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Advice and SMEs: Who Takes it and What Happens Thereafter?

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NON-TECHNICAL SUMMARY

External advice is crucial to help inform the decision-making processes by entrepreneurs and managers in small and medium-sized (SMEs). Advice is especially important for less experienced *de novo* entrepreneurial ventures during their inception when levels of uncertainty are often particularly acute.

This research therefore responds to a lively recent debate about the “benefits” and “teachability” of entrepreneurship by showing whether entrepreneurs can be taught to make better decisions but also that the use of this approach can translate into superior business performance.

Despite the strong focus business advice receives in public policies the effectiveness of these informational services remains a contested issue. While widely adopted by most governments in advanced economies, the evidence on the efficacy levels of business advice remains largely inconclusive.

Drawing on the Longitudinal Small Business Survey (LSBS) undertaken by the UK’s Department of Business and Trade, this report provides new insights into the benefits of different kinds of business advice and how this affects the levels of innovative and productivity within UK SMEs.

Past research has tended to examine the types of firms who seek advice and how effective they perceive this advice to be using self-reporting methods such as questionnaires. To determine their performance research often examines (again using self-reported methods) things like sales and turnover immediately after undertaking various forms of advice.

For many SME advice programmes, it is likely that a number of confounding variables – factors that influence both who takes advice and outcomes thereafter – or firms’ unobservable characteristics (such as entrepreneurial human capital of founders or a firm’s desire to grow) may play a role in outcomes observed. These can be difficult to identify and disentangle, raising concerns that an assessment will incorrectly attribute outcomes to the programme rather than to these firm characteristics or confounding variables.

To address potential selection bias, this study estimates the impact of external advice on outcome variables using non-parametric matching. This method helps to answer the question: “how would a firm that received external advice have performed had it not received such advice?”

In this study, enterprises that use external advice are matched to enterprises that do not use external advice (and are never observed to do so) based on the following characteristics: employee group, whether they operate more than one plant, age, year, region, industry.

Interestingly, this work examined the role of different types of advice: i.e. day-to-day advice and strategic advice. Basically, the former involves advice around operational matters such as regulation and legal issues etc, while the latter involves advice about growth enhancing activities such as innovation, exporting and new product or business model development.

An ‘average’ firm in our sample were SMEs aged between 11 and 20 years with less than 10 employees. On average, around a quarter (27%) of the firms in our sample engaged in some form of external advice and they are most inclined to use advice related to day-to-day operations. Of these firms, 36% utilized day-to-day operational advice, 28% opted for strategic advice, and 19% used both types of advice. The remaining 17% engaged in “other” forms of advice not specifically categorised under day-to-day or strategic headings¹.

Our research findings are striking and clear cut. It appears that accessing business advice improves firm performance on a number of different entrepreneurial outcome measures, such as increased levels of innovation and productivity. While taking a combination of both day-to-day and strategic advice enhanced productivity, it appears that for the most “radical” innovators the pursuance of strategic advice was the critical factor enhancing performance.

Strategic advice appears to play a central role in unlocking the innovative potential of firms which then ultimately leads to significant productivity enhancing behaviours. This type of advice appears to play a critical role in mitigating some of the uncertainty and ambiguity confronting entrepreneurs when making critical decisions about a firm’s long-term strategic plans.

In line with other recent studies our findings find strong empirical support for the benefits of a scientific and rational decision making in firms. External business advice can therefore be viewed as a sign of firms (and managers therein) adopting more deliberative, well-informed and considered cognitive behaviour. Accessing these “open” sources of knowledge and information also seems to augment the traditionally low levels of absorptive capacity in SMEs - which is the ability to evaluate the technological and commercial potential of knowledge in a particular domain, assimilate it, and apply it to commercial ends.

¹ These “other” forms of advice are uncategorised either because they do not cover the entire period from 2015-2022, or they are unspecified.

The work has important policy implications. To help promote more proactive “advice seekers” policy needs to become better attuned at informing SMEs of the powerful positive spillovers from seeking external advice. Within public policy there may need to be more explicit customer segmentation between different categories of SMEs.

There is likely to be a strong divergence between traditional low aspirational SMEs seeking generic help around day-to-day managerial issues and a smaller cohort of growth-oriented firms who require strategic advice to help fulfil their true growth potential. To increase productivity across the SME population access to more strategic sources of advice seems a sensible policy goal.