business theme. This revolved around generating sales and ensuring that sales turnover was not only trending in the right direction, but that profit margins were too.

The findings from this diagnostic tool outlined here are largely descriptive in nature. They also suffer from some limitations due to the nature of the sample, and the self-reported data that was gathered from the owner-managers during the interviews. Despite these limitations the data from a relatively large number of small businesses, and the relative depth of the information gathered makes these findings of potential value in helping to understand the management behaviour of small business owners.

FIGURE 23: THE KEY PROBLEMS FACING OWNER-MANAGERS (LEXIMANCER CONCEPT MAP)



IMPLICATIONS FOR POLICY AND PRACTICE

As discussed above, the contribution of SMEs to the national economy is substantial. While fostering new business start-ups and the growth of gazelle firms has been the focus of many government agencies seeking to boost employment rates and economic growth, more might be achieved through providing support to existing SMEs.

This diagnostic assessment suggests that while most small business owner-managers in established firms are in control of their companies, they face problems associated with a lack of systems, or the ability and time to develop and implement formal planning and control systems. As found in this study only 26% of these owner-managers reported that they had a formal, written business plan that was regularly reviewed; only 29% had a formal, written marketing plan that was regularly reviewed, and only 32% had formal quality assurance management systems in place. Such formal management systems do take time to set up and many of the micro-businesses struggle to get such procedures in place. However, these schemes do assist small business owners to run their companies more effectively and are very important as the firm grows.

Government agencies seeking to boost the productivity and growth of the small business sector should focus on strengthening the management skills and systems of these firms through management education and development programs. This is an issue that has been recognised for decades, but one that has not had any systematic action take to address it. The Beddell Report of 1990 highlighted many of these problems with the following comments:

> *"A major factor inhibiting the success of a small business is the lack of managerial skills of the owner/manager. The lack of managerial ability in many cases is the result of, or is compounded by a lack of business education or experience. Small businesses require specific management skills which need to be acquired to lay the foundation for a viable business. These fall into two areas: first, operational skills such as financial planning, cash flow management, debt collecting, work scheduling and priority setting; and second, strategic skills where the owner/manager can no longer control all aspects of the business and needs to develop long term planning objectives, and delegation and communication skills."* (Beddell 1990 p. 53)

The nature of small business management training, education and support has been examined elsewhere in more detail (Dawe and Nguyen 2007). However, the type of courses that should be offered to owner-managers need to be specifically tailored to their needs, and currently many courses offered by universities are not configured for this, with an over emphasis on entrepreneurship rather than small business management (Mazzarol 2014). The vocational education and training (VET) sector has courses targeted at the small business owner-manager, but many of these are strong on the operational but weaker in terms of strategic and innovation skills (Webster, Walker and Brown 2005; Lee and McGuiggan 2009).

Owner-managers should be prepared to take the time to build up their company's systems, and to think like a larger firm so as to allow for future growth or just to help reduce the ongoing burden of having to do everything themselves. Engaging in management education and development programs is one option, but so is seeking outsider support when required. This should focus on issues wider than the financial management support they might get from accountants. Collaboration with other small business owners via business roundtables and the use of business coaching or mentoring services can also prove beneficial (Mole 2004).

DIRECTIONS FOR FUTURE RESEARCH

The need for a best practice benchmarking approach targeting SMEs continues to be a field worthy of future research. McAdam and Kelly (2002) in their study of quality management among small businesses in the United Kingdom noted that there was a paucity of research studies into the best practice process of SMEs. They also noted the main barriers to growth within such firms are the owner-managers' skills and abilities. Using eight SME case studies of firms that were seeking to implement a business best practice model as part of a total quality management improvement program. They found that benchmarking when used in conjunction with best practice improvement initiatives had substantial benefits in helping the companies to determine standards of performance and highlight areas of weakness.

According to McAdam and Kelly (2002) future research in this area should have focused on "deep, rich grounded, inductive studies", and that such research:

> *"...must look at the causal and phenomenological aspects, which lie behind performance measures, such as cultural and knowledge based processes."* (McAdam and Kelly 2002 p. 24)

Since its publication their paper has been cited 83 times with many of these studies not seeking to advance the field in any substantive way. Many studies did not specifically focus on SMEs but the more generis issue of benchmarking. Some, like Marie, Bronet and Pillet (2008) sought to develop applied benchmarking and performance assessment tools for SMEs. However, as an earlier study by Cassell, Nadin and Older Gray (2001) noted, there is a need to understand what to benchmark, how SMEs use benchmarking data, how effective such benchmarking is and how to get owner-managers to engage with this process. Their findings accord with those outlined in this study. Broadly the same indicators as covered in the 12 areas of the diagnostic tool were identified as being relevant and effective to small businesses. There was also a need for a balance of "hard" and "soft" indicators. This finding was also supported by Suttapong and Tian (2012) who undertook a comprehensive review of the literature associated with performance benchmarking and best practice in SMEs.

Future research in this area is required and there is a requirement for more baseline data from larger samples with the ability to make comparisons of firms across time segmented by size, industry and geographic location. Databases such as the Business Longitudinal Database (ABS, 2006) can prove useful in this regard. However, there is a need to collect the rich and grounded data of the kind proposed by McAdam and Kelly (2002), with direct observation of how small business owner-managers perform and the problems they face in seeking to manage their companies. This requires face-to-face interviews and in-depth case studies to examine the nature and context of how a small business operates and what may influence best practice behaviour.

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