

EVALUATING THE IMPACT OF BUSINESS SERVICE EXPERTISE AND
BUSINESS LINKS ON THE PERFORMANCE OF SMES IN ENGLAND

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John Bryson
School of Geography and
Environmental Sciences
University of Birmingham
Edgbaston
Birmingham
B15 2TT

David Ingram
School of Geography and
Environmental Sciences
University of Birmingham
Edgbaston
Birmingham
B15 2TT

Phone: 0121 414 5549
Fax: 0121 414 5528
Email: j.r.bryson@bham.ac.uk

Phone: 0121 414 5546
Fax: 0121 414 5528
Email: d.r.ingram@bham.ac.uk

Peter Daniels
School of Geography and Environmental Sciences
University of Birmingham
Edgbaston
Birmingham
B15 2TT

Phone: 0121 414 5537
Fax: 0121 414 5528
Email: p.w.daniels@bham.ac.uk

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Abstract

The last decade has seen a growing body of research on information-intensive business service firms. These are companies that supply expertise and knowledge which are considered to add value to the output of their clients. This paper explores the impact of business service expertise provided via Business Link on the performance, profitability and competitiveness of client companies. The authors use a unique survey of small and medium-sized enterprises (SMEs) in England as well as case studies of individual firms. It is possible to identify a positive impact of business service expertise on client performance, but difficult and perhaps impossible to isolate such impacts from other variables. Employment as an impact measure is problematic as redundancy rather than recruitment may result from a consultancy project. The best measure is improvements in profitability, but not all consultancy projects will impact on this variable. The Department of Trade and Industry needs to be extremely careful that a concern for evaluation of Business Link companies does not inadvertently produce a situation in which the evaluation process determines the way in which a Business Link company identifies and deals with its clients.

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1. Introduction

Since the 1980s service enterprises have been an important focus for geographical research. Research in this area has been informed by a combination of extensive and intensive research methodologies (Sayer and Morgan, 1985). Three stages can be identified (Bryson and Daniels, 1998c). First, extensive research into the location, organisational structure and distribution of different types of service activities. Secondly, research during the 1960s and 1970s, in particular, on office functions; their development, location and impact on urban built form (Daniels, 1979). Thirdly, during the 1980s a large number of bespoke surveys were undertaken of business service, professional and other firms located in cities and regions in North America and in Europe (Beyers and Lindahl, 1996; Bryson et.al. 1993a, 1993b; MacPherson, 1997). It is this final period of research which represents a shift away from considering service activities as facilitating consumption rather than production. It is at this time that business services, those companies which supply expertise and knowledge that are considered to add value to the output of their clients, become of central importance to service researchers (Bryson 1996, 1997a; Daniels, 1984, 1993; Marshall, 1993 *et.al.*).

There is broad consensus in the academic literature that sophisticated use of external business service expertise by client firms has a direct impact on their productivity, competitiveness and profitability (Marshall, 1983; Daniels, 1985; Goddard, 1986; Bailly et. al., 1987; Ley and Hutton, 1987; Hansen, 1990; Hitchens et.al 1994; Bryson 1997a). Despite a growing volume of research into the operational dynamics of small business service firms (Keeble et al., 1991; Bryson et al, 1993; Birley

and Westhead, 1994; Kirby, 1997; O'Farrell et al., 1998), few studies have explored the use of external business service expertise by client firms (but see: Bryson, 1997a; Bryson and Daniels, 1998a). It has also been noted that: 'a substantial "unproven" verdict hangs over policies' which attempt to provide SMEs with access to subsidised business information and consultancy expertise (Storey, 1994, p.295). The broad consensus in the academic literature concerning the impact of business service expertise is not based on much hard evidence and is therefore largely unproven.

There are a series of methodological problems associated with any attempt to demonstrate that business services have an impact on the performance and profitability of client companies. The few attempts to measure this impact have suffered from a focus on a single enterprise (Robinson, 1998), inappropriate assumptions (Muller, 1998) and leading questions (Ashford, 1998: 267). In many respects the work of economists working in this area has suffered from an over reliance on objective indicators (turnover, profitability and employment change) (Ernst and Young, 1996) at the expense of understanding the impact of subjective indicators, for example the influence of interpersonal relationships on service/client interaction (Gadrey, 1992; Eiglier and Langeard, 1987; Bryson, 1997a). Any attempt to measure the impact of business service expertise is undermined by a series of methodological issues that reduces the quality and effectiveness of data collected either via a postal questionnaire or a qualitative corporate interview (Schoenberger, 1991).

There are three problems which are fundamental to the collection of corporate data that need to be considered by business service researchers. First, it is impossible to separate the use of outside expertise from a whole series of other indicators of company performance. Thus, profitability improvements may be the consequence of running a company well rather than of a particular business service project. The

problem is how to isolate the consultancy interaction from the impact of the existing management team's expertise and experience. Better managed companies are more receptive to outside expertise. Secondly, the timing of an interview will affect the nature of the data collected. This is especially important for the qualitative corporate interview in which the perceptions of management are obtained. Such perceptions alter over time. Thirdly, the interpretation of a corporate event will vary depending on who is interviewed; the managing director's perspective may not be the same as the line manager. The first two problems are explored in this paper. A two-tiered approach to this analysis is adopted. First, a quantitative analysis is undertaken to explore the relationship between factors which complicate any attempt to identify a relationship between use of business service enterprises and the impact on clients. Secondly, a case study approach is used to identify the impact of the timing of the interview on the analysis. These issues are explored by an analysis of the impacts of private sector consultants as well as by an examination of the Business Link initiative in England. This article has two primary purposes. First, to explore whether it is possible to evaluate the impact of a business service on client performance, and secondly, to provide a critical analysis of the evaluation process of the Business Link initiative.

The impact of a business service on a client company is not a simple linear relationship. It is impossible to construct a completely accurate statistical relationship between the use of external consultancy expertise and measures of company performance (for example profitability, etc.). A client company of a business service firm may anticipate three different, but frequently related, types of improvement. First, a straightforward and easily identifiable profitability/productivity saving. This added value should be identified in the consultancy brief and can easily be measured using a standard business indicator. Second, a relationship which produces a change in company culture or in the perception of the management team which may have an impact on the

survival or performance of the company over a medium time scale. However, impacts of this type are difficult, if not impossible, to evaluate as the changes may reflect other influences as well as those derived from the consultancy project. Third, the transfer of standard management practices or a fashionable management or technical recipe to the client company (Bryson and Daniels, 1998b). Such knowledge transfers may have a limited effect on measures of performance, but may ensure the continued survival of the company.

2. Methodology

The findings presented in this paper are based on two linked research methodologies. First, in 1996 a postal survey was undertaken of a representative sample of SMEs in England which is the only part of the United Kingdom where the Business Link initiative applies. The survey covered independent manufacturing, business, professional and technical-service enterprises, exploring their characteristics, strengths and weaknesses and use of a whole series of both public and private sector external advisers. The choice of these sectors is justified by their importance as key income-generating components of both the national and regional economic base. Companies in the sample are independently owned employing between 10 to 250 employees. A pilot survey of 118 firms was undertaken which achieved a response rate of 8%. The questionnaire was subsequently shortened and simplified. The survey, based on a stratified random sample in the chosen sectors from the Dun and Bradstreet national register, achieved a response rate of 10%, with 156 responses. It includes a slightly larger number of service (84 firms) than manufacturing (72 firms) enterprises. The regional pattern of respondents closely replicates that of the total population of VAT-registered businesses in these sectors. Microbusinesses were deliberately excluded from the sample on the basis that only a small proportion of such companies grow and come to play a significant role in the wider local or national economy (Keeble and Bryson, 1996). Respondents to

the survey had a median employment size in 1996 of thirty-two full-time staff and 1 part-time staff. Over the period 1992-96, companies had generally increased in size by 9 full-time employees, but there had been no alteration in the median value for part-time staff.

Secondly, 60 in-depth qualitative face-to-face interviews were undertaken with SMEs equally divided between London, the West Midlands and Cumbria. These interviews explored the ways in which SMEs utilise expertise, information, and knowledge provided either by private sector management consultancy firms, by state agencies, through the supply chain and by networks of untraded interdependencies (Bryson 1997a; Storper, 1995). A distinctive feature of this methodology was the use of a triangulated face-to-face interview strategy. In order to explore the nature of the knowledge and expertise provided by business service firms to client companies matched interviews have been undertaken with both the client company, the consultant, and where appropriate, state agency representatives.

3. Unravelling the Impact of Business Service Expertise: A Quantitative Approach

3.1. The evaluation of the Business Link initiative

In 1992 the Department of Trade and Industry launched the Business Link network. This is a national chain of 240 one-stop-advice shops for the local provision of business support services to SMEs in England. The rationale behind this initiative was the provision of a single point of entry for SMEs to a wide and integrated range of business and information services available from existing local agencies (Bryson and Daniels, 1998a). The election of a Labour Government in May 1997 was followed by a number of important changes to the Business Link initiative. In October 1997, a Vision Statement for Business Link was published (Department of Trade and Industry 1997b). One of the more

interesting aspects is its reference to the need to evaluate and monitor the performance of Business Link companies and services. The Vision is therefore all about benchmarking services, extending the remit of the Business Link Accreditation Advisory Board, the development of league tables of comparative performance of different Business Link companies and evaluating the impact of Business Link services on the productivity, profitability and export performance of the companies which they help. Following consultation, the Department of Trade and Industry (DTI) has decided to concentrate on five measures of performance: turnover, assets, employment, profit and export sales (Hinton and Morrell, 1998: 13).

The evaluation process of the Business Link initiative provides one source of evidence for determining the impact of externally provided services on client businesses. Hereford and Worcester Business Link have undertaken an evaluation of the impact of their services on assisted businesses (Elliott, 1997). This unpublished study showed that the turnover of assisted companies increased by 28% and their employment by 2% over the two-year period 1995-1996. This compares with 14.5% and -9% respectively for all companies in the Hereford and Worcester region. There are two ways in which to interpret these figures. First, that assisted companies benefit from the activities of Business Link. Secondly, that the figures are not very convincing because they are not accompanied by profitability data. All companies in this region may be as profitable, or more profitable than Business Link assisted enterprises. Similarly, the reduction in employment for all companies may be indicative of productivity improvements and hence profitability improvements. A further reason for caution is that the data have been collated directly by Hereford and Worcester Business Link as part of a procedure to evaluate the effectiveness of their services. Thus, the analysis may be biased. The key question is whether these results would have been achieved without Business Link assistance. There is no way

of knowing whether the companies involved in the evaluation are a special subset of the best companies in the region.

As part of a wider evaluation of the Business Link scheme the Department of Trade and Industry commissioned Ernst and Young in 1995 to undertake an analysis of the impact of this initiative (Ernst and Young, 1996). The research methodology included case studies of 35 Personal Business Advisers (PBAs) and their clients and telephone interviews with 250 clients of Business Link. PBAs form direct, long term relationships with local SMEs. PBAs are a new and critical element in the local economy operating to overcome some of the managerial, expertise and knowledge problems faced by SMEs. The interviews focussed on client perceptions of the services provided and their impact. Client companies were asked whether Business Link services had led them to take actions which improved their performance. Just over half (50.5%) of the respondents claimed that Business Link had a positive impact on their performance. The study used soft measures to assess impact, with the principal measure being the extent to which Business Link services led clients to take actions to improve company performance. However, only 24% of the client companies had acted on the advice that had been obtained via Business Link. The disparity between these two figures highlights the problems of requesting answers to questions concerning the impact of external expertise. Perhaps the disparity is explained by the fact that Business Link may have encouraged management to develop their own change strategy.

The study by Ernst and Young does not provide a quantitative estimate of the impact of Business Link assistance. Instead it relies on anecdotal evidence which takes the form of one-line statements made by just six companies (Ernst and Young, 1996, p.88). Thus, one company stated that 'we previously spent 55% of our capital on a particular range of instruments which only yielded a 22% profit. After receiving advice from the [Business Link], we restricted the business and have seen the

company grow' (Ernst and Young, 1996, p.88). One of the more interesting aspects of the Ernst and Young study is the responses to a series of questions concerning whether firms would have used alternative sources of assistance if Business Link had not existed. Just under half of companies (48.2%) stated that they would have done so and 37.6% indicated that it was likely that the alternative source would have achieved the same impacts on their business. This suggests that the Ernst Young study includes a set of companies which would have undergone change in any event irrespective of whether they had received external assistance. Ernst and Young conclude that around 40% of cases of firms using Business Link services experienced either partial or absolute additionality.

During the last quarter of 1996 Ernst and Young undertook a follow-up telephone survey of 153 of the original 250 companies (Ernst and Young, 1997). Of these, 48% were no longer using the services of Business Link, 36% were still using Business Link services, and 14% had never used Business Link. 59% of surveyed companies indicated that Business Link assistance had been 'quite' or 'very important' for a particular project and that the assistance provided by Business Link had been especially important to the success of the project (Ernst and Young, 1997, p. iii). Eighty-one companies claimed to be able to quantify the impact of Business Link assistance on their company (Table 1). These companies were requested to highlight improvements that had occurred in their performance over the last year. The findings of this analysis reveal that most companies were able to identify a small increase in their turnover, employment, exports and profitability (between 34-56% of firms), with a small number of firms able to identify a large increase (>10%). This suggests that Business Link does make an impact, and sometimes significantly so, on firm performance. However, only 27% of companies stated that it was unlikely that they would have achieved the same results without the assistance of Business Link. If Business Link assistance had not been available, 65% of the companies would have

used alternative sources of advice. A high proportion of companies reported an improvement in performance (turnover and profitability), but only one-third attributed this to the assistance obtained via Business Link. The Ernst and Young studies, therefore, raise more questions than answers concerning the impact of consultancy subsidised by Business Link on client companies. The data suggests that a significant proportion of the impacts would have occurred without Business Link, and even without any form of direct external assistance.

3.2. Principal component analysis and the problem of related variables

Our postal questionnaire survey allows the correlation of use or non-use of a variety of sources of external advice with an employment growth indicator (Bryson and Daniels, 1998a). One of the best surrogate measures for the impact of external consultancy use on firm performance is employment change, but not necessarily employment growth. The mean employment growth rate (employment growth between the years 1993 and 1996) of the 113 firms using external advisers is 76% whilst that of the 23 companies which did not use external consultants is 27.6%. A two-sample t-test with unequal variance rejects the null hypothesis that the use of external advisers is not associated with employment growth. This identifies a positive relationship between flows of external advice and knowledge via Business Link into SMEs and employment growth.

There are problems with this type of statistical analysis. Average figures hide the fact that productivity may increase as a consequence of external consultancy and employment may decline. In one case, a company's profitability had increased by 25% while its employees had decreased by 8%. Turnover statistics are also not a good evaluation indicator as turnover may decrease, but profitability increase. Unfortunately, it proved impossible to gather reliable profitability data.

The relationships between profitability and use of business expertise are extremely complex. Principal component analysis with varimax rotation of the axes was employed to explore the characteristics of the firms in the sample in an effort to identify the relationships between use of external expertise and other company characteristics. The analysis identified 10 components with Eigen values greater than 1.0. These account for 68.2% of variation in the original data matrix. The largest Eigen vector accounts for 13.6% of the variation. The number of components and the small proportion of variation accounted for by each Eigen vector suggests that the variables are measuring different aspects of the firms and that the variables are not highly intercorrelated. Varimax rotation of the component loadings produced a set of 10 components, each of which accounts for at least 5% of the original variation. The first two components each explain 10.2%. Loadings less than 0.3% were suppressed to simplify the analysis (Table 2). Some variables appear in more than one component.

Eight of the rotated components reveal a number of interesting relationships between variables. Five variables were identified under Factor 1 with positive loadings ranging from 0.54 to 0.75 (Table 2). Specific variables loading on Factor 1 include: personnel management, identifying and fulfilling staff training needs, recruitment, use of advertising and the development of a company culture. An analysis of these variables suggests that they are related to the people skills possessed by owner-managers. People management skills in a company are comprehensive and include almost every aspect of the business from recruitment, staff development and the construction of a company culture. Factor 3 identified items with factor loadings ranging from 0.491 to 0.701. These items are related to management skills and include the use of management concepts, business planning and financial management. For the purposes of this paper the fourth Factor is the most interesting as this relates to business information. With factor loadings

ranging from 0.46 to 0.74, this includes the use of external advisors and business information as well as the education of the owner-manager. These variables suggest that owner-managers in this group are outward, rather than inward, looking. They are concerned with identifying the changing nature of the market place, with the acquisition of business information, and with the employment of external advisors and all have either a professional background or some form of higher education. The employment growth index is negatively associated with this factor. This contradicts the results of the two-sample t-test of the relationship between employment growth and use of external advisors. Company success, however, and the impact of consultancy are not necessarily related to employment growth. Improvements in profitability and productivity may result from employing external advisors. Companies open to outside flows of information will also be aware of new techniques for managing capital and employees.

This analysis highlights a major methodological problem – that of isolating the impact of business service expertise from a whole series of other measures of corporate performance. Thus, use of external expertise is strongly related to the education and personality of the managing director. Personality is a factor that is difficult to measure without using sophisticated psychological tests (for example: Semantic Differential (Osgood *et.al*, 1957), or Heider's (1958) Balance Theory) and it is precisely these types of tests which have not yet entered the sphere of geographical corporate research. One indication of the importance of personality is those companies that do not use external advisors because the owner considers such expertise to be of limited value. The education of the owner manager appears to be especially important. An analysis of education qualification of the owner manager related to the use of external advisors reveals that managers with higher qualifications (MBA/Professional Qualification) are more likely to consult external experts than managers with only secondary level school education.

Respondents were asked to provide details of their last consultancy project and also to state their level of satisfaction with the work of the advisor (Table 3). This question was asked on the basis that one of the best measures of the success of a service/client interaction is client perception of satisfaction with the nature of the service. Repeat business is one of the best measures of the quality of a supplied service (Bryson et.al, 1993). Well over two-thirds (74%) of clients claimed to be satisfied or highly satisfied with the work of the external advisor and only 6% were highly dissatisfied. It is important to note that most of these consultancy projects were paid for by the clients rather than being subsidised. Managers with professional qualifications are more likely to be dissatisfied with the work of the advisor than those with solely secondary school education. Thus, 11 of the dissatisfied cases were managers with professional qualifications. Perhaps these individuals are aware of what might have been achieved and thus have higher expectations of professional advice.

Principal component analysis highlights the interdependence of factors which contribute to both good and bad SME management practices. It also suggests that univariate analysis is of limited importance in this research area. This analysis supports the theoretical perspective developed by Casson (1982) in which the central skill of the entrepreneur is identified as the ability to forecast and make decisions under conditions of uncertainty. This is, of course, one of the standard definitions of management - the ability to remove uncertainty via a process of active management. Our analysis suggests that use of external consultants is symptomatic of a company that is engaged in an active attempt to remove uncertainty or that consultants encourage or maybe force clients to consider wider aspects of their business activity. The debate in the literature concerning management training as one way of developing forecasting skills amongst entrepreneurs should also consider consultants as being key agents in this process (Storey, 1994).

The relationship between growth and the employment of consultants mirrors that identified by Kinsella *et. al.* (1993) in the relationship they identify between fast-growth firms and use of state support. State support is, of course, another mechanism for encouraging entrepreneurs to be more outward looking and hence more proactive in their attempt to manage away uncertainty. Employment of consultants by SMEs involves two sets of linked change processes. First, clients tackle a current business problem using outside expertise for a variety of reasons (see Bryson, 1997a). Secondly, and maybe more importantly consultants either actively or passively force client companies to become aware of the world outside the company and encourage managers to spend time on, for example, market forecasting rather than devoting all of their time on the everyday management demands of running an SME. If this is the case this has a number of important implications for any attempt to measure the impact of consultancy expertise on client companies. The most important impact may be that involved in altering the perceptions of the management team and drawing their attention to issues which lie outside the boundaries of their company. It is precisely this type of expertise which is central to Casson's work and it is also a type of expertise which may be impossible to evaluate in any meaningful manner.

4. A Qualitative Approach to Measuring the Impact of Business Service Expertise

For reasons already mentioned, a statistical analysis of the impact of business service expertise on SMEs will always be problematic. There are also problems that arise from the way in which the data are collected. This is illustrated using two case studies that highlight further the problems of measuring business service impacts.

4.1. Differences in the stories which are told by company employees

One of the important problems with attempts by the DTI to evaluate the impact of the Business Link initiative is the way in which private companies process information requested by state organisations. One of our case study companies was identified by its local Business Link as an ideal example to use to publicise its services. It was identified by the Business Link via the evaluation form completed by one of the directors of the company. This form permitted the director to provide a positive evaluation for a project that was subsequently never implemented. The positive evaluation was given in the form of a suitable written 'sound bite' which the director considered might catch the attention of the Business Link's public relations agency. The nature of the company's business activity was such that a press release would very likely be covered by both the local and national press. It was thus to the advantage of the company to try to tacitly persuade the Business Link company to publicise its activity. In an interview the director noted that '... most of the consultants we came to know were full of general information. I suspect they were doing it because they had nothing else to do, perhaps they were good blokes, and I certainly wouldn't want to criticise their calibre in that respect but they did nothing for us. Business Link, in particular, seem to have an agenda of their own in that we get telephone sales calls saying: 'have you signed up for this, did I know about this?''.

The contradiction between the Business Link assessment of the success of the consultancy project and the company's assessment was explained by the managing director's belief that business is all about relationship building. There was no point in providing a poor evaluation of the project, as this would 'burn our bridges with the Business Link and we may want to consult them again. There was also no point in criticising the PBA as his job might depend on the evaluation, and we had become friends'. Indeed, it emerged that this company's assessment of the project varied depending on the audience. This case has an interesting

ending in that the DTI used the company in its national radio advertisements so that the company obtained valuable free marketing from what eventually turned out to be a failed Business Link consultancy project.

4.2. Time and the corporate interview

The second case study is a longitudinal study of a medium-sized manufacturing company located in the West Midlands, hereafter called Midlands Engineering. The managing director was interviewed in November 1996 and again in April 1998. Interviews were also undertaken with the Business Link PBA and the private sector consultant employed by the company. Midlands Engineering was established in 1975. Until 1995, Midlands Engineering had never used consultants, but in June 1995 'a local Business Link representative [a PBA] walked in [to the company] and I [the managing director] sat down and talked to him. He explained what he did, but I was not exactly bowled over'. Three months later the managing director was invited to a presentation given by the director of a large company. After the presentation he 'got talking to [the speaker] on a one-to-one basis and [the speaker] said that he would like to come and look around [Midlands Engineering]'. The end result was a report which identified some major problems with the operation of the company. Business Link was approached and a consultant employed to undertake a set of major changes at a cost of £20,000 for 20 days consultancy.

Two sets of changes were instigated. First, a major overhaul of the shopfloor resulting in the employment of a new Manufacturing Production Manager and the introduction of cellular manufacturing. The traditional arrangement of the shop floor of a manufacturing company involves positioning manufacturing machinery and processes of one type in a dedicated area. Cellular manufacturing eliminates the transport and storage of products required to move products and components between

different areas of the shopfloor. The new Production Manager took up post six weeks before the company's annual two-week shut down. During this period the appointee got to know the business, and a new layout for the cellular shopfloor was installed during the shutdown period. The second set of changes involved the development of a marketing department in an attempt to extend the company's customer base. This resulted in a significant increase in new orders. The combination of these two consultancy projects produced a major crisis in the company. In the words of the managing director: 'basically after two weeks we virtually came to a standstill. Nothing was going out of the door, nobody knew what they were doing'. The consultant and the new Production Manager had failed to instruct the shopfloor employees and no attempt had been made to try to change the company's culture. The old production manager was brought back into the company and 'within ten days the place was humming again'.

The problem with this engineering company was that its shopfloor was not efficient and productivity improvements of between 20 and 25% could be easily achieved. The productivity problem was hiding the fact that the company had a marketing problem, and did not have enough customers. In 1996, the impact of these consultancy-induced changes were according to the managing director 'intangible... and at the end of the day what's the bottom line? The only measure of success is if we are making more money in eighteen months time'. At the end of the first interview the managing director was unable to identify any positive impacts of the consultancy project.

In April 1998, the consultants were still employed one day per week by the company. Management and shopfloor practices in the company had altered, but not as dramatically as originally intended. A number of impacts which were directly attributable to the consultancy projects were identified by the managing director. First, the company's ability to respond to orders had improved. Before the consultancy project began

the sales team quoted customers 15 working days from the order to the delivery, and this has now been reduced to 10 working days with most orders being completed within 5 working days. Secondly, the company used to rely on overtime in order to meet orders within 15 working days. Shopfloor improvements have removed the necessity for overtime leading to improvements in profitability. At the same time two employees have been made redundant. The company is producing the same output but without overtime and with fewer employees. Thirdly, like many SMEs too much capital was tied up in raw materials and completed goods. Stock levels were reduced to enable capital to be invested rather than be tied up in unproductive assets. The company, however, ran into trouble as its suppliers were 'not as slick as we are and could not turn the stuff around to meet our orders'. The company had to return to its old policy of keeping high levels of stock to ensure that they could meet the demands of their customer base. As part of this change the supply base has been analysed to identify good and bad suppliers. Good suppliers can be relied upon to fulfil orders in a short period of time.

Overall, the consultancy project has had a dramatic impact on the operation and competitive position of this company. Productivity and profitability have improved. The measurable impacts, however, have taken three years to develop. The most important change to occur in this company is the one which cannot be measured; it is now open and receptive to new ideas and outside influences. The company is actively looking for ways to improve, as well as trying to develop new products by listening to its customers as well as trying to learn from its competitors.

Conclusion

This paper has addressed two issues. First, it has explored whether it is possible to identify the impact of external management consultancy on

the performance of SMEs. Secondly, it has provided a critical analysis of the Labour Government's proposed evaluation of the Business Link initiative. There is one serious problem with the proposed evaluation process which has not been addressed in this paper (see Bryson, 1997b). SMEs have to use the services provided by their local Business Link. At the moment, SMEs would be unable to use the services of a non-local Business Link which achieved a higher ranking in the proposed league table than their local Business Link. The purpose of a league table is to 'name and shame' but it may also undermine SME confidence in their local Business Link. The Business Link league tables will be similar to those of Universities and Schools – they are partially measures of the area in which the educational institution is situated.

The Business Link impact measures (turnover, employment, profitability) identified by the Department of Trade are problematic because the impact of business service expertise varies dramatically between companies as well as type of consultancy project. Successful management consultancy projects can produce a decrease in employment through an enhancement in employee productivity. Employment change that is identified by impact studies may also be unrelated to the consultancy interaction. Turnover may not alter, but profitability may increase. Turnover may even decrease at the same time as an improvement in profitability. The best measures are productivity and profitability improvements. These measures, however, are influenced by only certain types of consultancy project. Profitability statistics are also notoriously difficult to interpret and are influenced by the way in which a company's accounts are constructed. It may also be impossible to isolate the consultancy impact from other types of interaction such as changes in currency rates, in business fashion, acceptable design or in the macro economy.

The most important impact of Business Link, alterations in the outlook of management and employees, is the one that is impossible to evaluate

using standard business statistical indicators. Managers and employees who are receptive to new ideas will ensure the long-term survival and profitability of a company. Impact measures will only look for change and improvement rather than indicators of survival and continued rather than enhanced success. The desire to demonstrate now that a Business Link company has a measurable impact on its client base may be detrimental to the long-term future prosperity of a region. Companies which need survival style consultancy may be neglected in favour of those that will achieve short-term demonstrable improvements on one of the standard measures of company performance. The Department of Trade and Industry needs to be extremely careful that a concern for evaluation does not inadvertently produce a situation in which the evaluation process determines the way in which a Business Link company identifies and deals with its customers.

The question of the timing of the evaluation of a consultancy project cannot be ignored. The introduction of evaluation criteria may encourage consultants and Business Link companies to identify projects that have comparatively obvious and immediate short-term financial impacts on company performance. Projects with medium- or long-term impacts may be deemed to have failed because they have no easily measurable evaluation criteria. A short-term approach to business service impact evaluation will fail to capture the frequently intangible impact of formal external advice. Business service impacts may occur over a period of years, rather than in a single financial year, and be impossible to relate to a single consultancy interaction

The Ernst and Young studies suggest that Business Link companies are providing subsidised services to organisations that do not require them or to companies which would have used services provided at commercial rates. One of Business Link's rationales was to compensate for market failure in the provision of SME support services. It would appear that Business Link is not reaching SMEs that would benefit from subsidised

support. One explanation for this is the requirement of Business Links to become partially self-supporting. Business Link companies are increasingly targeting companies which can afford to pay and excluding those which are unable to contribute towards the cost of the Business Link service.

The Business Link evaluation process will produce a distorted analysis of the impact of subsidised business services on client companies. An alternative evaluation methodology needs to be developed which will take into consideration the problems identified in this paper. One solution is to construct a set of qualitative indicators of satisfaction that would support or replace 'objective' indicators. At the end of the day the best measures of client satisfaction with a provided service are, first, the willingness to pay for the supplied service, secondly, the level of repeat business, and thirdly willingness to assist Business Link by, for example, showing other companies around their shopfloor. No evaluation of Business Link will be completely effective unless it incorporates a methodology that takes into consideration the existing management strengths and weaknesses of the client company, the timing of the evaluation and the type of consultancy project undertaken. Business enterprises are complex social, cultural and political organisations. This coupled with a change process implies that the evaluation of subsidised business services will require sophisticated evaluation methodologies.

TABLES

Table 1 Impact of Business Link Assistance on Firm Performance (% of companies)

	1-10% increase	>10% increase	Total
Turnover	41	43	84
Employment	50	10	60
Exports	34	26	60
Profitability	56	22	78

Source: Ernst and Young, 1997, p.19. Based on a longitudinal survey of 153 companies undertaken in 1995 and 1996

Table 2 Multivariate Analysis of the Management Characteristics of SMEs in England.

Component	Variables	Eigen Values
1 People Skills (10.2%)	Personnel management	0.754
	Identifying and fulfilling staff training needs	0.732
	Recruitment	0.661
	Use of Advertising	0.598
	Development of a company culture	0.544
3 Management Skills (7.3%)	Use of management concepts	0.701
	Experience in management	0.689
	Business Planning	0.675
	Financial management	0.491
4 Business Information (6.7%)	Market factors	0.740
	Education	0.596
	Use of external advisors	0.588
	Use of business information	0.466
6 External environment (6.0%)	Economic factors	0.817
	Political/legal factors	0.582
7 Innovation (5.9%)	Innovation and R&D	0.711
	Technological Factors	0.653
	Production Processes	0.477
8 Experience and Growth (5.4%)	Management background	0.758
	Growth Index.	0.606

Note: Factors 2 and 5 are related to part-time and full-time employment and the size of the workforce.

Table 3 Satisfaction levels with last consultancy project

	No.	%
Highly Satisfied	29	23
Satisfied	65	51
Neither Satisfied nor dissatisfied	15	12
Dissatisfied	11	9
Highly Dissatisfied	7	6

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