

# Business Support and SME Performance: Exploratory Analysis of the Longitudinal Small Business Survey 2015 and 2016

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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).

## Key findings

Our analysis considers the performance effects of both public and private sources of business support. Key findings are:

- 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.
- 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.
- A greater proportion of young enterprises (<1 year old) request financial advice (i.e. raising funds and accounting). Companies in decline are more likely to seek out innovation and financial advice.
- Advice during a time of decline (loss in profitability) is focused on cost reduction (efficiency improvement and financial management).
- 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.
- Firms that pay for advice are more likely to be profitable.
- Mode of advice (e.g. face-to-face) was not a significant factor influencing firm performance (i.e. profitability).

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## Seeking advice and support

Table 1 shows the frequency of different types of advice used by SMEs, with all sources used by above 15% of firms 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 1: 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

## Policy and practice implications

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 often than 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.

**Full paper link:**

**<https://www.enterpriseresearch.ac.uk/our-work/publications/>**