

Policy Briefing

The relationships between business support with venture performance and practice over time

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This paper explores the links between business advice, government grants, managerial practices, and firm performance over time. The existing evidence generally points to a positive relationship between business advisory services and the provision of grants with firm performance. However, this research predominately focuses on short-term investigation, while we do not have detailed understanding of the mechanisms for how support impacts firm performance. To explore this, we explore the ways in which support impacts managerial practices and how these in turn influences performance. We analyse data from across five years of the Longitudinal Small Business Survey (2018-2022) to understand how business advice, government grants, or combined business support received in 2018 influences the managerial practices enacted by SMEs in 2019 and how this indirectly influences firm performance over time.

Key findings

Our study shows that while business advice and government grants increase the likelihood of adopting managerial practices, their individual and combined indirect effects on firm performance are minimal. Moreover, the relationship between business support and firm performance appears lagged, with SMEs needing time to implement the support before seeing any improvements. Specifically, our analysis reveals several key findings:

- Business advice showed a small indirect effect on business performance through increased exporting and business planning in the short run, but no indirect effects over longer periods.
- No indirect effects were observed for innovation or expanding to multiple locations in the short-run or long-run.
- Both business advice and government grants initially had a significant negative indirect effect on performance due to changes in directors; however, this effect reversed positively in the longer run.

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- Both business advice and government grants contributed indirectly to firm performance through staff development training, with business advice having a stronger short-term impact compared to government grants, though its long-term effects were less pronounced.
- While both business advice and government grants helped firms secure external finance, business advice had a more substantial effect.
- Lastly, there is some evidence that business advice positively influences long-term performance through the use of informal finance.

Policy implications

For policymakers and actors in the entrepreneurial ecosystem delivering business support to SMEs, our analysis presents several important implications:

- The relationship between business advice and government grants and improvements in firm performance is lagged, indicating that SMEs need time to implement the support they receive before realising performance benefits. It is essential to consider this delay in funding and evaluation decisions.
- The findings reveal that the relationship between business support and firm performance is indirect. While business advice and government grants positively influence certain managerial practices, their overall effects on firm performance are marginal. This suggests that, although these forms of support are commonly sought, their effectiveness may not be as significant as previously assumed.
- Business support providers should consider a targeted approach to developing managerial practices that enhance SMEs' capacity (accessing external finance) and capabilities (staff development training, business planning, changing directors), with particular emphasis on the importance of business advice.

Future research is needed to further explore the relationship between business support and other less-known value-added managerial practices.

Full paper link:

<http://enterpriseresearch.ac.uk/publications/erc-research-papers/>