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**EXECUTIVE SUMMARY  
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**Business support and SME performance: exploratory  
analysis of the Longitudinal Small Business Survey 2015  
and 2016**

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## EXECUTIVE SUMMARY

This report presents findings from a study of the relationship between business support and Small and Medium-sized Enterprise (SME) performance. The analysis draws on two waves of data (2015, 2016) from the Longitudinal Small Business Survey (LSBS), a large-scale telephone survey of 15,502 SME employers (e.g. owners and managers).

The survey defines SMEs as businesses with between one and 249 employees, with further sub-group analysis based upon employment size: *micro businesses* (1-9 employees); *small businesses* (10-49 employees); and *medium-sized businesses* (50-249 employees). This report is delivered by the Enterprise Research Centre (ERC).

### Key Findings and Recommendations

1. *A very low percentage of young and growing enterprises use different sources of advice, compared with established enterprises (e.g. 20+ years of age). This may suggest that established enterprises seek more external support, e.g. to maintain or improve their market position, than younger enterprises who are attempting to establish themselves in the market.*
2. *When SMEs only use a single source of advice (e.g., their accountants), they ask a variety of questions and seek counsel on issues beyond the speciality of their primary advisory source.*

**Recommendations:** Findings above suggest the need for:

- More generalist sources of business advice for SMEs;
- Further collaboration and referral between the financial and accounting firms and general business advisors;
- Further efforts by government agencies to target their promotional or partnership activities within the paid advisor community;
- Further promotion of business advisory services to less established enterprises.

3. *A greater proportion of young enterprises (<1 year old) request financial advice (i.e. raising funds and accounting).*

**Recommendation:** Although young enterprises should develop close relationships with financial advisors and external capital providers, we caution limiting their sources of advice to finance. Other forms of advice are important; particularly those which enhance firm level capabilities that contribute to firm performance. Professional (i.e. paid) business advisors may be an important source of such advice (refer to Finding 7. below).

4. *Companies in decline are more likely to seek out innovation and financial advice.*

**Recommendations:** Further government effort is suggested to identify companies that are underperforming, particularly those enterprises that have performed well in the past, and facilitate the provision of professional services targeting growth strategies and practices.

Another recommendation is the provision of training for government business advisors on facilitating a 'strategic' discussion as part of any cost savings or profitability decline discussions with underperforming SMEs, in addition to referring them to professional advisors.

5. *Advice during a time of decline (loss in profitability) is focused on cost reduction (efficiency improvement and financial management).*

**Recommendations:** We caution that cost reduction, on its own, may not be appropriate general advice for underperforming SMEs, and offer some further considerations:

- Cost saving techniques, such as payroll reduction or outsourcing, may be necessary for firm survival, but do not contribute to growing revenues;
- Firms in early stages of decline may benefit from other types of advice, such as exploring how scarce resources can generate new revenue opportunities;
- Loss in profitability may reflect changing market conditions, with firms in such markets likely to benefit more from strategic advice than financial advice or operational information.

6. *Asking for advice about training and business growth has a positive impact on profitability, while asking for advice about marketing has a negative impact on profitability.*

**Recommendation:** Enterprises seeking to achieve profitable growth may be better served by focusing their investments on people (e.g. skills development) and future business growth opportunities, rather than short term marketing and promotional activities.

7. *Firms that pay for advice are more likely to be profitable.*

**Recommendations:** We require further longitudinal data to substantiate our hypothesis that SMEs which are not profitable, but then pay for certain types of advice, are more likely to become profitable. Otherwise, paying for advice may be a function of an *ability to pay* and not necessarily a strategic investment. Not paying for advice may also be a function of *lack of access*, whereby SMEs that would benefit from professional services, but do not have access to them, instead rely on advice from local authorities (see Finding 8.)

8. *Asking for advice from local authorities negatively affects profitability (e.g. SMEs using local authorities for advice perform weaker in comparison to those that do not).*

**Recommendation:** We cannot confirm from our data how “asking for advice from local authorities” negatively affects profitability, but findings in this study do raise questions on the impact of public advice on SME performance (versus paid professional support), which calls for further analysis.

9. *Mode of advice (e.g. face-to-face) was not a significant factor influencing firm performance (i.e. profitability).*

**Recommendation:** The quality of external advice, rather than the mode of delivery of advice, appears to be most important for SMEs. This has implications for both public and private providers of business support, in prioritizing how to effectively deliver relevant and value-adding advice across different ‘supply’ channels.

10. *Women-led SMEs do not differ significantly from male-led SMEs in seeking or accessing business advice.*

**Recommendation:** Gender may be less important a factor regarding external business support than previously thought, which raises questions on the value of gender-specific policies and advice provision for SMEs.

11. *As a theoretical contribution, provision of external business advice and its relationship to business performance is more oriented to a 'knowledge-based' than 'resource-based' view of the firm. External advice acts as a precursor to future resource-based decisions and resource deployments.*

**Recommendation:** While resource-based theory highlights the competitive benefits to be derived from external advice, such benefits remain latent until such time as the advice recipient acts upon them. This suggests the importance of follow-up on the part of business advisors, which may further assist in the transformation of latent benefits.

12. *A number of promising areas for future research have been identified during this study.*

**Recommendations:**

- Collection of further LSBS panel data to validate study findings and insights;
- Examining the impact of SME owner's experiences and skills on the motivation to seek and benefit from advice. Such analysis could identify how experienced owners and established SMEs differ from nascent owners and young firms;
- Identifying cases of SMEs with declining performance (i.e. experiencing a loss in profitability) that have recovered; to determine how recovery was achieved and to identify the potential effects of advice. Such analysis could identify the types of advice most beneficial to SMEs with declining performance;
- Further longitudinal study and qualitative methods to complement LSBS panel data. Such methods could track SME owner advice-seeking behaviours, and actions in response to receiving support, and capture longer-term effects of business support on SME performance.