Specifics of Business Consulting Services Used by Small and Medium Enterprises in a Transition Economy

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The role of small and medium enterprises (SMEs) is very important in every European country. At the same time, there are numerous barriers that limit SME possibilities to grow. The variety of these barriers is rather big, and the number of offered solutions is also large. This article concentrates just on one of them: use of professional assistance of business consultants. This is critically important in transition economies, where traditions of using services of business consultants are very limited.

The article analyses how use of various consulting services influenced SMEs’ growth in terms of their sales and number of employees. This analysis allows indicating types of business consulting services that influenced growth of enterprises more than others. In some instances, differences between decisions of small (up to 50 employees) and medium (50-249 employees) companies are observed and analysed.

The research is performed on the basis of a survey that was carried out for a long period of time, and included more than 300 Lithuanian companies.

Keywords: small and medium enterprises, business consulting services, SME growth, transition economy.

Introduction

Analysing economic development of any country, researchers pay significant attention to a specific sector, represented by small and medium enterprises (SMEs). There are different definitions of SMEs. However, the most common way is to define these companies on the basis of employment, since the number of employees is the simplest indicator that is not dependant on any methodological or legal specifics. According to this criteria, SME sector covers companies that employ less than 250 employees. Quite often the group is subdivided into segments of small enterprises (up to 50 employees) and medium enterprises (50-249). Though some definitions include also sales numbers, industry aspect and some other indicators, for simplicity reasons in this article we define SME sector just according to the number of employees.

The attention to small and medium enterprises is based on the fact that SME sector plays a very important role in economies of many developed countries. Small businesses are well recognized and acknowledged worldwide as vital and significant contributors to economic development, job creation, and the indicator of general health and welfare of economies. In all countries of Europe, SMEs count for more than 99% of all registered companies. In Lithuania, SMEs also count for more than 99% of registered companies, create almost 70% of GDP, and employ about 70% of labour (Darulis, et al, 2004).

SME sector was analysed by numerous authors and very different aspects of SME sector were covered. Typically, the main set of issues is related with SME strategies, competitiveness and some vulnerability.

Strategies and overall management of small and medium enterprises have their specifics, since smaller companies often see their competitive advantages through development of cooperation (Ishikawa, 2004) and networking (Elfring, Husink, 2003). At the same time, development of successful SMEs is not limited to markets of their domestic countries. Even the most vulnerable newly established SMEs have potential of joining international value chains and developing their own marketing strategies (Johnson, 2004; Chen, Huang, 2004). All these strategies can be created just on the basis of some planning activities that also are rather specific in SME sector (Ibrahim, Angelidis, Parsa, 2004). In the case of SMEs they remain being based not just on some models and procedures, but also (to some extent) on managers’ intuition (Enright, 2001).

Another important aspect of SME analysis is related with removing barriers to growth of these companies. The most typical aspect is increasing availability of financing resources to SMEs (Andriejute, Snieska, 2004). Quite often, researchers see some possibilities in training (Storey, 2004) or possibilities to adjust managerial models that are typically used by larger companies (Naylor, Hawkins, Wilson, 2001; McLarty, 2003). This also forces to analyse factors that influence formation of SME strategies (Gibbons, O’Connor, 2005).

Since SME sector is that important, its dynamics significantly influences overall development of national economies and even social sphere in many countries (mainly through employment). This forces to constantly analyse facilitators and obstacles of SME growth. Numerous programs were introduced in various countries for reducing/removing obstacles of SME development. Most often, they concentrated on financial support (loan programs) or educational influence. These influences together with SME support programs’ activities are rather well analysed and documented (Chrisman, McMullan, 1996). However, many other influences on SMEs development and growth can also be observed. One of them is usage of professional business consulting services that bring additional expertise and give a certain push to enterprise growth. This happens because consulting integrates informational, technical, training and other external influences with characteristics of individual companies.
Business consulting services cover very broad range of efforts that are directed to improve performance of a client organisation. Many services are limited to information providing, and further usage of them is a direct function of client company personnel. Often, these projects include continuous or periodical market measurements, annual audits, etc. However, this group of consulting services is limited with delivering routine information without direct influence on client business operation. Also, some of these services (audits, labour safety measures) are required by law, and enterprises often use them just in some formal way.

However, there is a large range of consulting services that are directly targeting to improve certain aspects of business operation, its management. They can be defined as ad-hoc type consulting, since often are more or less customised to address needs of a specific customer. These consulting services can be very important to SMEs, and they may really remove some barriers to growth and open new sets of development opportunities.

There are many methods how business consulting (advice) services may be classified. However, none of them is entirely precise, since many consulting projects include few types of advice. In other instances, some parts of a larger project can be considered as separate projects of more specialised content. The most typical example is development of strategic plans that often involve extensive market research, engineering developments, financial forecasts, process engineering, etc. In other cases, feasibility studies serve not just as a tool to attract financial resources, but also to some extent play a role of development plans. Because of this, classification of consulting projects is partially based on managerial judgements about priorities between elements of a consulting project.

In this article, we classify business consulting services into 9 categories:

- feasibility studies and investment plans,
- strategic development planning,
- company reorganisation/restructuring,
- quality improvements and quality systems’ implementation (mainly ISO 9000 and ISO 14000),
- market analysis and marketing planning,
- implementation of computerised information systems,
- implementation of computerised manufacturing systems,
- engineering studies and engineering development,
- other.

However, the ninth category (‘other’) includes very different and often client-specific projects. This makes the whole category inconsistent, and does not allow using it in analysis. Therefore all further analysis in this article is based on 8 categories of business consulting services.

The usage of business consulting services in SME sector is not researched extensively yet. There are some surveys about more general outside assistance (Chrisman, McMullan, 2004), but they are not exploring use of various types of business advice. Also, the issue is not researched in transition economies. Therefore the main objective of this article is to analyse how SMEs were selecting and using business consulting services in a transition economy (Lithuania).

In addition to this, it is analysed how different types of business consulting services influence SME growth in terms of sales volume and employment. This is a rather simplified measurement of SME performance, but sophisticated measurements have their own imperfections (Abouzeedan, Busler, 2004). Growth in relation to small businesses represents a complex matter and is multidimensional in scope and character. It embraces a convergence of owner-manager ambitions, intentions, and competencies; internal organizational factors; region specific resources and infrastructure; and external influences (Morrison, Breen, Ali, 2003). Many influences are relatively well analysed (Rodríguez, et al, 2003), but they do not include use of business consulting services. Though precise decomposition of various influences on SME growth is rather difficult, statistically significant differences in growth of SMEs that used different types of consulting services might differently influence enterprise growth.

**Research Methodology**

The research in SME sector has its own characteristics and is related with certain difficulties. This is because of large and diverse general population, imperfections of information handling in SMEs, and many other factors (Newby R., Watson J., Woodliff D., 2003). Since personality characteristics of an SME manager plays very important role in a small managerial team, it has also to be taken into account (Mitchell, Busenitz, Lant, et al. 2002). Therefore any SME research scheme requires to include certain innovations. For example, it is beneficial to relate survey procedure with activities of SME support programmes that have advantages in contacting SMEs. Some of these possibilities were used in this survey, which allowed covering relatively large sample of SMEs and keep the process of survey going during the period of 9 years.

The sample of SMEs included 304 small and medium enterprises that used business consulting services of consulting companies during the period from 1995 to 2004. Out of them, 134 belong to the category of small (below 50 employees) enterprises, and 170 to medium (50-249 employees) enterprises. All SMEs were registered in Lithuania, were primarily private and primarily locally owned. Therefore their activities reflected local patterns, attitudes of local entrepreneurs and managers to business consulting and overall business development. Since the same enterprise had a chance to undertake several consulting projects, the overall number of analysed cases is 366. Even though the same company could have several consulting projects, analysed projects did not overlap in time.

The researchers had two in-depth interviews with representatives of every company. The first interview was performed before starting a consulting project, the second – one year after the consulting project was formally finished. The first interview was related with possibility of granting a subsidy for partial coverage of business consulting costs, thus managers were strongly motivated to specify their expectations about planned consulting project. During the first interview, respondents also provided quantitative information about a SME sales volume and number of employees. The second interview was held a year after business consulting project with a consulting company has
been completed, and the main topic of discussion was evaluation of benefits of the undertaken project. In addition to this, SMEs again provided quantitative data about sales volume and number of employees. In this article, only these quantitative indicators from SMEs are used. The change of these indicators during the period between the two interviews could be at least partially related with the consulting project the enterprise was undertaking.

In every case, respondents were managers or owners-entrepreneurs of SMEs. Therefore they had all rights and competences to discuss development of their companies, as well as all issues regarding the relevant business consulting projects.

**Use of various types of business consulting services**

As it was already mentioned, all classification systems of business consulting services have certain limitations. This is mainly because of integration of many services into one project, or because of the uniqueness of some custom-tailored services (which makes it difficult to classify them in general). The suggested classification into 9 types of business consulting services proved to be convenient for further analysis, except the 10 cases of consulting projects that were classified into the category “other”. Since this small group had no internal consistency, it was not possible to analyse it the same way as all others. Therefore the category “other” was totally removed from further consideration. As the result, all following analysis in this article is based on 356 cases of business consulting cases to SMEs that fall into 8 categories of consulting services.

Analysed enterprises selected business consulting projects based only on their needs and priorities. The largest part among various types of consulting projects were covered by computerised information systems implementation and quality systems’ implementation projects (Figure 1).

**Results of using business consulting services: effects on sales**

Development of SMEs is influenced by the number of various factors that are researched relatively well. However, there is a statistically significant relationship observed between usage of business consulting services and growth of their sales. More specifically, different sales change patterns...
are observed among small and among medium size companies that used business consulting services (Fig. 2).

![Graph showing change of sales volume after business consulting projects](image)

**Figure 2.** Change of sales volume after business consulting projects

Just a bit more than one-fourth of small companies have reduced their sales in the period between the two interviews (before the consulting project, and one year after its completion). Obviously, this was influenced by a number of internal and external factors that are not necessarily related with the undertaken consulting project. However, medium companies were stronger influenced by these factors, and sales went down in almost 35% of them.

The largest group of analysed companies increased their sales by no more than 50%. There are almost no differences between small and medium companies here, but groups that were growing faster are dominated by small companies. This allows to conclude that smaller companies that used business consulting services:

- less frequently reduce sales during the consulting periods an a year after it,
- more often experience relatively larger sales growth than larger companies during the same period.

However, business consulting services are very different, and SMEs use them in solving rather various problems. Therefore it is important to analyse change of sales volume in relation with the type of consulting service used. Table 2 shows usage of 8 types of business consulting services by the sample companies.

There are some patterns regarding the results of some types of consulting services.

Feasibility studies and investment plans clearly fall into the category of the most unsuccessful consulting, since more than a half of companies that used this type of service have reduced its sales. If there was observed sales increase, it was slower that after use of any other type of consulting. Series of qualitative interviews allow to formulate some explanations for this phenomena. Feasibility studies and investment generating projects generate “selling” documents that have to attract financing. However, a good quality document can not automatically guaranty favourable attitude of investors (or banks) and the investment itself. It is just a pre-requisite for loan or investment, which might never happen if financial resources are too limited or priorities of financial institutions are different. This was the most typical reason for failure of feasibility studies type consulting services. Consequently, some companies simply were not able to continue growth without receiving planned financial resources.

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<td>Engineering Studies</td>
<td>29.4</td>
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<td>Market Analysis &amp; Planning</td>
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<td>Computerised Financial Information Systems</td>
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The most successful in terms of sales generation are restructuring and quality improvement (quality system implementation) consulting projects. In the case of both types of consulting services, over 20% of SMEs more than doubled their sales during the analysed period. Enterprises that were involved in reorganisation almost always experienced at least some growth of sales, (sales decreased just in 16.7% of companies), while 27.7% of enterprises that performed quality improvement projects did not achieve sales increase. This can partially be explained by specifics of ISO projects. Firms that received ISO certification did not, on average, see their absolute performance improve, but they did see their relative performance improve substantially, compared to their uncertified peers (Corbett et al., 2002).

Analysing other types of business consulting, it is obvious that computerised manufacturing and computerised information systems implementation generate almost the same results in terms of sales. In both cases, approximately a half of companies experience moderate (0-50%) sales increase, about 30% – sales decrease, and only minority – significant sales growth. Possible interpretation can be related with the content of these projects – they typically
are not directly related with sales increase objectives, and rather are aiming towards preciseness and accountability improvements inside of enterprises.

It is rather surprising that more than one-third of enterprises that were involved in market research and strategic planning projects experienced sales decrease. By their content, these types of business consulting are more oriented to sales increase.

There are only very few instances when results of a certain type of consulting services on sales growth was different for small and for medium companies. One of them – the most unsuccessful category of feasibility studies and investment plans. Though sales decrease was rather typical for all enterprises that used this type of consulting, for medium sized companies it was noticeably bigger that for small companies (58.3 and 45.5% respectively). Similar pattern was observed in case of almost all types of consulting services, i.e. small companies of the sample more often increased their sales than medium ones. Since this is almost not dependant on the type of the business consulting, it is relevant to conclude that smaller companies in terms of sales growth experience larger benefits from any type of business consulting services than the bigger ones.

**Results of using business consulting services: effects on number of employees**

Small and medium companies are very important to the economy for their ability to employ large portion of population. Therefore change of number of employees is also an important indicator of an SME development.

After the usage of business consulting services, the number of employees was growing in approximately 60% of SMEs. However, here significant differences occur between small (up to 50 employees) and medium (50-249 employees) enterprises.

Employees decrease is observed only in case of 24% of small companies, while this percentage among medium companies is almost twice bigger (42%). In addition to this, about 30% of medium size companies increased their number of employees by no more than 25%, i.e. were growing just moderately. This might mean that two-thirds of medium size companies were using business consulting services for increase of efficiency rather than for generating extensive growth. Really significant increase of employment is observed almost only among small companies (Fig. 3).

![Figure 3. Change of the number of employees after business consulting projects](image)

Again, employment changes depend on what type of consulting service an enterprise was using. As in the case of change of sales, feasibility studies and investment plans were the most unfavorable category. It more often resulted in employment decrease than increase. However, employment reduction can be evaluated as a very positive outcome of business consulting, but this is expected only when consulting is directed towards increase of efficiency. However, there is no statistically proven relationship between the type of consulting services and change of efficiency (sales per employee). More than this, restructuring, being one of most efficiency oriented type of consulting, generated the smallest decrease of employment. Almost the same result was achieved by quality system implementation projects, though they also often suppose some restructuring in a company. In general, these two types of consulting services generated largest increase in number of employees (Table 3).

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There are many instances that can hardly be interpreted without taking into account influence of some other factors. For example, large number of companies that used engineering consulting had decreased their number of employees. This might be related with implementation of modern technologies, but the same pattern could be expected after implementation of computerised manufacturing systems. However, this type of consulting typically resulted in small increase of employment. Strategic planning also often influenced SMEs to decrease employment,
while logically this type of consulting is more directed towards enterprise growth.

However, many of these seemingly not very logical ratios become clearer in analysing small and medium companies separately. Feasibility studies and investment projects resulted in employment decrease for 83% of medium size enterprises and only for 20% of small companies. Typically, after this consulting project, small companies increased their number of employees up to 100%. Strategic planning projects resulted in employment decrease only for 20% of small companies and for more than half medium size enterprises. In terms of employment increase, quality system implementation projects were very successful for small companies, while almost a half medium size companies after this type consulting experienced employment decrease. Market research and marketing planning projects, computerised information systems’ implementation projects also more often resulted in employment increase for small enterprises.

All these observations together allow judging that in terms of employment change small enterprises are more responsive to influence of various types of business consulting. However, often the same type of business consulting generates different changes of employment in smaller and larger SMEs.

**Conclusion**

The analysis covered rather long period and broad range of SMEs that used business consulting services. Therefore it allows to identify some patterns that are noticeable in a transition economy. SMEs use different business consulting services depending on their type of activities. This sometimes differs for small (up to 50 employees) and medium (50-249 employees) enterprises.

Used business consulting services influence growth of SMEs. Though it is difficult to measure influence of business consulting projects among other factors, analysis allows concluding that different types of consulting services have different impact on SME growth in terms of sales and in terms of number of employees.

The main limitation of this survey is the analysis of data from just one of the transition economies. It is unclear whether the observations are typical for SMEs in transition economies in general. This issue outlines the direction of analysis for further research.

**References**

Smulkiają ir vidutinių įmonių naudojamo verslo konsultacijų specifika perėmamojo laikotarpio ekonomikoje

Santrauka

Smulkių ir vidutinių įmonių naudojamo verslo konsultacijų specifika perėmamojo laikotarpio ekonomikoje

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