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**PRO-GROWTH SMALL BUSINESSES: LEARNING 'ARCHITECTURE'**

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## **PRO-GROWTH SMALL BUSINESSES: LEARNING 'ARCHITECTURE'**

### **ABSTRACT**

Internationally, a certain market failure has become apparent in terms of the effective engagement of small business owner-managers in business support programs, and in the wider concept of life long learning. There exists a cultural gap between support agencies and the small business sector's perceptions of the utility of formal support and learning interventions to the business performance of their business. Therefore, this paper extends knowledge and understanding within this context relative to what constitutes small business owner-managers' learning disposition, means, obstacles and organisation to be confronted and what form of new 'architecture' needs to be designed to support learning. A theoretical framework supports the analysis of findings from a research project based in Melbourne, Australia, which serves to illuminate pertinent issues towards informing more sensitised support interventions with respect to pro-growth small businesses. Specifically, the attribute of a learning culture was identified as a factor contributing to growth in small businesses, and may represent a distinguishing characteristic between effective and non-effective economic performers.

**Key words:** small business, support, learning, pro-growth, culture

## PRO-GROWTH SMALL BUSINESSES AND LEARNING SUPPORT

### INTRODUCTION

How to effectively engage small business owner-managers in business support programs designed to stimulate performance and employment has been an issue that has tended to frustrate training providers and policy makers in recent years. While an intention for small business owner-managers to increase their learning through business support programs is generally expressed, it has been found that they are the least likely people to participate (Cosh *et al.*, 1998; Leeds Metropolitan University, 1998; Matlay, 2000). Furthermore, the apparent failure of a range of formal business support programs to engage small business owner-managers represents a real concern as outlined by Matlay (2000: 336): *'It appears, however, that the specific training needs of the vast majority of owner-managers operating in the small business sector of the [British] economy remain unfulfilled despite the concerted efforts and sizeable funding that have been invested, over the last two decades, in this type of support initiative'*. This 'market failure' is recognised by the public sector who identify that small business owner-managers' needs are: *'diverse yet much provision is not yet aimed at meeting them nor is it geared to the different rhythms and exigencies of their business'* (NAGCELL, 1999: 29).

However, the process of embedding a culture of owner-manager learning in small businesses is challenging and complex. They cannot be coerced, rarely conform to 'type', have to cope with absolute power and leadership responsibilities, and are subject to a number of competing and conflicting influences which may lead to behaviours that defy logic (Beaver *et al.*, 1998). Also converging on the business support landscape is the concept of 'life long learning' that has been selected by a number of governments as a platform through which to communicate the need for

individuals and businesses to continuously seek to learn and apply new knowledge (Chaston *et al.*, 1999). Certainly, as economies have shifted from industrial to knowledge eras, learning for knowledge management has become recognised as the new route to sustained competitive advantage (Frey, 2000; Winterton *et al.*, 2000). Furthermore, concern has been expressed that a significant cultural gap exists between support agencies' promotion of a lifelong learning philosophy and the small business sector's perceptions of its utility to their businesses' performance (Chaston *et al.*, 1999; Sherwood *et al.*, 2000; Matlay, 2000). Indeed, NAGCELL (1999:29) states that: *'urgent and imaginative action is required to help those working in small businesses get into the learning age'*. It is argued that if this concept is to permeate small business management culture, then there requires to be an improved understanding of the conditions and infrastructure to support owner-manager learning and business development (Angehrn and Nabeth, 1997; Westhead and Storey, 1997; EC, 1998; Hemmington, 2000).

Thus, the primary aims of this paper are to: explore issues associated with the effective engagement of owner-managers in small business learning; identify ways in which a learning culture can potentially be embedded; and investigate how the perceptions of owner-managers and support agencies as to the utility of learning can be more usefully aligned. A critical review of relevant literature was undertaken to clarify the main concepts used in small business learning, identify previous research, and provide some theoretical 'anchor points'. This provides the conceptual framework within which to analyse findings from a research project based in Melbourne, Australia that investigated small businesses with a pro-growth orientation. The findings serve to further knowledge in that they illuminate owner-managers' disposition, means and organisation of learning. This is considered of value towards

informing more sensitised design of the architecture of support aimed at effectively engaging owner-managers, enhancing their learning culture, and bridging the chasm between small businesses' and support agencies' conceptions of life long learning and its utility to business growth. Thus, the structure of the paper first addresses literature pertaining to small businesses, owner-manager learning, and learning organisation, followed by background information to the Melbourne project and applied research methodology. Research findings are then presented followed by discussion and conclusions.

### **SMALL BUSINESS OWNER-MANAGER LEARNING**

Particularly relative to the endeavours of support agencies, Chaston *et al.* (1999) emphasise that understanding the way small business owner-managers learn is the key to effective interventions. Any discussion of learning begs a definition of what it involves. According to Beach (1980), learning is the human process by which skills, knowledge, habits and attitudes are acquired and altered in such a way that behaviour is modified (cited in Gibb, 1997). Hawke (1999) suggests that small business owner-managers are not large users of structured learning, but that is not to say that they are not engaged in some form of a learning process. It is generally accepted that they are active constructors of knowledge (Billet, 2000), learning informally from peers, customers and supplier, by doing, exploring, experimenting, copying, problem solving, opportunity taking and lessons from mistakes made in the process (Gibb, 1997; Beaver *et al.*, 1998; Dalley and Hamilton, 2000). This suggests that an action learning approach is appropriate to small business support, which is an informal, socialised process driven by human interaction. It would appear that traditional approaches have not generally incorporated such an approach, indicating a failure to understanding the small business learning culture. For example, Table 1 identifies a

range of obstacles arising from small business learning provision that have hampered engagement. These relate to a range of factors associated with the attitude and behaviour of the owner-manager, the nature of the business support, and small business characteristics. Furthermore, a causal link between participation in small business support programs and business benefits has still to be established, never mind documented, measured and effectively communicated to small businesses (Westhead and Storey, 1996; 1997).

(Insert Table 1 here)

Thus, it would appear that understanding of how small businesses learn and appropriate learning styles must start with the owner-manager, as it is acknowledged that they play a pivotal role in the day-to-day operation of small businesses (Matlay, 2000). According to Beaver *et al.* (1998) the management process in small businesses is characterised by the highly personalised preferences, prejudices and attitudes of the owner-manager. This can be particularly challenging to business advisers who attempt to formulate rational objective solutions through the application of generic analytical models (Dalley and Hamilton, 2000). It would appear that the nature of learning activity expands or contracts with the characteristics of the person fulfilling the role (Bolton and Thompson, 2000). Central is the personal construct system of the owner-manager (Wyer and Mason, 1997; Smallbone and Wyer, 2000) described as frames of reference that help us to view the world, which confronts us and deal with new situations that arise. Personal construct systems and frames of reference will be reflected in the owner-manager's disposition towards learning and certain motives, traits, skills and abilities attributed to individuals that distinguish effective performers from the ineffective ones. These are generally accepted as a function of both the person and the context in which they operate (Dalton, 1997; Heffernan and Flood,



2000). Thus, in designing, developing and delivering learning interventions for small businesses, two approaches could be adopted in tandem. The first embraces the owner-manager personal attributes or inputs, and the second is relevant to the output measures arising from personal performance (Cosh *et al*, 1999). This recognises the concept of the parallel, but integrated, processes of owner-manager personal development and small business growth. For small business to grow, the owner-manager must adapt and change as the enterprise moves through its life-cycle. They need to learn new behaviours and learn to think in radically different ways (Cope and Watts, 2000).

### **ORGANISATION OF LEARNING**

It would appear that support agencies may require to reorient organisation and adopt more flexible, open-architecture learning models, and innovative pedagogic approaches (Cullen *et al.*, 2000; Frey, 2000). For example, one conclusion that can be drawn from the foregoing is that learning in small businesses is a function of the owner-manager and context, with inputs representing personal attributes and outputs business performance measures. These needs will vary, corresponding to both personal and business life cycle factors. Consequentially, learning interventions require to be sensitive and attuned to these contextual factors. This suggests one approach to the organisation of learning that could be structured in the workplace, supporting autonomous, mentor guided and networked learning. This approach is now discussed.

Provided it is accepted that experiential learning is central within the small business context, it can be argued that the workplace represents a powerful and rich learning 'laboratory'. This approach is informed by the concept of the learning organisation, in which owner-managers, employees, educators and trainers engage in new forms of

relationships, designed to enhance learner autonomy (Edwards *et al.*, 1998). Billet (2000) supports this approach in that knowledge construction may be most effective through the engagement of the small business owner-manager in authentic workplace activities, making active contributions through embedded learning in the organisational context.

However, a mechanism is required to ensure that knowledge constructed in the work place is appropriate, not dysfunctional, and that vital conceptual knowledge is developed. This suggests a combination of workplace and guided learning, by a mentor, placing the onus on the learner to engage in the thinking, reflecting and acting required for rich learning (Cope and Watts, 2000). In this context, Dalley and Hamilton (2000) stress that successful development of knowledge and consequential business development is dependent on evaluation of the mentor's credibility, contextual compatibility with the small business owner-manager, and congruence of information presented with the core beliefs of the business.

The final element in the approach incorporates the concept of learning networks, defined by Shaw and Conway (2000:369) as: '*...the composite of the relationships in which small businesses are embedded which serve to link or connect small businesses to the environments in which they exist and conduct their business*'. It is concerned with the formal and social networks of the owner-manager that can be regarded as an important, if not critical, business resource. Relative to learning networks, Billet (2000) argues for leveraging the collective knowledge base of the small business and the full range of stakeholders in the environment in which it is located. Gibb (1977:17) supports this and believes that: '*more organisations are discovering that their place in their market depends upon managing the inter-dependency with other stakeholders. The organisation is no longer a production function seeking internal*

*efficiency. It is more of a node in a complex network of economic relationships, dependencies and mutual obligations*'. It is proposed that learning networks have the potential to deliver personal attribute inputs and business performance outputs as summarised in Table 2, as a consequence of the leverage of collective knowledge.

(Insert Table 2 here)

## **BACKGROUND AND METHODOLOGY**

Federal, State and Local Government in Australia have made a commitment to create a conducive environment for business growth based on the understanding that businesses are the creators of wealth and sustainable employment. Consequently, a considerable range of government funded business support programs has been implemented primarily to assist growth by facilitating business strategic planning, encouraging the adoption of new technologies and seeking new market opportunities. In 2000 a local government Economic Development Unit partnered with a University to initiate research into the design, development and delivery of a small business support program. The object was to address a recognised market failure and cultural gap between small businesses and government agency provision of support, through the development of a program that would be more readily perceived by owner-managers as having utility to their businesses.

Research consisted of a two-phase process, one using quantitative, and one qualitative, methods. Questionnaires were designed and sent to 3750 businesses in the western region of Melbourne, using a combination of the Maribyrnong City Council business database and the Western Business Enterprise Centre database. A total of 409 valid responses were useable, which resulted in an effective response rate of 12.1 per cent. The response rate, while lower than desirable, is still considered reasonable for a mail survey (Frankfort-Nachmias and Nachmias, 1996), especially given that it

was sent during a period when small business operators were facing increased demands on their time and energy due to the introduction of the new Australian Goods and Services Tax. (Bergin *et al.*, 2001). From the questionnaire responses, descriptive statistics were used to identify pro-growth and non-growth businesses, compare their characteristics, and to select 20 businesses for case study analysis. Case studies were adopted to gain the depth and richness of responses not generally possible from a questionnaire survey (Yin, 1994). The selection was based on several criteria derived from literature (for example, Bridge *et al.*, 1998; Glancey, 1998; Maki and Pukkinen, 2000). These included the desire to grow, historical growth in turnover and employment over the last year, and expected growth in turnover and employment over the next year. The 20 businesses selected for case study analysis were each interviewed at length to gather further in-depth information about the businesses, the owner-managers, their perceptions about their growth, and contributing factors. They were also asked about any impediments to growth, how they deal with them, and what support infrastructure they used, or might find helpful, to assist them to grow in the future. To improve consistency between interviews, standard interview protocols were applied and two interviewers were used for all interviews at all times, rotating the interviewer pairings to further enhance consistency. Content analysis of the transcripts of the case study interviews yielded further insights into a range of characteristics associated with growth, impediments and business support needs. The factor that specifically related to the pro-growth small businesses that permeated findings was that of their learning culture at an individual, organisational and network level.

## **RESEARCH FINDINGS**

The following summarises the findings relative to pro-growth small business learning as evidenced in the case studies. In particular, the research sought to capture owner-

manager, and workplace, specific indicators of a learning culture and their impact on the organisation. The findings reflect inputs of owner-manager personal attributes, which translate into outputs in terms of business performance, and attitudes and perceptions regarding business support. It is argued that these owner-managers are successful business owner-managers because they have effectively embedded a learning culture, and cascaded it out internally into their organisation, and externally to their networks. In this way they have harnessed and leveraged knowledge for competitive advantage, a factor that appears to differentiate them from less effective owner-managers.

The owner-managers were actively engaged in the day-to-day operations of the business and had extensive knowledge of their industry or trade. They were well disposed to learning and honed their business skills and knowledge through a wide variety of mediums including formal and informal education, incubator organisations, networking, and market research. For example, some were tertiary qualified, while others had started as apprentices or had gone out on their own after developing expertise with large businesses. One owner indicated he would: *'attend anything I can, which might be of some use in terms of the topic or the opportunity to meet and talk to others in business'*. They continually searched for operational efficiencies and product and service innovation, in addition to market research towards achieving growth objectives. Knowledge and understanding of financial standing, operational costs and drivers of profit margins is high, as is the recognition of financial management skill gaps that may require the importation of expertise into the business. There was general recognition that: planning is important; business plans needed to be developed and reviewed on a regular basis; and a strategic rather than a reactionary approach to management was beneficial. However, in some cases business objectives

and directions were known and talked about but not formally documented. The owner-managers largely had an entrepreneurial approach to business and talked proficiently about quality, innovation and financial management.

An open management style encouraged problem solving through teams, facilitating, harnessing, valuing and leveraging new ideas contributed internal or external to the business. Significantly, the majority of owner-managers networked with other businesses, suppliers, customers, and industry associations. This networking was often conducted on an informal basis and not generally viewed as networking but instead considered to be a normal part of their business activities. Benefits were identified as knowledge, support, exposure to experiences and practices of other businesses, and other industry sectors. Owner-managers highly valued their human resources and recognised their contribution to sustained business success, for example, one owner-manager said: *'you can't do it on your own, you need good quality people'*. However, employee involvement in decision-making did not appear to be prevalent. The importance of job enrichment through both multi-skilling and cross-training was recognised. The owner-managers exhibited personality traits including higher energy, passion, innovation, tolerance of ambiguity, and opportunity focus. Of these it was the tolerance of ambiguity that was most pronounced. One owner-manager illustrated this by describing himself as someone who: *'rides the bumps, and doesn't panic too much'*. Difficulty situations were not feared, viewed as learning opportunities, and change perceived as a necessary part of business development. Overall the owner-managers dealt with ambiguity and change by utilising a practical and experiential approach to learning.

From the foregoing, it has been established that attitudes and behaviours exhibited by owner-managers were generally open and positive to engagement in business support

programs, they were aware of weak competencies and developed strategies to strengthen them. Where negativity and obstacles were evidenced was relative to their relationship with external, public sector agencies and dislike of formal training provision. With respect to the nature of business support, it was found that owner-managers experienced difficulties in articulating actual learning needs, as they do not know what they do not know. This was apparent from a comment made following the visit of a researcher: *'the visit raised issues I wasn't aware of...I now know we are behind the times'*. This indicates the issue of support needs identification, which may prove problematic given the time resource constraints that often confront owner-managers in successful small businesses.

Findings supported a mismatch in cultural approaches between public and small business sectors. Owner-managers perceived previous support programs as being overly theoretical, modified from large business programs, not specifically relevant to the small business context, and not reflective of the dynamic and rapidly changing business environment. Furthermore, they expressed a distrust of external providers of training who seem to attempt to impose prescriptive views of what they believe small businesses should, rather than what, they actually need. It was suggested that business support approaches need to be more open-ended, flexible and opportunistic. The owner-managers also expressed a disinclination to participate in formal programs, for example: *'I try to learn by mistakes. There are two kinds of education. There's academic experience – that was a failing of mine – and there's practical experience – that's where I learned. When you learn from experience you don't forget.'* Other negative perceptions related to inappropriate logistical arrangements, content and delivery, and best use of the owner-managers' finite time.

It appears that poor communication relative to the availability, potential benefits and measures of effectiveness of business support programs exists. Furthermore, a confusion factor was found in that owner-managers are overwhelmed by the plethora of information that they receive from support agencies, and consequently have difficulties in identifying what may be relevant to their needs. Owner-managers proposed that a more personalized and targeted approach to communication of business support and potential benefits would be of assistance. Furthermore, it was found that once owner-managers had engaged in business support programs they had high expectations regarding accruing immediate benefits, otherwise it would be deemed a waste of time and resources.

### **IMPLICATIONS FOR SUPPORT PROGRAMS**

From the foregoing literature and empirical exploration it is possible to identify key owner-manager personal attributes that drive business performance. These are associated with the acquisition of learning and knowledge practices in pro-growth oriented small businesses, from which design, development and delivery aspects of a support program can be fashioned, as follows. A logical argument has been presented to justify targeting business support to work with the existing set of personal attributes providing enhancement and guidance to enrich and develop them further in order to sustain business growth.

More specifically, the owner-managers exhibit a disposition towards learning in a practical and experiential way, mainly through informal mediums, with the preferred model being networks. Through their networks owner-managers expose themselves to the knowledge and expertise of others both internal and external to the business. In this collective manner innovation and problem-solving is achieved, efficiencies and market development attained towards the achievement of desired business growth



objectives. Thus, in an environment characterised by rapid change, uncertainty and complexity the pro-growth owner-managers emphasise an approach to learning and business development that encompasses the following elements:

- collective organisation of work through teams and networks rather than the individual;
- recognition of owner-managerial weaknesses and the need to rectify this by sourcing expertise out with the business;
- active encouragement and stimulation of learning (not always formalised) throughout the business;
- understanding of the importance of, and highly valuing, logical and rational thinking, along with that of a lateral and creative thinking nature and the need to source employees with a balanced mix of these capabilities; and
- positive relationship building and maintenance with customers, employees and members in their networks.

Therefore, the organisation of learning needs to overcome or neutralized the range of obstacles to engagement as embodied in traditional business support programs (Table 1) and start designing innovative, open 'new-architecture' that is specifically designed to support the 'natural' learning that takes place in pro-growth small businesses. The scaffolding consists of the workplace, learning autonomy, learning guidance by a mentor, and networked learning as follows:

- **Workplace:** is utilised as a valuable, authentic learning laboratory in which small business owner-managers make active contributions through embedding learning in the organisational context, and overcome the time away from business obstacle often cited as an excuse not to participate in off-site learning.

- **Autonomy:** pro-growth business owner-managers already exhibit autonomous learning behaviour, the onus must remain with them and be enhanced to engage in the thinking, reflecting and acting that will lead to more conceptual knowledge acquisition.
- **Mentor:** adopts a consultative, partnership approach analyzing the support needs of individual businesses, customized to the specific context and environment in which it operates. The approach is 'human', sensitive to the core values of the owner-manager, and facilitates the targeting of communication relative to available business support resources, and realistic expectations regarding the benefits of participation in 'new-architect' business support programs.
- **Network:** mentor support can assist owner-managers in the management, extension and maintenance of their existing networks, guiding them to proactive behaviours and opportunities that can effectively leverage learning and knowledge in the collective, to drive forward personal and business objectives.

## **DISCUSSION AND CONCLUSIONS**

Despite its exploratory nature, the results from this research raise a number of important issues and insights. It has extended understanding regarding the underlying obstacles hindering the take up of formal business support, and the forms that are more likely to be perceived by owner-managers as congruent with pro-growth small business. Clearly, effective small business learning needs to take place within a context that relates most closely to the contextual conditions under which owner-managers and the range of stakeholders in their networks learn. Surely a closer context cannot be found than the workplace itself. Within the workplace owner-

manager autonomous learning can be guided and facilitated by appropriately qualified mentors, who have the special ability to transform themselves and their knowledge into forms that are compatible with the owner-manager. Furthermore, through effective network participation owner-managers can overcome constraints of size, efficiently managing knowledge. In addition, to highlight the manner in which government agencies can more effectively align themselves in terms of culture and learning styles. It challenges government agencies to increase responsiveness, towards constructing more creative, innovative and flexible learning architecture and conceptions of learning opportunities, and to re-evaluate the placement of resources towards the adoption of a more targeted approach. In this way, it is more likely that pro-growth oriented small businesses will perceive the benefits and utility of learning as a vehicle through which to attain business performance goals.

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<b>Table 1: Obstacles to engagement in small business support programs</b>	
<b>Attitudes and behaviour</b>	<ul style="list-style-type: none"> <li>❑ general resistance and negative attitudes</li> <li>❑ autocratic behavioural trait rejects a critical assessment of management competencies</li> <li>❑ apathy relative to economic development agencies and public sector support organizations</li> <li>❑ antipathy towards educational institutions which may provide the training;</li> <li>❑ opposition to what is viewed as formalised learning;</li> </ul>
<b>Nature of business support</b>	<ul style="list-style-type: none"> <li>❑ mismatch in cultural approaches between public and small business sector</li> <li>❑ previous experiences unsatisfactory due to perceived inappropriateness of content and delivery</li> <li>❑ poor communication relative to availability, potential benefits and measures of effectiveness</li> <li>❑ imposition of 'top-down' learning agendas</li> <li>❑ difficulties in articulating actual learning needs</li> </ul>
<b>Small business characteristics</b>	<ul style="list-style-type: none"> <li>❑ insufficient time and resources to allow for participation</li> <li>❑ geographically and socially isolated</li> <li>❑ market competitive position</li> </ul>

**Sources:** (Westhead and Storey, 1997; Gibb, 1997; Marlow, 1998; Beaver *et al*, 1998; Sherwood *et al*, 2000; Cullen *et al.*, 2000)



<b>Table 2: Learning through networks</b>	
<b>Personal attribute inputs</b>	<ul style="list-style-type: none"> <li>❑ Supports and challenges established assumptions and paradigms</li> <li>❑ Activates prior knowledge</li> <li>❑ Utilises cognitive tools</li> <li>❑ Enables socialised learning</li> <li>❑ Exposure to cross-sector and global best practices</li> <li>❑ Pools and utilises internal firm specific, and network addressable, assets</li> <li>❑ Evolution through tacit and explicit information exchange</li> </ul>
<b>Business performance outputs</b>	<ul style="list-style-type: none"> <li>❑ Management of ambiguities, uncertainties, change, innovation and flexibility</li> <li>❑ Strategic control through entrepreneurial units, teams and empowerment</li> <li>❑ Achievement of collective learning and efficiency</li> <li>❑ Increased market knowledge and orientation</li> <li>❑ Facilitation and people skills within a fluid environment</li> <li>❑ Achievement through ethical relationship building, trust, competencies and honesty</li> <li>❑ Informed, proactive efficiency to deal with paradox and contradiction in the external environment</li> </ul>

**Sources:** (Gibb 1997; Agnehrn and Nabeth, 1997; Mitra and Matlay, 2000; Winterton *et al.*, 2000)