

IMPORTANCE OF MANAGERIAL SKILLS AND KNOWLEDGE IN MANAGEMENT FOR SMALL ENTREPRENEURS

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Abstract

Small enterprises are generally considered to be more operative, can respond quicker and are more flexible than big companies, which form their strategies for years ahead. Limited focus on operations can have its advantages, but can also prevent enterprise to exploit new unseen opportunities. Development of market economy in Central and Eastern Europe has been suspended for decades, while for the rest of the world the problems of small and medium enterprises are in the centre of discussion for almost half of century. Problems with existence and development of small enterprise could be solved with closer attention to vital managerial skills and management knowledge for the small entrepreneurs. Support and provision of further education in these areas could help small entrepreneurs overcome initial development difficulties.

“Entrepreneurs who have tried and failed are part of the risk taking economy, but it is not necessary to accept the current failure rate as normal”
John Baldwin

Introduction

Various experts describe today's global economy as one in transformation to knowledge economy. Information systems and information technology have become at the beginning of the 21st century the most important factors for economy functioning in developed countries. However, it is not only the information systems and information technology, but actually working with information itself, which convey the change of thinking and creation of value in modern approaches to business and management.

These changes are reflected in current economy. The utilization of resources is being shifted from current capital strategic resources to strategic resources in the form of information, knowledge, creative thinking and innovation. Skills and knowledge belong to critical factors of production. Enterprises can gain competitive advantage by implementing continual and on-going innovations and the managerial skills and knowledge are in the centre of this process of innovations.

Many times these facts are underestimated by small entrepreneurs and overlooked by support programs for development of this size of entrepreneurship. Small enterprises, as part of small and medium enterprises (SME), form considerable part of state economy and they are also considered an important source for development of economy. Development and support programs for small enterprise should also focus on the area to help of skills and knowledge.

Whether these assertions are justified and the neglect of managerial skills by small enterprises affects their success are the questions which we would like to cover in this contribution.

1. Level of management of small enterprises

1.1. Situation of small enterprises in Slovakia

Small enterprises are part of larger category of small enterprises and medium enterprises. They all together form 98.8% of all companies in European Union. They are considered to be the engine for society development. Because of higher flexibility they can achieve competitive prices when manufacturing smaller batches. Small and medium enterprises (SMEs) play significant part in employment and professional training of young people. Compared to big companies, they employ more women, young people and part-time employees. SMEs are closely connected with the region than large employers and therefore have significant influence on further the region's development. Fiscal decentralization of the regions of Slovakia creates pressure on municipalities and mayors, who must pay a closer look on actual needs of all employers doing business in the particular region. Only this ways the mayors can secure loyalty of these employers and support them in their business. SMEs as the largest employer have gained in this new view considerable influence on decisions regarding their actual needs.

In the transitive economies like in Slovakia, there is relatively smaller share of small and medium enterprises. Government efforts are trying to speed up the change of the size structure with various support programs and instruments.

Recently, the most significant changes that influenced the business environment are:

- establishment of new tax system – flat tax of 19%
- speeding up of the procedures needed to start business
- change from defined benefit to defined contribution pension plans
- slight improvement of communication with tax offices

Although the growth of gross domestic product shows record values (8.3% for the year 2006) and there is improvement of business environment (Slovakia was in the year on 43rd place and in the year 2005 advanced to 39th place from the view in terms of companies' competitiveness), situation of Slovak business environment is still neither easy nor ideal.

1.2. Problems of small enterprises

Several conducted researches prove that there is a range of problems with small and medium enterprises. Based on studies in USA, there is a prevailing notion that "small enterprises simply do not work." Even though there are conditions for entrepreneurship and new enterprises are established, the rate of failure is on high level too. "Within any given year, close to one million small enterprises are founded. Sadly, at least 40% of those businesses fail within the first year. The failure rate over time is nothing short of staggering. Of the one million started the given year, more than 800,000 (80%) of them will be out of business within 5 years and 96% will have closed their doors before their 10th birthday" says Michael Gerber (Gerber, 2001). Is small entrepreneurship too risky? Is there a way to be in business with small enterprise and succeed?

The results of empirical studies of small enterprises (Newton, 2001) show that failure and bankruptcy of enterprise is caused more by internal problems inside the enterprise rather than by outside generated problems. Small enterprises do not create enough force to survive and overcome daily problems in the long run.

Same experiences gained Gerber from his own consultancy practice (Gerber, 2001, p.13), who coined the following entrepreneurial myth: „The fatal assumption is – you understand the technical work of a business, you understand a business that does that technical work “.

Gerber points out to the fact, that small enterprises are mostly founded by technicians, specialists or professional in certain field. For example, an accountant or a carpenter "know their onions" but have little information and experience in the field of management. They can perform their work on professional level, but seldom do they entrust their enterprise in the hands of manager, or try to acquire this knowledge by themselves. They run into problems with management of their enterprise because they concentrate all attention just to their specialized field of expertise. The management and managerial skills are neglected.

Similar results come out of Slovak study (National agency for development of small and medium enterprises, 2005), where the second most significant reason of not wanting to be in business (right after lack of financial capital) were missing skills and experience needed for conducting a business.

1.3. Knowledge in management

Basic knowledge in management is needed at initial stage of running an enterprise and also later during the development stage. At the beginning, the management of the enterprise is carried out by the sole founder/owner, who must perform all the actions needed with doing the business. Crises occur when the enterprise is successfully expanding and the entrepreneur (usually still the founder and owner) is not capable of running it

due to lack of needed knowledge and managerial skills. Initially entrepreneur devoted to the enterprise to much of own energy and later on simply “runs out of breath”. With this attitude he/she can not cover all areas of the enterprise, i.e. due to the enterprise expansion. He/she lacks needed managerial knowledge and skills of running and further developing the enterprise.

Manager of the enterprise should be generalist and gain basic skills and knowledge in managerial functions such as planning, organizing, leading and controlling. Manager also should have an overview of finance, marketing and market development, competitions and so on. If he/she does not pay enough attention to these issues, eventually he/she can not delegate responsibility for particular areas and will fail under the burden of undiscovered and emerging problems. These areas become with the growth of enterprise more complex and intricate and demand more attention.

Baldwin summarized these areas, which should be in attention for the small enterprises (Baldwin, 1997):

- insufficient use of consultancy services
- lack of quality
- unwillingness to delegate responsibilities
- key personnel leaving the enterprise
- personal issues concerning the owner/manager

These problems become more important factors causing failure of small enterprises, mainly as the enterprise grew older. According to Baldwin’s research (Baldwin, 1997), enormous number of bankrupt enterprises – 71% answered that one most significant internal factor for bankruptcy was lack of general and financial management knowledge.

The inadequate level of management together with the missing market for the product causes the failure of enterprise. Managers do not have enough experience, knowledge or vision how to run the enterprise. Even though the managers gain experience with the growth of the enterprise, knowledge and vision remain in shortage and that causes the enterprise to fail.

2. Fundamental management knowledge for small entrepreneurs

2.1. Managerial abilities, roles and skills

Being manager is not an easy task due to the work with the people. From all production factors people are the most intricate to manage. Not everybody feels at ease in managing people. Nonetheless, there are certain personal abilities, which can predict the future efficiency and success of manager. Scholars from Faculty of management in Slovakia tried to identify necessary abilities, roles and skills managers should possessed: (Papula, 1995, p.28):

- creativity – ability to search and find new solutions
- intuition – be able to predict future development from own experience without analysis
- goal-oriented – be able to set real goals and respect the goal’s hierarchy
- responsibility – sense for achieving set goals and objectives
- self-confidence – belief in own strength and ability to achieve goals
- initiative – an effort to look for new possibilities and solutions for reaching set goals
- independence – the courage to make decision based on own judgment
- cautiousness – be able to make decision under stress and unsure conditions
- scrupulosity - support social values and norms
- discipline – self-control and regulation of own behavior
- persistence – tenacity needed to overcome barrier when achieving goals
- optimism – orientation towards positive goals and things in connection with faith in success
- fantasy – creation of visions and imaginations about future

Every man has hidden potential of certain kind inside. It is important how one can utilize this potential. Manager needs to use and influence behavior of people around to reach the goals of the enterprise. In doing so manager use the managerial functions – planning, organizing, leading and control; while “playing” the following roles in the enterprise (Papula, 1995, p.18):

- interpersonal roles – Figurehead, Leader, Liaison
- information roles – Monitor, Disseminator, Spokesperson
- decision making role – Entrepreneur, Disturbance handler, Resource Allocator, Negotiator

In fulfilling their duties managers use managerial skills. These skills directly affect the results of the manager, but they can be learned and gained by training. The criteria for dividing the skills can vary but these

are considered to be the basic managerial skills, which are needed for an effective managerial work (Piškanin, Rudy et al., 2006, p.11):

- Technical – ability of manager to use specific methods and techniques in doing the managerial work. However these technical skills are not related to technology, such as skills of engineer. The technical skills for managers represent the usage of methods like break even analysis in planning or ability to prepare for and conduct a structured interview.
- Interpersonal – people are most valuable resource of any enterprise and manager needs to know how to lead people. Abilities include motivation of workers, solving work conflicts, communication and working with people. Therefore interpersonal skills are essential on every level of management.
- Conceptual – these skills are must for middle or top manager. This is the ability to “grasp the whole picture”. See the organization as one whole intertwined with the surrounding environment with the relevant priorities and important issues.
- Communication – manager needs information for decision making. Ability to disseminate and receive information is thus important tools for manager. It is not only verbal communication, but the manager should be able to distinguish non verbal signals, mood and feelings to filter the right information.

Technical/professional knowledge alone is certainly needed to make the “technical side” of doing the business work, but is not sufficient for successful development of the enterprise. The growth of small enterprise leads to new situation, which require managerial skills. Acquiring of managerial skills is not a simple task, because it means to apply theoretical knowledge into praxis. On one hand graduates from college miss the practical experience; on the other hand, the hard workers with long-term praxis many times have not yet covered new theoretical knowledge. Only by intersecting theoretical knowledge with experience from praxis it is possible to gain managerial skills.

These are the basic sets of skills of a manager, which might be hard to translate into some learning framework for small enterprises. At first it is necessary to point out that any attempt to identify universal key skills needed for small enterprises can not be complete and straightforward due to following reasons:

- the population of SMEs is vast and diverse (from small hot-dog stand to teenage millionaires)
- in connection to the size emerges the level of “development stage” – the older the enterprise gets, the more complex and sophisticated it becomes and there is need for a “better” skills set
- in connection to area of business – various types of industry have different needs for intensity of knowledge (old industrial vs. new knowledge economy)

But at least it is possible to outline how the small entrepreneurs should educate as their business grows in different phases of business development and point out the basis skills every manager should possess.

2.2. Phases of development of small enterprises

Phases of development occur in every evolution and it seems intuitively acceptable. Newton says (Newton, 2001, p.18) that the tradition goes back to Edith Penrose’s (1959) classic *The Theory of the Growth of the Firm*. The phases can be summarized as follows:

- pre start-up / actual start-up
- survival
- first growth
- expansion
- global perspective

Pre start-up

The beginning of the life cycle is usually referred to as pre start-up. It is the period when many would-be entrepreneurs ponder about the possible marketability of their schemes or ideas. This pre start-up phase involves the initial consideration followed by the decision to go forwards or not. The case of positive answer requires exploration of recourses, opportunities and requirements followed by formulation of some guiding vision which is subsequently deciphered into business plan. This of course involves some assessment of the market for the would-be entrepreneur’s product or service and a consideration of sources of financing.

The managerial skills, which these would-be entrepreneur possess, vary enormously at this phases. Some have formal management education like MBA, some may have years of practice and experience in particular field, yet other may have only idea or enthusiasm with no background experience. All of them will certainly develop their managerial skills set, although it will be clearly a various levels “of learning by doing”. Working

step by step with the business plan will reflect in better market understanding and chance of spotting opportunities, financial analysis will enhance financial literacy and so on.

These early phases are important part of development but the entrepreneur will likely not get down to textbooks to study the basics. Rather it will be self-searching wondering, checking whether I can do it, do I have the drive, ambition, vision or creativity?

Actual start-up

The following phase after pre start-up is typically the actual start-up. It might be a “spin off” from parent firm, university, government or private laboratory, or many times facilitated by small enterprises “incubator”, which increases the change of survival.

Survival

Survival is the phase, where the basic management skills mixed with a “touch” of entrepreneurialism starts to kick in. A simple cash flow problem/mismanagement can burn down the most daring vision of any entrepreneur.

First growth

As the enterprise stays alive it moves to phase first growth. The enterprise needs to open to surrounding, let other people know it exists thus communicate on various levels with relevant stakeholders.

Expansion

The enterprise entered maturity. As it “grows up”, it should start to take care of itself (i.e. the entrepreneur should be able to withdraw from the enterprise gradually), otherwise he/she can “suffocate in diapers”. In a given year, enterprises that used “Franchise format” have reported a success rate of 95 percent in contrast to almost 50 percent failure rate of enterprises who are owned independently. And where 80 percent of all enterprises fail in the first 5 years, 75 percent of enterprises using “Franchise format” succeed (Gerber, 2001, p.91). Clearly there is advantage in replacing the former “cowboy” managing style with formalization and creation of system of how things are done and should be dealt with.

Global perspective

After stabilizing position in “home town or country” the vision is needed to determine which direction the enterprise should go. Seeing global perspective where export markets are the ocean in which the future glimpse will be a lighthouse towards which the enterprise can sail.

These individual phases represent the types and level of sophistication of the managerial skills at each development phase. It includes various components of the managerial skills set, such as finance, marketing, research, production and human resource.

This is simply a model based on empirical observation of sample enterprises. It provides some generalization, but should not be taken as something strict and firm, rather just as a good “rule of thumb”. In fact, the phases can overlap or merge. Some can be skipped; one enterprise can look for foreign market right from start, while other will create a solid home country foundation for future expansions on the first place.

3. Education for small entrepreneurs

Good idea, hard work, enthusiasm, qualification and knowledge in certain field are necessary to establish the new enterprise but not enough to run an enterprise. Gerber mentioned in his researches (Gerber, 2001) there should be three types of positions needed for running an enterprise:

- technician
- manager
- entrepreneur

And so, there is need for three types of knowledge and further education for small entrepreneurs. If the person runs business on his own, he has to cover all areas – technical/professional, managerial and entrepreneurial. Most of the time, the founder educates his own just in the first one, to be professional in his field, to know the core of his business, how to produce the product or services.

But there is not necessity or even possibility to cover all these positions by one person. The first very important topic to learn is how to delegate. It is commonly known, that small entrepreneurs do not know how to delegate. Delegation is the hardest thing for most of the small enterprises owners. Sometimes it does not matter how the business grows and if new employees are hired, the owner does not like to trust and delegate the responsibilities to others. He/she likes to run all business on his/her own and carry all things by him/her self.

But delegation is a skill that is critical to business success and for a healthy work life balance. One person cannot do everything that needs to be done; he/she will get so busy and work will take over his/her personal life which causes personal unhappiness, stress and other problems (Ward, n.d.).

Learn how to delegate should be priority if the owner wants to become a manager of his/her enterprise. It is the way how to do less to achieve more.

3.1. Education in management

As the enterprise grows, there are different specific needs for managerial skills and knowledge. The need and range of different managerial skills depend on many factors and therefore an attempt to “craft” universal skill sets will never be perfect. One universal factor taken into account can be the development phase of the enterprise. Newton created a certain pyramids with different levels of managerial skills, based on his previous researches (Figure 1)¹. These levels resemble the type of skills needed in different phases of development.



Figure 1: Pyramid of managerial skills

At the base of the pyramid is group of basic skills and competencies. At least basic “understanding” is needed in reading numbers (i.e. financial statements) and working with computer. It is hard to survive without them in knowledge economy. Many entrepreneurs include in these skills also the “technical skills” needed to produce the particular product or render the service. This is their “selling card”.

Usage of managerial skills in next level includes the application of basic entrepreneurial skills to prepare business plan. Following comes to attention communication skills, which serve the following purpose:

- to secure financing from investors and banks
- convincing potential customers of advantages of the particular product or service
- to acquire key personnel for the enterprise
- to acquire the best advice and consultancy
- to form and cultivate partnerships and alliances

Successful growth phases (mentioned above) require that initial “fly by the seat of one's pants” decisions need to be replaced by certain form of standardization, formalization and procedures. Formal planning and strategy become important component of managerial skills. Later, slowly piece by piece the whole puzzle of enterprise begins to put together and visionary is in the lead. How does the enterprise see itself in future? What mission should it undergo? What enterprise culture does it want to create? Otherwise the whole journey can become a “wild goose chase”.

The pyramid represents set of certain managerial skills, which are needed to manage the growth of small enterprises successfully. They should be respected by anyone who is in the small business and also by support and advisory programs for small enterprise development.

3.2. Educational programs for Small Entrepreneurs

In Newton's survey among students and young entrepreneurs (Newton, 2001), respondents answered strongly (74%) that there should be a difference between education in entrepreneurship and management. Education in entrepreneurship should focus more on how to be innovator, visionary and creator of strategy orientation of an enterprise. It should be more about strategy, planning, forecasting, bringing new ideas, notions, and visions to reality of enterprising. Education in management should focus mainly on acquiring and developing managerial skills.

One of the researches in Slovakia (Jasaňová, et al. 2005) was carried among small and medium enterprises with the aim to map the educational system for managers (if any exists). The results were not pleasant and

¹ He used his former model from 1995 published in Newton, K, (1995), Management Skills Development in Canada (Ottawa: Industry Canada Occasional Paper no. 13).

conclusion was that educational process for managers of small and medium enterprises is not sufficiently or at all defined. Furthermore this process would not reflect current and future trends and at the same time the characteristics of particular regions stemming from their historical evolution, current state and geographical location. The methodological area needs improvement in structure, length, form and lectors and in managerial areas it is mainly management of process, especially the customer process.

The educational activities of small enterprises should focus mainly on the entrepreneurial awareness and skills in the area of marketing, information systems, tax laws and finance, acquiring new ICT skills, study of world languages (technical terminology), crafts development and protection environment and customer.

It is also the role of supporting program to help explain the difference between entrepreneurial and managerial education. The skillful worker who decides to go into business for himself/herself can be easily overwhelmed by the both types of needed skills. All he/she knows is how to make the product. He/she needs to acquire financing for the idea (with the help of entrepreneurial skills) and start running the enterprise (using the managerial skills). Starting small entrepreneurs usually possess none of them.

Conclusion

Results from various researches regarding the small enterprises revealed that, managerial skills and knowledge are needed for successful management of small enterprises and at the same time pointed out that there is some kind of indolence of commencing small entrepreneurs to these skills. The self-confidence of small entrepreneurs is so high, that they believe more in their ability rather than hire somebody else or pay attention to education of themselves to gain needed knowledge and managerial skills. Analysis of steps and phases of small enterprises development shows that there is possibility to create some sort of sets for managerial skills which are needed for further development of enterprise, regardless the industry in which enterprise functioning. Just like little baby at the beginning lasts with crying, later it is necessary for the baby to learn how to speak and walk. Likewise as the enterprise grows, also grows the necessity for other types of skills needed for survival.

Governments and supporting programs for small enterprise should consider a way how to increase the awareness about the need and significance of managerial skills and knowledge, and also support the preparation of integrated education and courses for small entrepreneurs. The small entrepreneurs should consider to what extent they want to be involved in running the enterprise. The question is whether to maintain their position in the technical aspect of the enterprise and delegate the management to professional manager or to move into the management of the enterprise. The latter action requires mastering new types of skills.

Enterprise needs to grow and/or develop to survive in current environment. If it stands still, it could fall behind, lose its competitiveness and be threatened with bankruptcy.

“Things in no movement perish.”

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