

Constructing Excellence

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# **How Small Firms Learn and Change**

**A review of research and expertise**

## **Summary for partners and Advisors**

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The research summarised here was carried out in early 2003 by Eclipse Research and Cambridge Architectural Research, under contract to CBP.

Its purpose was to identify, collate and evaluate information on how small companies, particularly construction companies, learn about business improvement and are persuaded to adopt change. CBP's approach to small companies has been based on the premise that the range of services on offer to the whole industry is appropriate for them, although some adaptation of material may be needed. We intend to improve our services by working more closely with a range of intermediary organisations and by further understanding the ways in which small companies learn and change.

As there are so many small companies in construction, CBP sees it as important to be able to target its efforts by selecting and approaching those companies which will be able to make best use of the services we have on offer.

Eclipse and CAR were asked to concentrate on the question:

*What are the key factors that will enable CBP to identify and engage with small companies with the willingness and capability to change and improve their business?*

It is hoped to be able to build on this initial study and carry out further work to answer some of the questions which it raised. If you would like to contribute ideas for further research, take part in determining its focus or be kept in touch with its outcomes, please contact Sue Hobbs at Construction Best Practice. (01923 664869; [hobbss@cbpp.org.uk](mailto:hobbss@cbpp.org.uk)).

### **How Small Firms Learn and Change**

#### **Overview**

From January-March 2003 Eclipse Research and CAR reviewed the literature about small firms and interviewed experts on working with these firms. We sought to examine a series of questions raised by the Construction Best Practice Programme relating to how firms of 10 to 49 employees acquire information, how they change their management or processes, and how government agencies can support learning and change in such small firms.

We read 80 publications published since 1998, and interviewed 14 experts working in universities and government agencies. Eight of the experts had experience of and expertise in construction.

We found considerable consensus among experts and in the literature about how best to engage and support small firms, what triggers them to change, and how they engage in networks. In particular, researchers stress the diversity among small firms, how government schemes so often fail to take this into account, and how support should be tailored narrowly to fit each small firm's circumstances.

However, we found that research into small firms, learning and change is still immature. Experts and researchers had very limited evidence to support some of their answers relating to preferred sources of information, how networks operate, and how management structure and the owner's characteristics affect change. In these cases, their answers appear to depend more on intuitive feel than empirical data.

We also found that it was very difficult to generalise across all small firms. There is a huge difference in management, structure and activities between a construction firm with 49 employees, and one employing 10. Of course, firms in different sub-sectors of construction look very different irrespective of size, but we suspect there may be a threshold between 10 and 49 where firms generally add a tier of management between staff and the owner-manager. The level of this threshold requires further study.

Eclipse and CAR have summarised the key points raised in this project below. First is a summary of policy recommendations based on our findings. Second is a digested summary of points raised in interviews and the literature, grouped into sections - from learning, through change, to management and networks - although inevitably the sections overlap. Third, we have sketched out some ideas for creating a 'litmus test' to identify the small firms most likely to change or learn.

## **'State of the Art' review conducted for Construction Best Practice**

### **Recommendations**

#### **Policy recommendations for government agencies**

- Focus resources on small firms that look outside their firm, and those with positive cash-flows, for they are more likely to learn and change.
- Tailor support to the needs of specific firms. Sub-sector, stage in the business life cycle, ownership and management style are all important determinants of how a firm learns and changes.
- There are already too many government initiatives. They should be simplified and rationalised. Small firms are confused about and frustrated with government “help”.
- Try to piggy-back on existing local networks and company-support agents (like accountants and banks). They must be credible, trusted intermediaries, and it's better if there's no suspicion they could be government inspectors.
- Robert Blackburn cautioned that small firm managers need to see a clear exit route. They don't want to get stuck on a merry-go-round of government initiatives forever.
- Conversely, there are some 'initiative junkies' who keep coming back for more, but whose support doesn't represent good use of resources.
- Government agencies should use trade and professional associations to pass information and set up networks.
- Regional or local support and information is more effective than help provided centrally or nationally – particularly if provided flexibly: on small firms' premises and/or outside normal working hours.
- Most small firms prefer to receive information face-to-face rather than through on paper or electronically.

#### **Recommendations for information brokers who target small firms**

- You need to build a trusting relationship with small firm managers before they accept you as a source of information. Ideally, build this relationship through face-to-face meetings.
- Small firms would rather learn from peers – other small firms in a similar position – than from you. Try to create networking opportunities for your clients to meet each other where possible.
- Your small firm clients are very idiosyncratic. Trying to sell them a generic set of advice that is designed for use in all firms is unlikely to be successful. Much better to find out as much as possible about the firm, and work out a development strategy that is just right for them.
- It is better to offer help for small, realistic, changes – at least at first.
- Offer support flexibly: on small firms' premises and/or outside normal working hours.
- Be wary of 'initiative junkies' who keep coming back for more, but whose support is not a good use of our time.
- Small firm clients need to see a clear exit route. They don't want to get stuck on a merry-go-round of initiatives forever.

#### **Summary for Information Brokers**

## **'State of the Art' review conducted for Construction Best Practice**

### **Summary of Literature and Survey Findings**

#### **Learning**

- Small firms that are outward-facing, and with rising turnover, are more likely to learn. Engagement in networks is evidence of being outward-facing. However, the majority of small firms interact very little with outsiders.
- Almost all of the experts said small firms prefer to get information face-to-face.
- They see learning from peers (perhaps in networks) as one of the most effective forms of support. Peers that have actually done whatever the firm seeks to learn about are the most credible source of information.
- Most learning in a small firm is incidental to completing its work. It is often unplanned, and learning by doing or from peers.
- When small firms try consciously to learn, it is usually to resolve a specific, immediate problem rather than for broad-base management guidance.
- It is very hard to generalise across small firms about where they find information and how they change. To paraphrase Nigel Hudson, they are idiosyncratic, and recognising variability among small firms is more important than trying to find generic solutions.
- Nevertheless, the main sources of information cited for small firms are suppliers (which for small construction firms usually means builders' merchants and DIY stores), trade journals and newspapers, clients and other companies they work with.
- In interviews, some experts felt there may be a trend toward greater access to and use of information and communication technologies – and particularly the Internet – but this is likely to complement rather than replace face-to-face contact.

#### **Change**

- Change is often forced on a small firm by competitive pressures or clients.
- Regarding the precise triggers for action, the experts were divided. Many of them cited some form of “market change” – essentially changes that firms have to make to hold onto their customers or win new work. Legislation was high on their list. Several experts also mentioned the risk of disaster as a trigger to act.
- The experts were almost unanimous that management structure and the personality of the MD or owner-manager are fundamental determinants of change in a small firm. Some of them also identified the management styles likely to be most receptive to change. Empowerment, openness and clear communication were the main themes cited.
- The importance of owner-managers in small firms, said Peter Barrett, allows them to be agile in response to changing markets. However, it also brings the risk of being myopic and assuming the current way of operating is best.

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### **Supporting Small Firms**

- Government advice has only a moderate effect on small firms, and Kevin Mole wrote that half of firms with up to 100 employees use no outside assistance at all. The DTI reaches even less: just 8-12% by their own estimates.
- Government initiatives aimed at small firms need to acknowledge how diverse these businesses are, and evaluate the impact initiatives have. They should also engage directly with their intended audience, perhaps through networks.
- Government support would be more useful if it were more relevant to small firm needs, demonstrated business benefits specifically for small firms, and offered inducements to participate. Take up would also be higher if, where appropriate, the support were delivered through professional and trade associations.
- Public policy objectives and targets are ambiguous, so it is impossible to know whether initiatives are achieving what they set out to do. Further, despite 25 years of government support for small and medium-sized firms, there is no firm evidence to date of a link between small firm training and performance improvements.

### **Networks**

- Almost all the experts said that networks are important in encouraging learning and change, and two experts thought their importance is increasing over time.
- Supportive clusters of firms help generate positive feedback and confidence, and cut isolation. They may also provide mentoring or informal advice opportunities. In sum, they help offset the fragility of small size, and may be a key determinant of success.
- However, networks are extremely diverse in terms of structure, location and linkage. In some sectors they are completely unknown, while in others they are widespread. Where they do exist, they are always fluid and evolving.
- It is impossible to prescribe or create a network, so the scope for government to set up successful networks from scratch is very limited.

## **'State of the Art' review conducted for Construction Best Practice**

### **Potential 'litmus test' factors**

Eclipse/CAR have drawn up a composite list from literature sources and interviews of the signs that may help to determine if a small firm is ready to learn and/or change. The factors below are said to increase the likelihood of learning, changing, or growing.

#### **Signs a small firm could learn:**

- Being less than 5 years old
- Being a member of a business network
- Having a rising turnover
- Creating new jobs in past 12 months
- Forming links with a university
- Having public sector clients that require qualifications or affiliations.

#### **Signs a small firm could learn and change:**

- Having 20+ employees and being 3-5 years old
- Employing technically/professionally qualified staff
- Trying to measure business processes
- Having a protected market niche
- Having a specialised competitive advantage
- Having more than one founder
- Having written business aims
- Recruiting new staff
- Participating in government initiatives
- Participating in a network
- Having a healthy cash-flow
- Knowing about an impending disaster
- Having a history of learning and change.

#### **For further information, contact:**

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### **Summary for Information Brokers**

Eclipse/CAR 20.04.03

**Nigel Hudson's Briefing Paper:  
Engaging small businesses in effective learning**

*Constraints*

1. Small businesses will not engage with a learning, training and development agenda that is not of their world and fails to recognise the needs of and constraints on small businesses.
2. The time frame of strategic business planning reduces with the size of a business. Six months is a long time ahead for a very small, less established business.
3. Approaches to learning, training and development in small businesses needs to take account of the shorter planning time frames they use by relating learning opportunities and benefits to these shorter time frames.
4. Learning, training and development activities are a relatively low priority for small businesses.
5. The smaller the business the less formal the management of the business and the less time is available for planning, learning and development.
6. The difficulty of taking time off work for learning is an even greater constraint on owner-manager and key worker participation in training than the direct cost of training.
7. The greater the participation of an owner-manager in the day-to-day operation of their business the more impractical it is for them to participate in training activities during working hours. Training and development opportunities for them and other key workers therefore need to be available in the evening and at weekends.
8. Small businesses will not take up assistance with business start-up, Investors in People and similar programmes unless it is highly subsidised. Take up will be higher for programmes that have seed funding, being highly subsidised or free at the beginning with costs increasing thereafter, compared to those that require payment of full cost fees throughout.
9. Small businesses do not make their greatest investment in learning in developing management and leadership skills.

*Facilitating engagement*

10. Facilitating the engagement of small businesses with learning, training and development activities should follow the natural contours of their business world. This may occur via individual advisor contacts, local agencies or sectoral bodies but needs to recognise that many small businesses confront similar problems and can learn from each other.
11. Learning needs to be integrated with the daily activities of the business and relevant to the issues that confront it.
12. Learning activities need to be available in 'bite-size' units of about 15 minutes in order to be appropriate to owner-managers, many of who will have heavy constraints on the time available for their own learning and development.
13. Bringing small businesses into learning clusters is an effective means of increasing learning between small businesses, even if contacts are conducted at a distance.
14. Owner-managers will seek help from those they know and trust, so the SFEDI brand needs to be recognised and trusted by these intermediaries so that they can recommend endorsed products and services to those they are advising.
15. Businesses that experience the benefits of learning, training and development in terms of improved employee motivation, staff retention, etc. are more likely to be willing to pay for such activities.
16. The next generation of small businesses will be able to utilise e-based learning.

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17. Owner-managers in new businesses are relatively computer literate when they have completed a business start-up programme.

### ***Learning styles***

18. Experiential forms of learning are preferred by owner-managers to formal, 'chalk and talk' training.
19. A preferred learning method for owner-managers is from the experiences of other small businesses.

### ***Objectives***

20. Engagement with learning, training and development activities will be greater if small businesses are encouraged to identify the benefits that they can derive from these activities rather than the discussion of benefits being restricted solely to immediate financial performance.
21. Small businesses enjoy recognition but do not engage in programmes and other development activities for that reason.

### ***Effective Learning***

22. The effectiveness of learning, training and development material for use in the small businesses environment will be more effective the more they replicate the informal, experiential learning styles that small business personnel prefer.
23. The effectiveness of learning, training and development material for use in the small businesses environment will be more effective the more they are based on active learning.
24. An action learning approach is more effective than more passive alternatives in the development of learning for owner-managers.
25. More effective learning occurs in start-up and small businesses if the learning is directed at solving problems for the business.
26. Learning materials are more effective if they are in plain English.
27. The mentor is a more important influence than the mentoring materials on the effectiveness of small business mentoring.

(Nigel Hudson works at the Small Firms Development Initiative (SFDI). He wrote this as a briefing paper for the SFDI, and included it as part of his response to our survey.)