Abstract
Entrepreneurship is central to job creation in the European Employment Strategy developed following the 1997 Amsterdam Treaty, yet there has been little research into what competences need to be developed in managers of SMEs, even within the UK, which offers a more conducive climate for small firms than most other Member States. This paper draws upon four separate research projects completed in the past 3 years for the European agencies and the UK Government to propose a multi-dimensional framework for identifying the entrepreneurial competences and competencies needed by managers in SMEs.

Introduction
As a result of widespread recognition that Europe lags the US in terms of entrepreneurial behaviour, one of the four pillars of the European Employment Strategy developed following the 1997 Amsterdam Treaty revisions addresses entrepreneurship (Foden and Magnussen, 1999; 2000). The Entrepreneurship Pillar in the Employment Guidelines presents SMEs and self-employment as dynamic sectors for job creation, and the development of entrepreneurship (an ‘enterprise culture’ in the UK Employment Action Plan), as the route to an economy based on flexibility of production with a skilled and adaptable workforce.

In some respects, the UK is ahead of the rest of the EU, sharing with the USA rising employment, falling unemployment and more voluntarist traditions, in which state regulation plays a much smaller role. As a result, the UK is one of the top three member states in terms of employment in the service sector and SME start-ups. However, reviews of management education have repeatedly shown that the UK lags other industrialised nations in terms of its formal management education (Handy et al., 1987; Constable and McCormick, 1987; IoM, 1994). Managers in the UK are also relatively under-qualified (CBI, 1989; Coopers and Lybrand Associates, 1992) especially managers of SMEs (CBI, 1995). Since the first New Labour Government was elected in 1997, chronic skills shortages have been addressed (STF, 1998), and research for the Skills Task Force has shown a continued need to develop management skills in general (Johnson and Winterton, 1999) and for SMEs in particular (Johnson, 1999). Moreover, the challenges of the future will demand both a substantial increase in the volume of management development and an increased focus on entrepreneurial skills (Winterton, 2001). The considerable increase over the past 20 years in the number of SMEs in the UK has important implications for the nature of the skills required by the growing number of SME owner/managers as well as for managers in large enterprises who increasingly are interacting with SMEs.

Johnson and Winterton (1999) point out that the range of skills and competences required to run a SME are qualitatively as well as quantitatively different from those needed in a larger organization. As Storey (1994) notes, ‘the small firm is not merely a scaled down
version of a large firm’. Managers of SMEs have specific training needs (Johnson, 1999), especially in globalized SMEs (Matlay, 1998). Surveys have demonstrated that the incidence of formal training, and especially of external training, increases with firm size (SBRC, 1992) and that there has been very little increase in small firm training (Cosh and Hughes, 1998). Nevertheless, the informal training and development that takes place in SMEs is often under-estimated (Curran et al, 1997).

Evidence that the poor performance of UK SMEs is caused by inadequate management skills is limited, but suggests that developing entrepreneurial skills among SME managers contributes to profitability (Cushion, 1996) and growth (Gray, 1997). However, unlike larger organizations, where the positive impact of management development on performance has been demonstrated (Winterton and Winterton, 1996; 1997), in SMEs increased management training does not automatically lead to improvements (Westhead and Storey, 1996). The nature of the SME environment makes it difficult to improve performance through training (Curran et al, 1997; Blackburn and Kitching, 1997; Cosh, Duncan and Hughes, 1998). Conventional approaches to development and training are often unsuited to SMEs, where collaborative and networked forms of organisational learning are thought to be more appropriate (Anderson and Skinner, 1999; Sadler-Smith et al, 2000). The apparent paradox is that training and development is a low priority for the SME owner-manager compared with operational issues (Atkinson and Meager, 1994; Watkins, 1982) and firm survival (Ram, 1994), yet there is more training done in successful SMEs than in others (DTI, 1996; Winterton and Winterton, 2000).

Against this background, the paper takes the reasons why entrepreneurial competence is needed as self-evident and concentrates on what are the components that should be developed. It draws upon four separate research projects undertaken by the author in the past 3 years with the European Trade Union Institute (ETUI), the UK Department for Education and Employment (DfEE, now Department for Education and Skills, DfES), the UK National Skills Task Force and the European Centre for Development of Vocational Training. After discussing the nature of management competence, a multi-dimensional framework is used to consider the entrepreneurial competences and competencies needed by managers in SMEs.

**Competence and competency**

There is considerable confusion and debate concerning the concept of ‘competence’, which may relate to personal models, outcome models or education and training models, as well as to the standards approach in which benchmarking criteria are used (Mangham, 1986). The competence-based approach adopted in the UK since 1986, and gaining ground across the EU, is concerned with the practical demonstration of these skills, alongside underpinning knowledge and understanding, in a work setting, and therefore relates to job performance. The official UK definition of occupational competence is ‘the ability to perform activities in the jobs within an occupation, to the standards expected in employment.’ However, the definition also included ‘mastery of skills and understanding’ and ‘aspects of personal effectiveness’. As Mansfield and Mitchell (1996: 46) note, this definition ‘appears to include a mix of models: work expectations, input measures (knowledge and skills) and psychological attributes.’

Job-related concepts of competence (and competences) can be contrasted with managerial competency (and competencies), which Boyatzis (1982) defines in terms of attributes of an individual that are ‘causally related to
effective or superior performance in a job’. Woodruffe (1991) distinguishes areas of competence, related to functions of the job that an individual can perform, from competency, referring to a person’s behaviour underpinning competent performance. Woodruffe’s definition is endorsed by Tate (1995: 86) who warns against confusing ‘input competencies with output competences.’ Competence and competency are frequently confused or conflated (see Winterton and Winterton, 1999: 26-28 for a discussion of the terminological confusion), but this report adheres to the distinction outlined above.

An holistic model of professional competence, which is equally of relevance to SME managers, was developed by Cheetham and Chivers (1996; 1998) comprising five sets of inter-connected competences and competencies. A modified version of the Cheetham and Chivers model, distinguishing cognitive and functional competences, personal (and ethical) competencies, and over-arching meta-competencies, was used to predict future management skill needs (Winterton et al, 2000). These four dimensions provide a convenient framework within which to consider the competences that need to be developed for managers of SMEs.

**Cognitive competence**

Cognitive or knowledge-based competence includes underpinning theory and concepts relevant to an area of activity, as well as more informal tacit knowledge gained experientially. Understanding refers to more holistic knowledge of processes and contexts, and may be distinguished as know-why, as opposed know-how (skill and competence) or know-that (knowledge). According to Cheetham and Chivers (1996: 24), knowledge or cognitive competence represents ‘the possession of appropriate work-related knowledge and the ability to put this to effective use.’ This in turn comprises four constituent parts:

- tacit/practical knowledge, linked with, for instance, specific functional competences;
- technical/theroretical knowledge, representing the underlying principles and theories of the managerial profession;
- procedural knowledge, involving the how, what and when of more routine tasks within managerial activity;
- contextual knowledge, background knowledge that is specific to the organization and sector in which the manager operates.

Some areas of cognitive competence are likely to become obsolete for SME managers in the future. For example, managers in knowledge-based enterprises will have less need for familiarity with traditional accounting systems, and with traditional management control systems as these become increasingly irrelevant. Equally, there are new cognitive competences that SME managers will need in the future. Three areas of cognitive competence are especially prominent: technical competence; international perspective; and managing change.

Technical competences will assume greater importance and in order to implement the new technologies, SME managers will need to move away from management-initiated technical installation models towards a more holistic systems approach. International perspective is needed as globalisation requires managers to be able to see and act beyond local boundaries, and in global industries, managers will increasingly need international experience backed by knowledge of international business practices. Global awareness and cultural empathy will be key competences for managers in the future, especially, because of the Single European Market and Monetary Union, in SMEs operating in the European Union. Managing change will represent a critical area of cognitive competence for managers given the rapid
rate of organizational change, which means that the essential management skills for the future are learning, innovation, managing change and flexibility.

**Functional competence**

Functional competence is defined as ‘a description of something which a person who works in a given occupational area should be able to do ... [and] able to demonstrate’ (Employment Department and NCVQ, 1991). For managers, competence has been defined as ‘the ability to perform effectively functions associated with management in a work-related situation.’

Twenty years ago, the American Management Association (AMA) identified five clusters of competences that were believed to be associated with effective managerial behaviour:
- goal and action management;
- leadership;
- human resource management;
- directing subordinates;
- focus on others.

Generic management competences were identified in the UK a decade later. Following the recommendations of the Handy Report (Handy et al, 1987), the Management Charter Initiative (MCI) was established in 1988 as the operating arm of the National Forum for Management Education and Development. In July 1998, MCI officially became a National Training Organization, with the mission ‘to shape and promote management development, particularly competence-based management development for the benefit of organizations and individuals.’ MCI merged with the Small Firms Lead Body (SFLB), to become the Management and Enterprise Training Organization (METO).

As the lead body for management, the MCI developed a generic set of occupational standards relating to areas of activity in managers need to be competent. The Management Standards offer a coherent and comprehensive framework of management competences (Iles, 1993: 79), and the adoption of the Standards has been associated with superior performance at individual, team and organization levels (Winterton and Winterton, 1997). Revised Standards were published in 1997, following an extensive review (Boutall, 1997), and two sets of Standards were developed: a Vocational Qualifications Version relating to individuals, and a new Business User Version for organizations. The two versions constitute an integrated whole in order to promote complementarity between individual and organizational needs for development. A system of core units and options was introduced to facilitate adopting the Standards in different organizational contexts. In place of the original four key roles, the new Standards define seven: manage activities; manage resources; manage people; manage information; manage energy; manage quality; and manage projects.

In the future, SME managers will need to develop competence in strategic leadership and team leadership. Strategic leadership is emphasised in much of the literature; the Peters team found that management in leading edge companies demonstrated key functional competences, including deep understanding of the competitive conditions and dynamics of their sector. How the top management team handle competition and strategic leadership will be the defining factor in success (Ireland and Hitt, 1999). Traditionally, management literature emphasised the role of senior managers in formulating strategy in a ‘top down’ fashion, but this is less relevant for the SME and there is now more emphasis on collaboration and the development of effective groups. Team leadership skills are needed to manage empowered employees and SME managers, as ever lacking time for strategic activities, need to develop leadership skills lower down the organization, accept that teams can be
trusted to get on with the job and encourage continual learning amongst subordinates.

**Personal competency**

In the USA, competency implies a ‘relatively enduring characteristic of a person causally related to effective or superior performance in a job’ (Spencer, 1995: 144), but can include functional competence. The Hay/McBer definition of competency as ‘a characteristic of an individual that has been shown to drive superior job performance’ includes both visible ‘knowledge and skills’ (competences) and ‘underlying elements of competencies’, like ‘traits and motives’ (Hartle, 1995: 107). When considering desirable outcomes for business education, the American Assembly of Collegiate Schools of Business (AACSB) contrasted content (core knowledge areas like accounting, human resource theory and marketing) with ‘skills and personal characteristics’. The latter included competencies such as leadership, decision making, self-objectivity and disposition to lead, alongside functional competences such as oral presentation skills, written communication, planning and organizing, and delegation and control (Albanese, 1989).

Elkin (1990) associates competences with micro-level job performance and competencies with higher management attributes, while Boak (1991) argues that ‘competency’ in the American sense complements ‘competence’ as used in the UK occupational standards.

The MCI Personal Competency Model complements the occupational standards for managers. To be assessed as competent under the NVQ/SVQ arrangements, managers not only need the relevant knowledge and understanding, but also the necessary personal competencies to demonstrate to the assessor that they can apply the relevant knowledge and understanding in different situations at work (Evans and Kerrison, 1994; Fowler, 1994). Observing their behaviour at work allows the assessor to judge the extent to which managers possess these personal competencies. Each competency is described by a series of *behavioural indicators*, showing how a manager who possesses this competency would be expected to behave.

Each NVQ/SVQ each unit demands a different mix of personal competencies, but overall the essential competencies at *Management Level 3* are:

- Acting assertively
- Behaving ethically
- Building teams
- Communicating
- Focusing on results
- Influencing others
- Managing self
- Searching for information

Within each competency, the *behavioural indicators* become progressively more demanding at higher levels, and in addition to the areas listed above, at *Management Levels 4 and 5*, the following competencies are cited:

- Acting strategically
- Thinking and taking decisions

These MCI competencies offer a framework for considering the major changes anticipated in the attributes SME managers will need to support entrepreneurial behaviour.

Acting assertively is essential for managers operating with less hierarchical authority and interacting with teams of professionals, increasingly the case with high-tech SMEs.

Behaving ethically and exhibiting personal traits of flexibility, integrity and trustworthiness have always been critical competencies for managers in the SME, and becomes more important with the risk taking that entrepreneurship involves.

Building teams is a key competency for strategic managers, who must align the organization so that all its members are working towards a clearly defined set of goals firmly entrenched in a shared vision and strategy. Communicating will increasingly require
greater cultural awareness for SME managers operating at a transnational level. Cellular organizations foster entrepreneurialism, where individuals need to apply ‘technical, commercial, collaborative and leadership skills’ (Allred, Snow and Miles, 1996: 22). In the future there will be a far greater diversity of organizational types, and a more complex variety of roles within them.

Focusing on results will become more important, especially for managers in SME network organizations, which are flatter and rely on partner relationships to develop and maintain collaboration.

Influencing others is a competency that is critical since successful leadership involves working through others, who are leaders in their own areas of work. In place of the old leadership style, Bennis (1999) argues that leaders must develop more subtle forms of influence to be effective. ‘Intellectual capital, brain power, know-how, human imagination has supplanted capital as the critical success factor and leaders will have to learn an entirely new set of skills that are not understood, not taught in our business schools, and, for all of those reasons, rarely practiced.’

Managing self will demand a variety of personal qualities for managers to function in a more fluid work environment, including such competencies as self-reliance, responsibility, self-monitoring, and the ability to learn from experience, both their own and others’.

Searching for information becomes more important as the ability to leverage knowledge affects an organization’s ability to absorb a vast amount of information and to analyse it effectively. Managers will need to learn how to align individual competences with critical organizational capabilities, how to turn worker knowledge into productivity and how to leverage intellectual capital.

Acting strategically will become crucial as SME managers will have to deal with a wider range of issues and have less time to make decisions. The crucial theme can be summarized as a need for leaders who inspire, energize and polarize individuals and teams in line with an organizational vision as a result of which shared mental models are created.

**Meta-competencies**

Whatever competences and competencies are required today, tomorrow’s managers will need more than these to cope with the challenges and uncertainties of the future, and SMEs need more than managerial competence. Noting the radical changes in the UK financial sector, for example, Higgs (1988) argued that in addition to traditional technical competence, managers in that sector needed attributes like flexibility, tolerance of ambiguity and ability to learn. Brown (1994) similarly argues that without prerequisite ‘managerial capacities’, like judgement and intuition, any demonstration of competence is meaningless.

The management attributes emphasised in much of this debate invariably include over-arching or underpinning meta-competencies: ‘the higher-order abilities, which have to do with being able to learn, adapt, anticipate and create, rather than with being able to demonstrate that one has the ability to do.’ (Brown, 1993: 32).

Although specific descriptions of such meta-competencies differ, there is a consensus that competences and competencies alone are insufficient and must be supported by ‘higher order’ qualities. For Hall (1986) the most important ‘meta-skill’ is skill ‘in acquiring other skills’, while for Snell (1990) these ‘meta-qualities’ include ‘creativity, mental agility and balanced learning skill’. Cheetham and Chivers (1996: 24) include communication, self-development, creativity, analysis and problem solving in their definition of meta-competencies. The common theme with meta-competencies is that they address the cognitive aspects of management, concerning ability to cope with
uncertainty, as well as learning and reflection (Nordhaug, 1993).

Learning to learn is perhaps the most fundamental meta-competency for developing entrepreneurship since the rapidity of technological developments and the dynamism of markets renders the traditional sources of competitive advantage liable to obsolescence and being superseded by innovation. The meta-competency that managers need to cope with and implement change in the future is therefore learning and sustainable competitive advantage derives from the ability of individuals and organizations to adapt and learn faster than the competition.

References


Employment Department and NCVQ (1991) Guide to National Vocational Qualifications, Sheffield: ED.


