

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

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

**Geoff Gregson**

Northern Alberta Institute of Technology, CANADA

[geoffg@nait.ca](mailto:geoffg@nait.ca)

**Hossein Mazdeh**

University of Calgary, CANADA

[hmahdavi@ucalgary.ca](mailto:hmahdavi@ucalgary.ca)

**Simon Raby**

Mount Royal University, CANADA

[sraby@mtroyal.ca](mailto:sraby@mtroyal.ca)

**Chad Saunders**

University of Calgary, CANADA

[chad.saunders@haskayne.ucalgary.ca](mailto:chad.saunders@haskayne.ucalgary.ca)

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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.

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## 1. INTRODUCTION

Over the past few decades, business advising has evolved into an established profession, with many organizations in both the private and public sectors offering different advisory services (Dyer and Ross, 2008). In many countries, governments provide and actively encourage advising services for small businesses, which also include supporting engagement between business and industry associations, financial intermediaries, community organizations and post-secondary institutions (OECD, 2010).

Public policies to support the provision of advisory services are justified for a number of reasons. One reason is to reduce the high failure rate of small businesses, with failure associated with lack of planning or marketing knowledge, or the absence of overall managerial skills on the part of the owner (Johnson et al., 2007; Chrisman and McMullan, 2004). Another reason is to stimulate business growth, with expectations that SME growth will increase employment, stimulate innovation, and contribute to higher aggregate economic growth (Mason and Brown, 2013). Business support is predicated on the assumption that business owners will firstly, accept such support and secondly, that business performance will improve as a result of such support.

A key question, which this study seeks to address, is whether receipt of business support services improves business performance. Storey (1994) suggested some time ago that studies on business advising have focused primarily on the circumstances under which businesses use advisors and on the types of advisors used, with much less research examining the impact of advice on business performance. As identified in earlier studies, it is difficult to establish causality in assessing the relationship of external advice and business growth (e.g. Mole et al, 2008; Bennett, 2008; Ramsden and Bennett, 2005; Bennett and Robson, 2000).

While initial findings using 2015 data from the Longitudinal Small Business Survey (LSBS) suggest that SMEs seeking information or advice are more likely to increase sales turnover (BIS, 2016), this report further examines the influence of business advice and information on SME performance, using variables taken from the 2016 LSBS data.

The theoretical and conceptual underpinnings of the report draw from literature on enterprise policy, types of business support, resource-based and knowledge-based views of the firm and theories of firm growth. The report is structured as follows: Section 2 provides a theoretical background, Section 3 presents data and methods, Section 4 presents results, Section 5 discusses findings and Section 6 offers conclusions and suggestions for future research.

## **2. THEORETICAL BACKGROUND**

In examining the literature on business support, no one universal theory explains the relationship between business support and performance outcomes at the firm level. The literature on business support is messy and chaotic and, at times, contradictory. In exploring the dynamics of business support and firm effects, scholars have uncovered relationships between the form that business support takes and the way resources and knowledge are configured in the firm, the gender of business founders/owners, the stage of firm development, and performance outcomes at the firm level. In order to provide a coherent picture of the literature on business support and performance, we offer a review of these studies. We start by setting the context with a macro level review of government policies that target business support for SMEs.

### **Policy Perspective**

Public support for the provision of advisory services to private enterprise continues to generate debate in the UK and other OECD countries. On the one hand, public support is justified to correct market failures which challenge or impede enterprise creation and development; due to factors that include regional deficiencies, constraints in financial markets, low levels of start-up activity or investments in innovation, etc. (Minniti, 2008; Henry et al, 2003).

On the other hand, public support has been criticized for ‘subsidizing’ enterprises with little or no prospects for growth that are likely to fail, have little economic impact, and generate little employment (Shane 2008). Scholars have provided empirical evidence in demonstrating that only a small proportion of enterprises create the majority of jobs and contribute disproportionately to gross domestic

product (GDP) in the economy (Henrekson and Johansson 2010; Lerner, 2010; Acs et al, 2008; Birch 1987).

Nevertheless, public support for SMEs remains a key component of economic policy (Mason and Brown, 2013), with most OECD countries directly or indirectly supporting advisory services to SMEs (OECD, 2010; Mole and Bramley, 2006). Various mechanisms are used by government agencies to enhance the capabilities of owners and businesses, and include: information and guidance services, business reviews, subsidized consultancy, management training, mentoring and counselling, wider networking, and introducing new personnel into management teams on a temporary or permanent basis (Turok and Raco, 2000).

In the case of England, resources devoted to public provision of business support have been reduced in recent years; identified by a shift away from a 'provision based paradigm,' in which public agencies provide direct support, to a 'framework based paradigm,' where government sets a framework and criteria for private sector support (Richard, 2008). As an example, the Business Link advice service, previously delivered by advisors on a face-to-face basis, was replaced by an on-line and telephone service, which refers enterprises to private providers for more intensive advice and support. This digital transformation of business support is expected to increase the proportion of small businesses that will draw upon the wide range of external support available from private sector sources (BIS, 2010).

The proportion of enterprises in the economy which are seeking business support cannot be established with certainty, given differences in research design and methods and differences in definitions of external assistance. A number of surveys by the Centre for Business Research (CBR) at Cambridge found that a high proportion of SMEs (over 90%) made use of external assistance over a three-year period (Bennett, 2008; Bennett and Robson, 2003; Robson and Bennett, 1999).

On the other hand, Phillipson et al (2017) found that across the UK, only approximately one third of SMEs with employees sought one or more sources of advice or information in the year preceding the LSBS 2015. Similarly, Johnson et al. (2007) found that under a third of small firm owner-managers sought formal external assistance over a two-year period. Other studies found a large

proportion of company executives do not use formal external assistance, despite its likely benefits (McDonald and Westphal, 2003).

In summary, the policy perspective identifies the ongoing role of governments in directly or indirectly supporting the provision of business advice for enterprise. While different research methods and designs make it difficult to accurately measure the extent of SME engagement with business advisors, what is clear is the broad level of advice provision available to SMEs through public and private sources. A key question from a policy perspective, and one this study seeks to address, relates to the impact and value of external advice provision on SME performance.

### **Types of Business Support**

The active role of government in the provision of business support to overcome resource and knowledge deficiencies has generated a large market of advisory services for SMEs. Moles et al (2017) identifies accountants as the main private sector providers of information to SMEs and second only to consultants as the most important providers of strategic advice, suggesting that accountants are the primary beneficiaries of the recent withdrawal of the UK government from the direct provision of advice to SMEs. While the initial use of lawyers and accountants by small business owners may be the result of statutory requirements related to business formation, owners may also use professionals such as accountants for overall business advisory services, where trust plays an important role in these relationships (Gooderham et al, 2004).

Phillipson et al (2017), in their analysis of 2015 LSBS data, found only a small proportion of SMEs sought information or advice from banks and specialist finance advisors, although a large proportion of SMEs described “obtaining finance” as a major obstacle for their businesses. The authors also found very low numbers of employing firms seeking advice or information about innovation and exporting across the UK (and only marginally higher rates amongst firms without employees for each). They suggest that these findings are at odds with the emphasis by UK policy makers on these drivers of business and economic improvement.

Jay and Schaper (2003), in their study of Australian micro-firms, revealed substantial differences in the types and frequency of advisers used. It was found that accountants, banks, other business operators and family/friends were the most commonly consulted services. In contrast, lawyers, government agencies, industry associations, and management consultants were only infrequently used. Similar results can be observed in France, England and Canada (c.f., Gilman et al. 2007; Raby, 2015; 2018).

Various studies have examined differences between the provisions of public versus private business support. Ramsden and Bennett (2005) suggest that public sector suppliers, although highly regulated, have unpredictable quality, can lack professional skills, and have overly bureaucratic and complex eligibility criteria that undermine their capacity to provide impact and satisfaction to recipient firms.

Similarly, Bennett and Robson (2005) found that low satisfaction levels of firms receiving assistance from government assistance is incompatible with attempts to charge fees; an approach taken by the UK government Business Link network. They conclude that both business associations and public sector support bodies have severe limitations in combining their broader roles with a commercially-based income generating strategy.

Moles et al (2017) highlight that public business support in England is more suited to providing generic, codified knowledge and less suited to providing, for example, the tacit knowledge likely to be associated with making strategic decisions. On the other hand, the authors found that free or publicly subsidized business advice, often delivered on a face-to-face basis, assisted businesses that were struggling to survive or constrained in their pursuit of growth; especially by financial problems and concerns during a period of recession and financial stringency. They call for further research to determine if the shift away from public direct support is adversely affecting SMEs facing particular challenges.

Moles et al. (2017) suggest that the cost of assistance together with uncertainty over its benefits deter smaller firms facing unresolved problems to seek private business support. Owner-managers with no experience of formal external assistance may undervalue its benefits and be reluctant to pay market rates. In addition to increasing awareness of the availability of private sources of

information and advice, it is also important to convince SME owners that private providers can make a positive difference and offer value for money.

In summary, the above review of the business support literature highlights distinctions between public and private business support, differences in the types and frequency of advisers used and barriers to accessing support for SMEs. An identified gap in the literature, which this study seeks to address, is to further understand how different 'types' of advice may influence business performance.

## **Resource and Knowledge based Perspectives**

The resource-based view of the firm would suggest that external support is taken to alleviate a deficiency in the knowledge of business founders (Chrisman and McMullan, 2000). This view would suggest that early-stage enterprises, led by founders with limited prior business knowledge, will require more assistance. Small business performance is often dependent on the skills of the owner, unlike large businesses where performance is more reliant on teams of experts or skilled managers (Pearce et al., 1982). Many founders, however, do not have the requisite managerial skills and knowledge, which can lead to business failure (Bauer, 2003).

The resource-based view suggests that competitive benefits are to be gained from seeking and taking-up external business support. Bennett and Robson (2003) cite various leading scholars on business growth and competitiveness (Penrose, 1959; Teece, 1986; Teece et al., 1997) in suggesting that external sources of advice increase a firms' strategic knowledge, leading to competitive benefits and increasing business potential. According to Chrisman and McMullan (2004), external assistance can overcome information and knowledge gaps particularly in small and early-stage enterprises because of their resource and skill deficiencies.

Business support is predicated on the assumption that business owners will accept such support and is influenced by the degree to which owners perceive themselves to need assistance (Mole et al, 2017). Small business owners may be reluctant to actively seek information; preferring to rely on their own experience and intuition (Pineda et al, 1998). Another view is that the small

business ethos typically relies on an “I do it my way” approach (Gibb, 2000).

Some scholars suggest that independent-minded owners value their autonomy and are fearful that accepting advice may lead to feelings of dependence on the advisor (Zinger et al, 1996). Further, requesting and receiving information may imply that the business owner is deficient in the area in which they seek information and owners may be reluctant to make such an admission (Curran and Blackburn, 2000). On the other hand, evidence suggests that small business owners will seek specialized information and advice in particular areas of need and acknowledge that they do not have the expertise (Mole, 2002).

SME owners may also be unaware of all the advice services that exist or may be sceptical of their value (e.g. Storey, 1994). Other scholars highlight different barriers that may prevent small businesses from taking advice and assistance, such as the case of engaging with institutions of higher learning, where barriers include identifying appropriate assistance sources, difficulty in working with faculty and staff, and slow response times on the part of the institution (Young, 2002).

In summary, resource and knowledge based perspectives highlight the potential value of external advice to overcome resource and knowledge deficiencies, particularly for early-stage enterprises. A key question relates to the awareness by business owners of their deficiencies and whether or not they seek external advice. Another question is whether business owners are aware of the availability of external advice or whether such advice is available to them, depending on where their business is located. Resource and knowledge based perspectives also suggest that firms will benefit from such advice, with policy makers keenly interested in the impact that external advice may have on firm growth.

### **Firm Growth Perspective**

The firm growth perspective suggests that the sources of advice and the kind of information used by SMEs are a function of the growth and maturity of the firm. For example, founders of new firms, who may be deficient in knowledge and resources required to grow their business, will often turn to outside sources for advice (Smeltzer et al, 1991). Accountants, lawyers and bankers are common



choices since bookkeeping, legal, insurance, and financial knowledge, and understanding of legal and statutory requirements, may be capabilities that the new firm does not possess (Dyer and Ross, 2008).

As a firm matures, owners tend to favour more specialized business information (McGee and Sawyerr, 2003) and may engage in advice seeking and information search related to marketplace decisions on product quality, product lines and pricing (Pineda et al, 1998). The focus of firm attention may also expand beyond the 'immediate' micro-environment (customers, markets, and competitors) to the 'remote' macro-environmental marketplace, which includes socio-cultural, demographic, political, regulatory, and technological trends (Mohan-Neil, 1995).

The explicit pursuit of business growth is also expected to stimulate SMEs to use external assistance (Mole et al, 2017). Several studies have explored this relationship and drawn attention to questions regarding the direction of causality (i.e. whether growth leads to seeking advice or whether advice stimulates growth). Caution is suggested in comparing findings, given differences in the methods by which growth was measured and the research questions posed.

Using data relating to owner-managers' objectives rather than actual business performance, Johnson et al (2007) hypothesized a positive relationship between growth orientation and seeking external support; suggesting that growth and associated firm changes provide a severe challenge to the internal resources and knowledge base of smaller firms. They concluded that growth orientation (using 'anticipated' employment growth as a proxy) is a key factor that predisposes businesses to seek and draw upon external support.

Robson and Bennett (2000), using several business performance measures, found that 'the use of external advisors has surprisingly little relationship with each of the measures of growth: where it does it is primarily related to employment growth. One explanation for the lack of a clear relationship with business growth is that firms facing difficulties which threaten their very survival are 'pushed' into seeking outside support, although the cost of private sector advice may push them towards seeking advice from publicly subsidized or 'free' sources.



Mole et al (2017) found a clear firm size threshold effect in demand for external support, with SMEs with more than ten employees making significantly greater use of formal sources of information and advice. They also found that, although many growth orientated SMEs use formal external advice from private sources, other SMEs attempting to grow, but experiencing problems in doing so, did not seek external advice. They suggest that the Business Link 'brokering approach' used in England was not capturing all the SMEs that could have benefitted from external assistance.

According to some scholars, small business growth is partially determined by the entrepreneur or manager's motivations and intentions for expanding the business (Davidsson, 1991; Baum et al., 2001; Davidsson et al., 2002; Wiklund et al., 2003; Delmar and Wiklund, 2008). This suggests that SME growth is driven by motivation rather than value maximization (Cassar, 2007; Delmar and Wiklund, 2008) and that a desire by the owner to grow the business may lead to a higher demand for private sector business advice.

Although scholars, including Pineda et al (1998), suggest that personal attributes of the owner can explain external advice seeking activity, Robson and Bennett (2000) suggest that because growth is primarily stimulated by competitive market conditions, the use of advice may be related to these specific market or environmental conditions. Dyer and Ross (2008) show that small business owners are sensitive to the environment in which they exist, and with increases in the dynamism and complexity of the environment, there is a greater tendency for owners to seek environmental information (McGee and Sawyerr, 2003).

Dyer and Ross (2008) found that small business owners whose firms existed in a dynamic and unpredictable environment were more likely to seek information and advice about marketing practices such as customer preferences and problems, pricing, and market communications. Further, when the firm's marketing decisions are complex, involving for example, diverse products, services or market segments, broad geographical markets, innovative products, and techniques, owners seek information and advice more frequently. Frequent advice seeking was related, in turn, to perceptions

of greater business success.

In summary, the firm growth perspective suggests that explicit pursuit of business growth may stimulate firms to use external assistance. However, various scholars identify the challenge of causality in determining whether growth leads to seeking advice or whether advice stimulates growth. The growth perspective highlights the importance of business owner motivations and behaviour in pursuit of growth as well as the competitive market which influence growth opportunities.

## **Gender Effects**

In this study, we will also consider gender effects on external business support. The literature suggests some disagreement over the effects of gender on external assistance. One argument explains that female business owners find it difficult to access traditional business networks (Carter, 2000) and rely instead on social networks (Robson et al., 2008). Scott and Irwin (2009) found that female entrepreneurs were almost twice as likely as their male counterparts to access external support from public providers. Mole et al. (2008) found that the probability of receiving Business Link assistance increased as the female share of the partners and directors increased. By comparison, Robson et al. (2008) found that the gender of key decision-makers in Scottish SMEs had no statistically significant relationship with take-up of either formal or informal external advice.

## **Business Support and Firm Performance**

Empirical study on the impact of business support and advisors on business performance is limited and has produced mixed results, with some studies showing an impact while other studies reveal no apparent effect. In his assessment of UK data, Storey (1994) concluded that, although small firm owners express appreciation for business assistance, it can be difficult to link this assistance to improvements in performance. Similarly, Ramsden and Bennett (2005) suggest that establishing direct cause-effect relationships between assistance and business performance is difficult, due to impacts being delayed and difficult to detect over time and given the effects of other factors and

decisions being made by managers.

Turok and Raco (2000) draw a distinction between the impact on firm 'capabilities' (e.g. management skills, production methods, and business strategy) which may contribute to firm performance, and that on firm performance (e.g., sales turnover, jobs, and profitability), which is the primary objective of external support. The authors suggest the distinction is important for several reasons. First, the cause-effect relationships between business support and firm performance is indirect, as improved capabilities may not have any noticeable impact on sales turnover and employment in the short term. Second, it is often difficult to disentangle external support from other factors affecting business performance. Third, many firms have received intensive forms of assistance that can result in effects on turnover and jobs.

Research has shown that the higher the value placed by the owner/managers on advice, the greater the emphasis placed by other personnel in the business (Lybaert, 1998; Gibb and Dyson, 1984). Hence, the values and processes of seeking advice are important both for developing internal change and responding to external stimuli. This is an important consideration when examining longitudinal survey data and will be further discussed in suggestions for further research.

Dollinger (1985) demonstrated that the 'interaction' of the entrepreneur with the external environment was positively correlated with financial performance. The external environment was described as including vendors and suppliers, customers and clients, new employees, external consultants, trade and business associations, regulatory and union officials, competitors, stockholders and creditors. His sample of 82 small businesses correlated net income, increases in sales, and other financial indicators with the time spent by business owners on negotiations, transactions, and information gathering.

Brush (1992) examined the relationship between information/advice seeking and the performance of firms between 3-6 years of age. Performance was measured as growth in sales, growth in employees, and performance relative to

competition. Brush found a correlation between seeking customer opinions and growth in sales but concluded that no single type of market place information seeking relates to business performance.

Kent (1994) found that financial performance of the small business was positively related to the use of external advice when profit and sales growth were used as indicators of performance. Focusing specifically on the owners' desire for business expansion, Larsson et al (2003) found a positive relationship between the use of expert advisors and expansion goals in a sample of 223 small businesses in rural Sweden. Getting advice on staff and marketing issues increased their willingness to enlarge the firm by finding new markets, exporting, and hiring new staff. Expert advice also had a direct positive effect on sales.

Wren and Storey (2002) applied econometric techniques to assess the impact of publicly-provided 'soft' business support on SME performance. Soft support involved assistance for consultancy advice on marketing under the UK Enterprise Initiative, and examined support effects on sales turnover, employment and survival. They found that the policy had no impact on survival of smaller SMEs, but was most effective for mid-range SMEs; raising survival rates by approximately 4% over the longer run and growth rates in surviving firms by up to 10% per annum.

Robson and Bennett (2000) in their study of business advice, came to the conclusion that only a few factors were associated with increased business performance: general market conditions, firm size, age, and export orientation. Interestingly, the use of accountants, banks, consultants, and government programs were unrelated to business performance. Among professional advisors, only the lawyers were providers of advice that led to improved performance - measured as the percentage of employment growth, the percentage rate of sales growth and the change in profitability per employee.

To summarize, a broad reading of the business support literature reveals a range of factors that influence the take-up of support and the impact this support has on performance outcomes. One of the central challenges in studying business support and firm performance is the nature of causality. Scholars reveal the complex connections between the taking up and provision of support,

relationships that cannot be unpacked using quantitative methods alone, resultant action on behalf of the receiver of said support and its ultimate impact on performance.

Overall, while presented in an orderly fashion in the sections above, the literature on business support is messy and chaotic and, at times, contradictory. Although beyond the scope of this report, the literature would benefit from an expansive review leading to a common set of research questions that can guide and anchor future studies.

### 3. DATA AND METHODS

#### Sample

This study involves a quantitative exploration of two waves of data (2015, 2016) from the Longitudinal Small Business Survey (LSBS), with 2015 representing the first wave of the LSBS. The LSBS is a large-scale telephone survey of 15,502 UK small business owners and managers in the United Kingdom (UK), comprising of 13,620 from IDBR ( $n=72,388$ ; response rate =18.8%) and 1,882 from Dun and Bradstreet ( $n=21,481$ ; response rate=8.8%).

The survey is based on SME employers only, defined as businesses between one and 249 employees and 14 sector groupings, defined by the standard industrial classification (SIC). Further sub-group analysis is based upon employment size:

- *Micros* having 1-9 employees;
- *Small businesses* having 10-49 employees;
- *Medium-sized businesses* having 50-249 employees.

Based on UK government statistics, upon which the 2015 LSBS survey's weighting was based, 82% of SME employers were micros, 16% were small businesses, and 2% were medium-sized businesses. Further sample characteristics are presented below:

- 37% of SMEs had a single owner. This proportion was greater for micros (39%) than for small (26%) and medium-sized businesses (18%);

- 60% of SMEs had a limited company legal status; 14% were sole proprietorships; 12% were partnerships and 12% had other legal statuses;
- 69% of SMEs were defined as family-owned businesses (e.g. businesses majority owned by members of the same family): 71% of micros; 61% of small, and 52% of medium-sized businesses;
- 21% of SMEs were majority-led by women (e.g. controlled by a single woman or management team was majority women, with medium-sized businesses less likely to be women-led (15%).
- The most populous sectors in 2015 were retail/wholesale (19%), professional/ scientific (14%), construction (12%) and accommodation/food service (10%).

## **Focus of Study**

For this study, the focus of analysis was on the relationship between business support and firm performance. In the context of the LSBS, this exploratory empirical analysis sought to determine the relationship between the following dimensions of business support and business performance:

- The relationship between ‘stated reasons’ for accessing external advice and business performance, i.e., external advice sought:
  - for business growth;
  - for improving business efficiency/productivity;
  - for generally running a business.
- Evidence of gender differences in accessing external advice or types of advice;
- The relationship between ‘types’ of advice (e.g., consultants, accountants, business networks or trade associations) and business performance;
- The relationship between paid advice (vs. unpaid advice) and business performance;
- The relationship between face-to-face advice (vs. other means) and business performance.

Our analysis involved generation of descriptive data, focusing on firm performance, and included assessment of SME profitability and support provision

of surveyed SMEs during the year prior to the survey. Regression analysis was then used to identify the key factors related to advice seeking behaviors at the firm level. Further details are given below, beginning with a description of variables and followed by the method deployed.

## **Variables**

*Performance* - The survey does not ask direct questions about performance. Instead it asks about whether a business has been profitable or not in the past year. Despite the shortcomings of such dichotomous measure of performance, it can still help evaluate the effect of various antecedents of firm performance through a logit model (described below).

*Advice* - The survey identifies two broad categories of information seeking: strategic advice and asking for operational information. For each category, respondents were asked to identify a) the type and b) the source of strategic advice/information. We have listed all the options for source and type of advice in the Appendices. We have provided some descriptive statistics for the difference between firms that seek strategic advice and those that seek operational information and included findings from regression analysis.

*Interaction Mode* - The respondents were asked to choose the strategic advice was mainly delivered to them. The options given were, face-to-face, through a website, by email, on the phone, and social media.

*Paid vs unpaid* - the respondents were asked whether they paid for the advice they received.

## **Method**

We first identified SMEs in the 2015 survey and focused on business performance over the following 12 months, measured from the 2016 survey. Here, we sought to establish how SMEs explicitly seeking advice for business growth 'perform' compared to SMEs seeking advice for improving or running their business.



The firm's size was measured using log of number of employees. Firm age was measured by a variable representing the exact age until the age of 5 and aggregate categories of 6-10, 11-20, and 20+ for older firms. Family ownership was assessed by a yes/no question. An ordinal variable was used to categorize firms based on the percentage of leaders who are women into four categories of Women led, equally led, women in minority, and male led. The industry effect was controlled by using the 3 digit SIC code of the industries as a random effect.

We used a random effect panel logit model for the analysis. The logit model was chosen to fit our dichotomous performance variable and a random effect was used to account for industry differences without drastically reducing the power of the analysis. All the analysis was performed with Stata 14 and the command *melogit* was use for the regression analysis.

## 4. RESULTS

### Descriptive statistics and exploration

#### *Non-advice related*

The majority (90%) of the LSBS panel database consists of enterprises of more than 5 years old. As the table below shows, larger firms are more likely to be profitable.

Approximately 15% of firms changed profitability status from first to second year (see Table 1). Firms that are less than 3 years old are much more likely not to be profitable. Beyond 3 years, the percentage of loss makers does not change by age.



**Table-1: Firm Age and Profitability Status**

<i>Firm (years)</i>	<i>Age</i>	<i>% of profitable firms</i>
< 1		0.28
1		0.57
2		0.61
3		0.76
4		0.84
5		0.79
6-10		0.81
11-20		0.85
20 +		0.83
Don't know		0.81

By way of comparison, recent USA data shows the failure rate of start-ups to significantly drop as they mature to their sixth year of operation.<sup>1</sup> Although profitability and survival do not necessarily go hand in hand, it is expected that there is some relationship between the two constructs. From this perspective, further investigation is suggested to examine whether UK businesses are maturing earlier than their USA competitors and if so, why?

### ***Strategic advice vs Operational Information***

As mentioned in the methods section, survey respondents were asked about the sources and types of both strategic advice and operational information they seek. Given the list of sources and types of advice was identical in both cases, we maintained a focus on strategic advice in our regression analysis. However, we draw on Table 2 below to assure no major difference between strategic advice and operational information in their impact on performance.

Findings reveal no major difference between those firms that make a profit and those that do not in seeking either strategic advice or operational information.

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<sup>1</sup> <https://www.bls.gov/bdm/entrepreneurship/entrepreneurship.htm>  
[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1504489](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1504489)

**Table 2: Profitability and Seeking Advice (Strategic vs Operational Information)**

Reporting loss	Reporting profit	
0.16	0.84	Information relating
0.18	0.82	Strategic advice
0.17	0.83	Both of these
0.15	0.85	Neither of these
0.14	0.86	Don't know
0.16	0.84	Total

### ***Different types of strategic advice***

Findings reveal that it is much more common for loss-making firms to ask for *innovation related advice*. Also, loss-making firms focus their attention on seeking advice about *finances, improving business efficiency and marketing*. It is mostly only profitable businesses that ask for advice about *relocation*.

We will further examine these effects through the regression analysis. However, the descriptive statistics as presented in Table 3 provides an overview of the difference between the profit making and loss making firms in their choice of different advice.

**Table 3: Profitability and Different Types of Strategic Advice**

	Reporting loss	Reporting profit
Business growth	0.18	0.82
E-commerce/technology	0.20	0.80
Employment law/redundancies	0.21	0.79
Exporting	0.20	0.80
Financial advice e.g. how and where to get finance	0.29	0.71
Financial advice e.g. accounting, etc.	0.23	0.77
Health and Safety	0.13	0.87
Improving business efficiency/productivity	0.26	0.74
Innovation	0.41	0.59
Legal issues	0.19	0.81
Management/leadership development	0.17	0.83
Marketing	0.25	0.75
Regulations	0.21	0.79
Relocation	0.05	0.95
Tax/national insurance law and payments	0.15	0.85
Training/skills needs	0.13	0.87
Workplace pensions	0.17	0.83

### ***Paid vs Unpaid***

The results show that those who have used both strategic and information advice are slightly more likely to have paid for the advice in comparison to those who have asked for only strategic advice, as shown in Table 4.

**Table 4: Percentage of Firms Who Paid for Strategic or Both Types of Advice (Strategic and Information)**

	Strategic	Both
<b>Paid</b>	0.70	0.75
<b>Not paid</b>	0.29	0.25
<b>Not sure</b>	0.00	0.01

Because we do not have separate data for those who have only asked for information advice, this may be interpreted in two ways. One explanation is that firms who ask for more advice are more likely to eventually pay for it. The other perspective is that support programs and free advice is more focused on strategic forms rather than information forms of advice. Importantly, as we will discuss in the regression analysis later, firms that pay for advice are more likely to be profitable.

### ***Advice type and age***

As shown in Table 5, accountants, banks, and consultants are the main sources of advice. A greater proportion of young firms (< 1 year) ask for advice about finances (raising funds and accounting management).

**Table 5: Type of Advice and Age of Firm**

	< 5	6-10	11-20	20+	Don't	Obs
Business growth	0.17	0.15	0.21	0.34	0.12	574.9
E-commerce/technology	0.15	0.11	0.27	0.40	0.07	254.4
Employment law/redundancies	0.14	0.10	0.19	0.38	0.19	213.6
Exporting	0.16	0.10	0.13	0.52	0.09	67.4
Financial advice e.g. how and where to get finance	0.23	0.12	0.14	0.30	0.21	211.6
Financial advice e.g. accounting, for general running of business	0.21	0.14	0.18	0.34	0.14	569.9
Health and Safety	0.09	0.04	0.20	0.50	0.17	126.7
Improving business efficiency/productivity	0.17	0.08	0.19	0.35	0.21	337.6
Innovation	0.03	0.13	0.38	0.33	0.13	85.2
Legal issues	0.18	0.08	0.14	0.42	0.18	233.4
Management/leadership development	0.22	0.10	0.16	0.33	0.19	76.7
Marketing	0.19	0.14	0.23	0.26	0.18	311.6
Regulations	0.12	0.11	0.25	0.38	0.15	209.1
Relocation	0.48	0.03	0.05	0.39	0.05	35.4
Tax/national insurance law and payments	0.16	0.07	0.24	0.34	0.19	370.5
Training/skills needs	0.32	0.16	0.15	0.23	0.13	119.9
Workplace pensions	0.10	0.10	0.26	0.34	0.19	161.2

### ***Advice source and age***

Table 6 shows that the chances of firms asking for advice generally increases as they age. Importantly, it also shows a very low percentage of young and growing firms are using different sources of advice compared with established firms. This suggests that established firms are putting in a lot more effort to maintain or improve their market position - in seeking external advice - than younger firms who are attempting to establish themselves.

There is a greater likelihood that firms seek advice from *accountants* and *consultants* (each with more than 1000 observations). Younger firms are found to refer more to accountants than consultants compared to older firms.

**Table 6: Percentage of Firms Using Different Advice Sources by Age Group**

	<b>Less than 5 yrs.</b>	<b>6-10</b>	<b>11-20</b>	<b>More than 20</b>	<b>Don't know</b>	<b>Total observations</b>
Accountant	0.11	0.07	0.13	0.40	0.27	1350
Bank	0.10	0.06	0.15	0.49	0.19	185
Business networks/trade associations	0.13	0.09	0.14	0.41	0.24	637
Consultant/general business adviser	0.08	0.07	0.13	0.42	0.29	1489
Chamber of Commerce	0.16	0.11	0.13	0.37	0.23	75
(Specialist) financial adviser	0.10	0.06	0.16	0.35	0.33	243
Friend or family member	0.25	0.13	0.12	0.31	0.16	67
.GOV website	0.12	0.10	0.17	0.32	0.29	271
Internet search/google/other websites	0.14	0.12	0.15	0.37	0.21	307

### ***Source and Type of advice***

Table 7 shows the frequency of different types of advice used by SMEs, with all sources above 15% highlighted. Findings appear to infer that when SMEs only use a single source of advice (e.g. their accountants), they ask a variety of questions; some of which may be beyond the knowledge of the advisor. This may suggest a need for more generalist sources of advice or stronger collaboration and referral between the financial and accounting firms and general business advisors.

Looking at those sources of advice with more than 300 observations, we include two further advisory sources used by younger firms: business networks and Google. It is also interesting to note that if all observation sizes are taken into account, younger firms are disproportionately more likely to seek advice from friends and family.

**Table 7: Frequency of Different Types of Advice Used by SMEs (by percentage)**

	Accountant	Bank	Business Network	Consultant	Chamber of Commerce	Specialist Finance	Friend or family member	.GOV website	Internet
Business growth	0.25	0.01	0.22	0.39	0.04	0.02	0.03	0.00	0.04
E-commerce/technology	0.19	0.00	0.24	0.21	0.07	0.01	0.00	0.01	0.28
Employment law/redundancies	0.16	0.01	0.35	0.26	0.01	0.02	0.02	0.03	0.13
Exporting	0.11	0.00	0.44	0.06	0.04	0.08	0.00	0.26	0.01
Financial advice e.g. sourcing finance	0.34	0.02	0.22	0.31	0.01	0.06	0.00	0.01	0.03
Financial advice e.g. accounting, operations	0.67	0.03	0.10	0.09	0.00	0.04	0.00	0.01	0.06
Health and Safety	0.11	0.01	0.35	0.41	0.00	0.04	0.00	0.04	0.04
Improving business efficiency	0.16	0.01	0.27	0.34	0.00	0.02	0.04	0.05	0.09
Innovation	0.03	0.00	0.23	0.22	0.16	0.00	0.00	0.00	0.36
Legal issues	0.30	0.02	0.32	0.24	0.00	0.07	0.01	0.01	0.04
Management/leadership	0.30	0.00	0.24	0.38	0.01	0.03	0.00	0.02	0.02
Marketing	0.04	0.00	0.24	0.42	0.07	0.01	0.05	0.01	0.15
Regulations	0.11	0.00	0.36	0.16	0.01	0.05	0.00	0.16	0.15
Relocation	0.67	0.00	0.24	0.08	0.00	0.00	0.00	0.00	0.00
Tax/insurance	0.63	0.02	0.07	0.10	0.00	0.01	0.00	0.06	0.11
Training/skills	0.15	0.00	0.63	0.19	0.01	0.01	0.00	0.01	0.00
Pensions	0.40	0.00	0.18	0.08	0.00	0.24	0.01	0.07	0.02

### **Industry differences**

Although the LSBS data for each industry is not large enough to make statistically robust conclusions, we can make some preliminary observations from the results of a cross tabulation displayed in Table 8. While the analysis of these industry specific observations is beyond the scope of this study, the flowing examples give insight into the possible inferences to be made:

- 69 – *Legal and accounting activities*: gets a lot of tax/insurance advice
- 82 - *Office administrative, office support and other business support activities*: gets a lot of relocation support
- 26 - *Manufacture of computer, electronic, optical products*: gets a lot of exporting support
- 68 - *Real estate activities*: gets a lot of legal support
- 74 - *Other professional, scientific and technical activities*, gets a lot of business efficiency support

**Table 8: Number of times different type of advice sought by each industry**

	Business growth	E-commerce/technology	Employment law/ redundancies	Exporting	Financial advice e.g. how and where to get finance	Financial advice e.g. accounting	Health and Safety	Improving business efficiency	Innovation	Legal issues	Management/leadership	Marketing	Regulations	Relocation	Tax/national insurance law and payments	Trainingskills needs	Workplace pensions
Crop and animal production, hunting and related service	38	7.3	4.6	0.96	15	20	7.7	38	3.9	9.1	3.1	3.6	11	1	18	2	2.3
Manufacture of food products	2.5	0.39	0.6	2.7	0.78	0.67	0.16	0.84	0.62	0.12	0.29	0.82	0.15	0	0.33	0.24	0.4
Manufacture of metal products, except machinery and equipment	3.9	1.5	1.5	0.73	1.9	0.96	0.99	9.1	0.06	3.2	0.35	0.78	0.77	0.1	7.2	0.1	0.88
Manufacture of computer, electronic and optical products	2.8	0.43	0.76	14	0.54	0.22	0.16	1.1	0	0.15	0.61	2.4	0.24	0.12	2.8	0.44	0.75
Manufacture of machinery and equipment	1.2	0.58	1.2	1.2	0.68	0.52	0.44	0.86	0.1	0.12	0	2.3	0.42	0.04	0.69	0.17	1.2
Construction of buildings	20	2.7	9.1	0	17	27	6.5	5.2	1.3	13	1.7	2.9	12	1.4	25	0.06	9.9
Specialised construction activities	51	21	8.6	1.5	14	71	35	47	8.9	18	1.8	9.1	17	0	46	26	7.5
Wholesale and retail trade and repair of motor vehicles	2	1.8	1.6	0	4.5	5.1	0.34	1.6	0	4.3	0.28	1.5	1	0.79	0.61	0.8	5.1
Wholesale trade, except of motor vehicles and motorcycles	19	5.7	4.4	5.1	5.5	16	5.1	9.5	1.4	5.2	2	5.4	8.3	1.4	11	0.91	7
Retail trade, except of motor vehicles and motorcycles	28	12	9.2	6.5	6.1	27	2.9	13	2.3	16	1.3	16	2.3	0.84	9.8	3.1	12
Land transport and transport via pipelines	2	0.03	3.3	0	1.1	1.7	0.58	3.2	0	2	0	8.6	3.5	0	8	0	2.2
Accommodation	4.3	7	2.8	0	2.8	2.5	3.4	5.4	0	1.4	0.43	2	3.7	0	4.6	0.62	1.6
Food and beverage service activities	8.4	3.6	14	0	2.6	15	5.6	5.3	0.04	6.8	1.2	4.7	2	0.2	8.8	2.4	5.7
Publishing activities	7.8	8.7	0.61	0.12	2.8	4.8	0.88	3.4	0.26	1.9	1.9	4.5	0.12	0	3.2	1.2	1.5
Computer programming, consultancy and related activities	23	18	7.3	2.9	15	47	0.54	9.9	0.57	13	5.4	30	4.4	0	23	2.6	5.9
Activities auxiliary to financial services and insurance activities	3.3	2.1	7	0.15	1.4	18	0	1.8	0.78	3.5	5.1	5.7	18	0.04	10	0.19	0
Real estate activities	10	2.3	1.5	0	0.77	21	0.82	2	3	20	1.3	2.5	2.8	0.04	12	0	1.3
Legal and accounting activities	9.5	5.6	3.4	0	1.2	7.4	0	5.6	1.3	5.1	2.8	4	8.9	0.13	42	1.6	9
Activities of head offices; management consultancy activities	36	10	14	2.8	4.8	41	1.2	8.3	2.3	13	3.5	20	5.3	0	34	8.5	19
Architectural and engineering; technical testing and analysis	12	8.5	4.7	2.5	4.3	15	4.7	5.2	0.03	8.8	2	3.9	3.8	0	10	0.57	4.8
Advertising and market research	14	4.5	0.86	0	0.5	13	0.13	7.5	4.3	3	0	6.3	4.4	0.13	10	0.33	4.7
Other professional, scientific and technical activities	26	19	5.8	1.9	6.7	20	5.1	25	9.1	5.8	1.6	8	13	0	14	1.7	4.6
Rental and leasing activities	14	1.3	2.6	0	11	10	0.41	2.3	0.14	0.71	0.22	0.09	0.14	0	2.6	0.14	0.28
Employment activities	16	3.9	15	0.28	1.1	7.1	1.4	4.3	0	15	1.3	4.1	2.9	2.2	2.6	3.2	3.8
Services to buildings and landscape activities	13	10	4	0	1.5	1.3	2.8	13	8.6	0.31	0.18	0.18	2.7	0	3.4	1.3	0.31
Office administrative, office support and other business support	28	2.6	0.33	1.3	9.7	34	3.6	2.7	1.2	6.3	10	1.5	1.4	17	18	6.8	4.2
Education	33	24	14	0.06	4	23	0.43	22	6.6	12	0.4	25	29	0	1.1	25	1.4
Human health activities	49	28	10	0	7.9	27	0.41	15	13	2.6	6.3	61	7.5	6.9	12	1.6	0.41
Residential care activities	1.2	0.32	1.7	0	1.4	1.2	0.46	0.61	0.01	1	0.22	1	0.22	0	0.17	0.42	0.4
Social work activities without accommodation	13	7.8	7.1	0.12	15	3	2.8	11	0.31	3.5	2.5	1.5	7.2	0.14	1.5	2	11
Creative, arts and entertainment activities	16	5.3	0.77	10	16	5.9	0	8.3	5.2	3	0.04	11	0.82	0	1.5	0.4	1.9
Sports activities and amusement and recreation activities	7.2	0.03	0.91	0	0.76	6.1	1.3	1.9	0	5.4	0.14	11	0.58	0.18	2	0.52	1.3
Activities of membership organisations	4.8	1.3	12	0.66	4.7	19	2.9	9.2	0.23	8.2	6.5	2.4	7.5	0.01	6.4	1.3	7.4
Other personal service activities	4.7	1.5	3.9	0	0.92	4.7	8.2	2.2	0	1.5	2.1	6	0.86	0	1.7	8.4	1.6

### Gender differences

While Table 9 highlights that women-led enterprises are more likely to ask for marketing advice, we find no significant gender differences in other aspects of business advice including: source of advice, type of advice, whether firms pay or not, etc. between firms that are women-led and men-led.

**Table 9: The Relationship between Gender and Marketing Advice**

Mean	Std. Err	Percentage	95%	Conf.Intervals
1 Women-led	0.157	0.028	0.102	0.212
2 Equally-led	0.062	0.012	0.038	0.086
3 Women in minority	0.085	0.043	0.001	0.169
4 Entirely male-led	0.091	0.013	0.064	0.117

t-test between 1 and 4: significant at 0.03 p value

## Regression Analysis

As the results in Table 10 suggest, paid advice is more likely to improve performance. With further longitudinal data, we would expect the evidence to show that firms which are not profitable but then pay for advice are more likely to become profitable. Otherwise, paying for advice might be a function of having the money to do so and not necessarily a strategic investment.

Face-to-face advice provision, despite all the benefits, is found not to impact performance more than other types of advice provision. Seeking advice for business growth positively impacts performance, while seeking marketing and general efficiency/operational advice appears related to weaker performance. One explanation for this finding is that firms asking for efficiency and marketing advice - which could be considered basic functions of a business operation - are already in trouble.

An alternative hypothesis is that firms that seek advice about business efficiency are focusing on cost reduction rather than growth, which may not be the best strategy for a small business. A cost reduction strategy may compromise the benefits of an 'effectuation approach,' which favours small business flexibility in adjusting to market conditions, as the firm develops a growth-oriented strategy and business model (e.g., Chandler et al, 2011; Sarasvathy, 2008).

As for the source of advice, our analysis reveals that firms using local authorities for advice perform weaker in comparison to those that do not.



**Table 10: Effects of Source and Type of Advice on Performance**

Variable	Coefficient	T-statistics
Year	-0.283	(0.148)
Log (employees)	0.156**	(0.058)
Business Age	0.048	(0.056)
Family Owned	0.488*	(0.206)
Percentage of Women Directors	-0.075	(0.062)
Number of Minority Directors	0.201	(0.123)
Paid for advice		
- Yes	0.483**	(0.147)
- No	Omitted Variable	
- Don't know	0.07	(0.841)
Type of Interaction		
- Face to face	0.742	(0.677)
- Through a website	0.966	(0.734)
- By email	0.629	(0.671)
- On the phone	0.694	(0.718)
- Social media	Omitted Variable	
- Other	1.514	(0.792)
Advice: Business growth	0.375*	(0.151)
Advice: Financial Advice	-0.41	(0.233)
Advice: Efficiency	-0.382*	(0.165)
Advice: Marketing	-0.346	(0.218)
Advice: Training	0.892*	(0.350)
Source: GOV website	-0.014	(0.306)
Source: Local Authority	-0.644*	(0.304)
Constant	0.492**	(0.152)
Industry Random Intercept	0.507**	(0.158)

Note; XX = missing variable  
N= 1829, \* p<0.05, \*\* p<0.01, \*\*\* p<0.001

## 5. DISCUSSION

We will first discuss key findings on different types of business advice used by SMEs. Our analysis shows that the chances of SMEs asking for advice generally increases as they age. However, we identify a very low percentage of young and growing firms that are using different sources of advice compared with established firms. This could suggest that established firms are putting in a lot more effort to maintain or improve their market position - in seeking external advice - than younger firms who are attempting to establish themselves. Younger

firms (>5 years) appear to rely most on advice from friends or family members, which may not always be the best strategy, but is not surprising, given that such advice is free of charge.

Findings identify accountants as the main private sector providers of information to SMEs, consistent with previous research (c.f., Moles et al., 2017, Raby 2015; 2018) and also observe that accountants are important providers of information for younger firms (>5 years).

However, findings infer that SMEs are more likely to seek advice from their accountant and will seek counsel on issues beyond the speciality of this advisory source. Further, when businesses only use a single source of advice (e.g., their accountants) they ask a variety of questions, some of which may be beyond the knowledge of the advisor. This suggests a need for more generalist sources of advice for SMEs and stronger collaboration and referral between the financial and accounting firms and general business advisors. Government agencies may also want to consider further targeting their promotional or partnership activities within the paid advisor community.

We identify a greater proportion of young firms (>1 year old) ask for advice about finances (raising funds and accounting management). We suggest that while young firms need to develop close relationships with financial advisors and external capital providers, they should not limit their sources of advice to finance, as other forms of advice are important for business growth and development; particularly those firm level capabilities that contribute to firm performance. (e.g., Turok and Raco, 2000).

While our data shows that women-led firms are more likely to ask for marketing advice, we do not identify any significant gender differences in other aspects of business advice. Findings align with studies showing no statistically significant gender differences in taking up external advice (Robson et al, 2008). We also find no evidence that women-led firms are more likely than their male counterparts to access external support from public providers of advice compared to private providers (Scott and Irwin, 2009).

We now discuss key findings on the relationship between different types of

business advice and SME profitability and performance, as summarized below:

- Asking for advice about *training* and *business growth* has a positive impact on profitability;
- Asking for advice about *marketing* and *improving business efficiency* have a negative impact on profitability;
- Asking for *advice from local authorities* negatively affects performance.

In reflecting on these results, we suggest that SMEs seeking to be profitable may be better served to focus on investments in people (e.g. skills development) and future business growth opportunities, rather than marketing and promotional activities. Although we cannot establish a relationship between growth orientation and seeking such advice from the panel data (e.g. Johnson et al, 2007), we hypothesize that SMEs seeking such advice are more likely to be growth oriented.

We propose two explanations for the negative impact on profitability in asking for advice about marketing and improving business efficiency (this one barely significant). One is that SME owners may assume that marketing is key to improved profitability when other factors, such as cash flow management, may be more important. Another explanation is that such SMEs may be dealing with complex business environments (e.g., Dyer and Ross, 2008; McGee and Sawyerr, 2003; Robson and Bennett, 2000). Previous research has highlighted that the more complex the marketing decision, the more the small business owner is likely to seek market advice; where complexity may involve a firm with different products, market segments, and customers (Dyer and Ross, 2008).

Although this study does not address the issue of the competence or expertise of advice providers, the observation that advice from local authorities negatively affects SME performance does raise questions regarding the nature of public service provision to SMEs, and particularly for those businesses who may not be profitable or are in financial distress.

Findings appear contrary to those of Mole et al (2017), who suggest that free or publicly subsidized business advice, often delivered on a face-to-face basis, can assist businesses struggling to survive or constrained in their pursuit of growth, especially by financial problems and concerns during a period of recession and

financial stringency. At the same time, we need to distinguish between public service advice and 'free' advice; as the former may involve a 'fee-for-service.' Whether it is the free advice, e.g. "asking for advice from local authorities" that negatively affects performance or direct public service provision in general (compared to private professional services) is not clear from our data, and requires further analysis.

When observing that firms that pay for advice are more likely to be profitable, this raises further questions regarding public service provision to SMEs. While previous study suggests low satisfaction levels of enterprises receiving publically-supported advice (e.g., Bennett and Robson, 2005; Ramsden and Bennett, 2005), we acknowledge other possible explanations of our findings. One explanation is that firms which are already profitable can afford professional services. Another is that some SMEs in particular jurisdictions - which would benefit from professional services - may not have access to these services and must rely on advice from local authorities.

Findings reveal different patterns of advice seeking for 'underperforming' SMEs. In observing that SMEs in decline are more likely to seek out innovation and financial advice, we suggest that further government effort could be undertaken to identify companies that are underperforming, particularly those enterprises that have performed well in the past and find ways to effectively support them.

In observing that SMEs seek advice on cost reduction (efficiency improvement and financial management) during a time of decline (loss in profitability), we suggest that cost reduction on its own is not a recommended strategy for future business growth. While advice on cost reducing options may be important, such SMEs may be well served by advisors who have the skills to help SMEs examine how existing resources can be leveraged and/or targeted to future business opportunities.

Finally, when considering evidence from regression analysis that mode of delivery, i.e. face-to-face mode of meeting, does not seem to make a significant impact on profitability, we suggest that it is the quality of advice, rather than the mode of delivery, that is most important.

## 6. CONCLUSIONS

The study offers a number of contributions regarding the relationship between external business support and SME performance. For public policy, we suggest that the UK government can play a more active role in the promotion of business advisor services to less established firms (e.g. >20 years of age), which were found to use different sources of advice much less compared to more established firms.

We also suggest a role for government in facilitating efforts to identify underperforming SMEs, particularly those enterprises that have performed well in the past and to find ways to effectively support them via the provision of professional services. This could include 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.

In observing that mode of advice (e.g., face-to-face) was not a significant factor influencing SME performance (i.e. profitability), we suggest that policy makers and business advisors need to focus on the *quality* of external advice and to provide relevant and value-adding advice across different delivery channels. Further, we suggest that gender may be less important a factor regarding external support than previously thought, which raises questions on the value of gender-specific advice provision.

For practitioners, while it is recognized that young firm (e.g. >3 years) are challenged to become profitable, they should not limit their sources of advice to finance. Other sources of advice are important which develop firm capabilities that contribute directly to firm performance, such as training and management skills.

For SMEs with declining performance (i.e. experiencing a loss in profitability), although advice may focus on cost reductions, it is advisable to explore how scarce resources can be targeted to future business opportunities. Within this study, cost reduction on its own is not a recommended strategy for future business growth. Similarly, SMEs seeking to be profitable may be better served

to focus on investments in people (e.g. skills development) and future business growth opportunities, rather than marketing and promotional activities.

At the theoretical level, the study lends support for the ‘framework-based paradigm’ of business support, recently adopted in England; whereby direct market intervention by government has given way to setting the framework and facilitating provision of private sector support. The provision of external business advice and its relationship to business performance is also much more oriented to a knowledge-based than resource-based view of the firm, with external advice acting as a precursor to future resource-based decisions and resource deployments. While resource-based theory espouses the competitive benefits from external source of advice, such benefits remain latent until such time as the advice recipient acts upon them.

## **Limitations**

The nature of the panel data upon which this study draws does create limitations. One of the limitations relates to the short time lag between business support and performance outcomes when using only two years of panel data. This limitation will reduce as further data is captured over time by the LSBS dataset.

A second limitation, which may be addressed by alterations to future runs of the LSBS survey, is the availability of a relatively weak measure of performance. The LSBS survey does not ask direct questions about performance. Instead it asks about whether a business has been profitable or not in the past year. Given that identifying the inputs to the performance of SMEs is a key outcome of surveys such as LSBS, and that performance data such as return on investments provide a better picture of the firm’s success, we suggest questions about it to be asked in the future runs of this survey.

Another limitation acknowledges that provision of external advice typically requires some kind of behavioural change on the part of the recipient of the advice, and the use of panel data and regression analysis cannot make certain that a causal interpretation is the only explanation for observed effects (Dyer and Ross, 2008). We suggest that the gap between advice being provided, actions being taken following the advice, and the performance of the business improving

is a long chain of events that cannot be proven through quantitative studies alone.

A reverse-causal explanation is also possible, in that business performance causes more frequent recall of advice-seeking behaviour. Reference to theories of human attribution suggest that people will tend to attribute their success to their own actions, and their failures to the actions of others or the environment (Delmar and Wiklund, 2008). Thus, attribution theory would predict that perceived business success might lead to *lower*, not greater, recall of advice received from others when completing a survey or questionnaire.

## **Future Research**

One suggestion for future research, as more LSBS panel data is collected, is to investigate the relationship between advice seeking behaviours and objective measures of performance. This could include studying the impact of SME owner's experiences and skills on the motivation to seek advice. This could reveal how owners with extensive experience in business or serial entrepreneurs differ from nascent entrepreneurs and young firms in seeking and getting benefit from external advice.

Another suggestion is to target cases of SMEs with declining performance (i.e. experiencing a loss in profitability) that have recovered; to determine how this was achieved and identify potential effects of different types of advice on performance recovery. Such evidence would contribute to our understanding on the types of advice that SMEs in decline require.

Findings from this study will inform a complementary study within a Canadian context - which is examining provision of external advice for SMEs and the value SMEs attribute to such advice - by validating some key assumptions as the Canadian study gets underway (e.g., Hanlon and Saunders, 2007). We expect the Canadian study to compliment LSBS quantitative datasets and analysis by providing a qualitative dataset which tracks the processes involved in seeking and taking action as a consequence of receiving support, and the impact of this support on small business performance.

Thus, this study is expected to stimulate further complementary and comparative

data for the scholarly community in examining the impact of business advice on SME performance.



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## **8. APPENDICES**

### **Appendix 1: Choices for Type of Advice**

Business growth  
E-commerce/technology  
Employment law/redundancies  
Exporting  
Financial advice e.g. how and where to get finance  
Financial advice e.g. accounting, for general running of business  
Health and Safety  
Improving business efficiency/productivity  
Innovation  
Legal issues  
Management/leadership development  
Marketing  
Regulations  
Relocation  
Tax/national insurance law and payments  
Training/skills needs  
Workplace pensions  
Other (SPECIFY)  
Don't know

### **Appendix 2: Choices for Source of Advice**

Accountant  
Bank  
Business networks/trade associations  
Consultant/general business adviser  
Chamber of Commerce  
(Specialist) financial adviser  
Friend or family member  
.GOV website  
Internet search/google/other websites  
(NORTHERN IRELAND ONLY) Inter-Trade Ireland  
(NORTHERN IRELAND ONLY) Invest NI  
Local Council/Authority  
Local Enterprise Partnerships  
(NORTHERN IRELAND ONLY) NI Business Info website  
Solicitor/lawyer  
The Pensions Regulator  
Universities/other education sector  
Work colleagues  
Other (SPECIFY)  
None/have not sought information or advice/will not seek it  
Don't know

Centre Manager  
Enterprise Research Centre  
Warwick Business School  
Coventry CV4 7AL  
[CentreManager@enterpriseresearch.ac.uk](mailto:CentreManager@enterpriseresearch.ac.uk)

Centre Manager  
Enterprise Research Centre  
Aston Business School  
Birmingham, B4 7ET  
[CentreManager@enterpriseresearch.ac.uk](mailto:CentreManager@enterpriseresearch.ac.uk)