

# **BUSINESS ADVISORY SERVICE AND SMALL AND MEDIUM ENTERPRISE FIRM PERFORMANCE**

## **A THEORETICAL BACKGROUND**

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### **Abstract**

*Small and medium enterprise comprises large share of Ghana industrial sector, therefore making it a big contributor to national GDP and economic growth. Although small and medium enterprises are seen as the panacea for economic growth, job creation and innovation, firms are faces with diverse challenges that hinder it process. A number of studies that seeks to address these challenges happen to duel mostly on developing mechanism to provide firms with diverse mode of accessing credit and financial facilities. Therefore providing a gap as to how managerial skills are enhanced through business advisory services and its impact on SMEs' innovation performance. The study adapt a theoretical approach to examine how business advisory services impacts SMEs' innovation performance. One significant contributions of this study is the provision of theoretical basis that will set the direction for future research on the role of business advisory service and its impact on firm innovation performance. In addition the study made some preposition that can be test empirical in future studies.*

*Keywords: Business Advisory Service, SME, Innovation Performance, Transactional Exchange*

## INTRODUCTION

Evidently small and medium enterprise is the panacea for economy growth in both developing and developed countries. Although there is no accepted definition of small and medium enterprises, most definitions on the subject shares similar attributes such as employee size, revenue turnover and capital size. Despite the small size of these firms, small and medium enterprises turns out to be most innovative and responsible for most radical innovation or creative destruction as compare with relatively larger firms. In addition small and medium enterprises are acknowledged as the provider of jobs for most individuals in a particular economy. In Ghana small and medium enterprises constituted 80% of firms available in the country and further contribute approximately 70% of national gross domestic product (Ward, 2005; Boon, 1989; KDI, 2008; Mullineux, 1997).

Although a sustainable small and medium enterprise is critical to the growth and development of a particular economy therefore government have put in placed measure to foster the development of this sector. Despite these measures small and medium enterprises are faced with several hindrances that distort the smooth growth and development of SMEs. Such factors affecting the growth and development of SMEs includes access to finance and capital, lack of innovation and adoption of new technologies, lack of managerial expertise and human capital among others (Aryeety et al, 1994; Cuevas et al, 1993; Schifter & Weder, 1991). In addition, the ever-changing business environment and fierce competition among firms has affected the performance and sustainability of most firms leading to the folding up of most enterprises.

In most economies government and national economy committees has formulated policies and strategies to mitigate these challenges. Although this policies spans through financial policy to the provision of industrial and business support to firms to aids its development (OECD, 2008). Despite these policies are efficient to some extent by providing the needed environment to promote financial institutions to lend capital to SMEs to improve on their business activities. The provision of these forms of capital and finances has influence the performance of these enterprises by aiding in the expansion of their business operations and activities.

Although the intervention from government has increase the success propensity of firms or small and medium enterprises, firms still do lack the ability to innovate in order to stay competitive due to lack of human capital and expertise. In view of this most economies both in the developing and developed economies have design policies and strategies to provide expert knowledge and skills to firms through business advocacy offices and centers. These offices offer business advisory services to small and medium to argument it human resource and

expertise. According recent literature business advisory services is classified as a form of government support for firms to strengthen its capabilities and firm performance. Government, NGOs and other third parties normally funds these services. The rationale behind the provision of these services is to provide firms with the needed skills and expertise to enhance its internal innovation capabilities and processes. The knowledge base of these advisory bodies spans through a diverse subject matter therefore provision firms with a repository of data and knowledge base to tap into. The interaction between these agencies and firms creates large pool of social capital when utilized in an efficient manner will boost the performance of small and medium enterprises (Hjalmarsson & Johansson, 2003; OECD, 1995).

The role business advisory service plays in the performance of small and medium enterprises cannot be underestimated. According to studies conducted in this field it shows that business advisory services have a positive impact on the productivity of firms (Roper & Hart, 2005). The business coaching services given to firms enables them to improve upon it production activities by adopting new improved methods and technologies. Although business advisory service has a significant influence on the performance of firms especially small and medium enterprises, most studies focus on how business advisory services impacts on the productivity of firms (e.g. Mole et al, 2008; Cumming & Fischer, 2012) presenting a significant gap in current literature. Previous studies do not provide insights into how business advisory services impacts the innovation capabilities and performance of small and medium enterprises. Therefore the central theme of this study is to theoretical examines how business advisory services influence the innovation performance and capabilities of firms. The question that this study seeks to unravel is how does business advisory service enriches small and medium enterprise innovation process and capabilities and further influencing the performance.

The remainder of the paper is arranged as follows; section 2 focus on definition and performance of small and medium enterprise literature review, section 3 focus on inter-organizational collaboration and SMEs innovation performance, section 4 focus on the role of business advisory services and firm innovation performance. It further presents the theoretical background and preposition for this study and lastly section 5 presents the conclusion of the study.

## LITERATURE REVIEW

### Small and Medium Enterprise in Ghana

Small and medium enterprises are comparatively small private business entities that posses' unique characteristics in terms of firm and employee size, revenue among others. Due to this distinction among diverse firms it makes it difficult to adopt a particular set of definition as the

most authoritative in this domain. Although there is no universally accepted definition has seen to are some similarities in the various definitions proposed by scholars of the time. In Ghana small and medium enterprises are been defined mostly by their employee size. Despite the controversies in relation to the accepted cut off point there is a sense of consensus as evident by a number of studies. In relation to employee size as the determining factor as far as the definition of small and medium enterprises suggests that an organization with less than 10 employees can be classified as small enterprises. Whiles entities with more than 10 employees are considered as medium and large enterprise (Dalitso & Quartey, 2000). In general small and medium enterprises are organization that does not employ more than 50 individuals or employees. In addition the total revenue of firms has also been used to classified firms into small and medium enterprises (Osei et al, 1993).

Inferences from proposed definition show that the economy of Ghana is characterized by numerous small and medium enterprises therefore serving as the backbone for both individual and national development and productivity growth. According to records of registered enterprises, small and medium enterprises comprises of more than 90 percent Therefore in order to have a buoyant economy it is prudent to initialized strategies and policies that foster the growth and sustainability of this sector. Further enables firms to continue with its job and value creation process (Kayanula & Quartey, 2000; Mensah, 2005; Beck & Kunt, 2001).

Despite the essential role that small and medium enterprise plays in the economic development and sustainability of the economy, they are faced with several challenges that slow the pace of growth and productivity. Aside the lack of credit and other financial constraints, one essential factor that affects the growth of SMEs' is the lack of managerial skill and expertise to enrich its innovation cycle. And further has a negative impact on the overall productivity of firm. The inability of firms to obtain sound managerial skills and expertise serves as a crippling agent in times when firms need financial credit. Managerial skills turn to be critical assets if firms can receive facilities from financial institution to boost capacity building and innovation performance as a whole (Schmitz, 1982).

### **Inter-organization Collaboration and SMEs' Innovation Performance**

Collaboration between diverse entities of related or unrelated business operation has become popular in recent times (Bower, 1993). Most organizations in recent times have formed strategic alliance to boost it organizational performance in relation to new product development and access to new market reach and shares. The synergy that comes as a result of these alliances is a critical factor in the determining the successful rate of such an alliance. As advocated by the resource-based view and of strategic management studies, firms enter in these forms of

alliance in order to have access to complementary resources (Pensore, 1956). And this is one of the key determinants in forming this alliance. Alliance and inter-organization collaboration takes place between both small and medium enterprises and relatively large enterprises. Furthermore it can be between two private entities or a private –public form of alliance.

The social capitals that arise from this form of cooperation provide firms with a large pool of resources and knowledge to be utilized in order to enrich an individual firm's innovation performance. These external actors provide firms with the needed expert knowledge to sustain its innovation process (Geisler, 1995). For instance in an inter-organizational cooperation between small and medium enterprises and business advisory service center provide firms with the needed knowledge base and skill to boost individual firm capacity that further results in an increase in productivity. The expert knowledge that these advisory bodies offer goes a long way to enrich the managerial capacity of firms therefore reflecting on how other essential aspects of the innovation process is managed.

In addition firms turn to gain competitive edge over other firms when involved in an alliance. While the cost of an innovative product is reduced; the outcome of collaboration is not compromised. The knowledge intensity of firms or organizations involved in this form of alliance is critical for both the survival of such an alliance and the innovation performance of firms. Therefore selected partner should have the requisite knowledge and skills to complement the strength and weakness of cooperation partner (Tether, 2002). In the case of business advisory service center and firms' collaboration, business advisory service center during this process is able to transfer its knowledge and skills to target small and medium enterprise at a fast, secured and accurate manner. The diffusion of this knowledge, skill and technology among firms enables small and medium enterprises to enrich its innovation capability to achieve high productivity and growth (Bennett & Robson, 1999; Carey & Tanewski, 2009).

### **Business Advisory Service and SME Innovation Performance: Theoretical Background and Propositions**

In recent times the demand for professional service has increased rapidly. Most firms seek the advice from firms offering diverse business advisory services ranging from accounting, solicitation among others. A study conducted in both the UK and Australia showed that firms engage the services of business advisory firms frequently with accounting services been on top of the list. Firms are of the view that engaging professionals to conduct these services provides firms with the need value to gain competitive advantage over other entities (e.g. Carey et al, 2005; Bennett & Robson, 1999). The diverse form of services that these business advisory firms offer provide value added service (Berry et al, 2006).

During service offering process firm's turns to form a specific alliance focus on the exchanges of information and knowledge. This interaction between firm's especially small and medium enterprise and professional business advisory service firm resulted in the creation of an information and knowledge pool. The amount of knowledge and information shared within these interactive activities further provides firms with the social capital to boost its internal capabilities. In addition the frequent interaction between actors enables the development of mutual trust and collective responsibility. Therefore providing a fertile ground for transactional exchange that happens to be essential to the innovation process. The social relation between actors provides actors the grounds to utilize the social capital available in a more efficient manner for the mutual benefit of each actor involved. The ability to utilize these resources is critical if any firm is to survive in this ever-changing knowledge-based economy (Elliott & Jacobson, 2002; Parker, 2001).

The relation between actors enables firms to co-create and develop business services together. New business model, product and process are developed in a cost effective manner through collaboration with external actors. The role of business advisory services in providing expert knowledge to firms enables firms to improve its innovation by tapping to external resources. Furthermore, since firms do not possess all the relevant resources needed to sustain the innovation process and performance there is the need to tap into outside knowledge. The involvement of external party of business advisory process have an influence on the innovation performance since firm especially small and medium enterprise are able to build its individual capacity with the aid of skilled experts in a particular domain. Therefore reducing the risk and waste propensity while improving the outcome of firms' innovation activities. Based on this the proposition 1 is proposed;

*P1: social interaction between SMEs' and business advisory service firms promotes mutual transactional exchanges that influence the value creation process that directly affect the innovation performance of firms.*

The dynamic nature of business environment challenges firms to be innovative in order to gain market share and reasonable profit margin while satisfying its customer base. Therefore firms to be able to harness all available resources at its disposal to enhance its innovation process or cycle (Teece et al, 1997; Aral & Well, 2007). Despite is critical for firms to harness all needed resources to be innovative some firms do not possess all the needed human capital and resources needed to effectively utilize resources available. Therefore firm turn outside entities to acquire the skills it lacks with the sole aim of boosting its internal innovation cycle. In addition these external service or partner is suppose to aid organizational learning that is critical to firms' innovation performance (Eisenhardt & Martin, 2000).

The urgency for external profession service to argument the internal capacity of firms has led to the identification, selection and collaboration with skill expertise outside the individual firm. Firm mostly turn out to business advisory service firms to boost its capabilities. The combination of resources in this process enables to translate ideas into commercial product of high value. Business advising service also enable firms to develop its own capability to gain the needed absorptive capability needed to tap into the resources and social capital available. The interaction between these actors promotes learning enabling firms to adapt to dynamic business condition in both the short and long run. This learning process provides firms with new knowledge and information that aid in the enriching of firms absorptive capability and innovation performance. Based on this the preposition 2 is formulated;

*P2: Business advisory services provides small and medium enterprise with continuous learning process needed to boost its internal absorptive capability that is need to utilize knowledge and information to improve firms innovation performance.*

## **CONCLUSION**

The central theme of this study is to examine the relation between business advisory service and innovation performance of small and medium enterprise from a theoretical perspective. Although small and medium enterprises form the backbone of most economies, most SMEs' are faced with several challenges that hinder the growth and sustainability of such entities. Despite the numerous factors affecting the development of SMEs' the lack of managerial skill and expertise has a significant impact on the innovation performance of firms. Previous studies have focus on how to address the challenges of SMEs' by development new innovative ways of gaining access to finance in order to boost firms capacity and size. Although these research has provided grounds and made strive in the way firm access credit and other financial facilities, most SMEs' are not able to innovative resulting in folding up of business and dwindling of productivity. And can be attributing to the lack of managerial skill and expertise. In this study we argue that access to credit and financial facilities does not necessary result in high innovation performance but rather the ability to harness all these resources is of crucial value. Due to the lack of managerial skills and expertise, firms turn to business advisory service firms to seek professional business advice from experts.

The study proposed that the interaction that happens between SME's and business advisory service firms promotes mutual trust that is needed for transactional exchanges in a secured and timely manner. Secondly, this interactive activity promotes continuous learning resulting in a boost of firm's absorption capabilities needed to boost small and medium enterprise innovation performance.

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