

Policy Briefing

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

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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. The issue of entrepreneurial decision-making and the role of external guidance has pervaded the entrepreneurship literature for a considerable time. 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 whether 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.

To address this important research question we draw upon the Longitudinal Small Business Survey (LSBS) undertaken by the UK’s Department of Business and Trade, to provide new insights into the benefits of different kinds of business advice and how this affects the levels of innovative and productivity within UK SMEs. 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, health and safety and legal issues etc, while the latter involves advice about growth enhancing activities such as innovation, exporting and new product or business model development. Often advice is treated as a universal offering in the literature, but our distinction enables us to categorise and assess the impact of different types of advice on firm performance. Our central focus of this particular study is to examine whether there are innovation and productivity enhancement benefits for SMEs who take business advice and what types of advice have the greatest discernible impact on firm performance.

Key findings

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.

Authors



Ross Brown
University of St Andrews
Ross.Brown@st-andrews.ac.uk



Marc Cowling
Oxford Brookes University
Mcowling@brookes.ac.uk



Haoran Sun
University of St Andrews,
hs268@st-andrews.ac.uk

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.

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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 the “advice takers” examined, 36% utilized day-to-day operational advice, while 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 headings. Our core 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. Our findings reveal that firms that used external advice see an average increase in their labour productivity by 22.1% compared to firms that did not use external advice. 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 pivotal role in unlocking the innovative potential of firms which then ultimately leads to significant productivity enhancing behaviours. This particular 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. External business advice can therefore be viewed as a sign of firms (and managers therein) adopting more deliberative, well-informed and carefully considered cognitive decision-making behaviour.

Policy and practice 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 also 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 forms of advice and advice to help fulfil their true growth potential. Going forward encouraging more pro-active “advice seekers” to obtain strategic forms of advice seems an appropriate way of enhancing decision making processes in SMEs. To increase productivity across the SME population as a whole, promoting the benefits of these services to firms together with enabling greater access to more strategic sources of business advice seem legitimate and desirable policy objectives.

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