

SME Growth: The Relationship with Business Advice and External Collaboration

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ABSTRACT. The paper presents multivariate analysis of the relationship of SME growth with the acquisition of external business advice, whilst controlling for the influence of SME characteristics of age, manufacturing/services, high technology, innovator, level of skill of the workforce, exporter and number of competitors. The relationship of external business advice with SME performance is statistically significant for only a small number of sources and fields. Obtaining external advice in fields such as business strategy and staff recruitment is associated with positive firm performance. The main positive relationships of advice and performance are dominated by private sector sources such as lawyers, suppliers, customers and business friends/relatives. Collaborative arrangements with suppliers nationally/internationally have a strong positive relationship with employment and turnover growth; collaboration with local suppliers has a strong positive relationship with growth in profitability. There is little evidence of statistically significant relationships between government-backed providers of business advice such as Business Link and firm performance.

1. Introduction

The successful establishment of SMEs and their subsequent evolution and development has long

been a source of interest and concern for researchers, government and policy makers because SMEs are increasingly important to the economic growth of the economy. In response, governments have introduced a variety of policies, including the provision of advice, to facilitate the formation of new firms and to offer support to SMEs to aid their survival and foster improved rates of growth.

This paper assesses the relationship of business advice and external collaboration with SME growth. The analysis benefits from the use of a large scale survey of 2474 SMEs in Britain in 1997. A wide range of the providers of external advice is explored, including private sector professionals, specialists such as consultants and business associations, contacts established through the supply chain, social contacts of friends and relatives, and a wide range of government backed initiatives. The analysis also includes analysis of the use of the fields of advice sought from advisors and the extent of external collaboration with other firms.

The paper commences with a discussion of the measurement and influences on SME growth. Section 3 outlines the findings of previous research on the influence of sources and fields of advice on SME growth. Section 4 describes the large scale survey employed and the expectations from previous research. Section 5 presents the main empirical results for the relationship of the use of advice with three measures of SME performance: rates of employment growth, rates of turnover growth, and changes in profitability per employee of firms. The conclusion assesses the implications of our findings.

A key problem in assessing the relationship of

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external advice and business growth is that of causality: is growth the result of the benefits of taking advice, or are fast growing firms more likely to take advice. Alternatively is advice more associated with overcoming problems that are associated with SME decline: external advisors being chiefly used when a firm is in trouble. The survey on which this paper is based does not allow the causality to be fully established. Its purpose is to establish the nature of the relationships: whether use of advice is chiefly associated with growth or decline, and which measures of growth chiefly interrelate with use of external business advisors.

2. Measuring SME growth

The growth of SMEs can be measured in various ways. For much government policy research, as well as many management and economics sources, growth is measured in terms of increases in SME employment. It is this measure which has most relevance to many government policy makers since SME growth has been seen as an important way of reducing unemployment (see e.g. Birch, 1979; Storey, 1994).

Rather than employment growth, however, owners and managers of SMEs are usually most interested in financial performance. Similarly, government policy, in addition to interest in employment generation, has also been concerned about the contributions of SMEs to economic growth and competitiveness. This can be measured by the growth of sales or turnover growth (Bartlett, 1994). This is a measure of the firm's total level of activity. A further measure is profitability, since this focuses on the earnings of firm owners (Kallenberg and Leicht, 1991). Various measures of profitability can be used: absolute profitability, profitability per employee, profitability as a percentage of turnover, or percentage change in profitability.

In this paper we use three measures of SME growth: first, percentage change in employment; second, percentage change in firms' turnover, and third, change in profitability per employee. Other measures of firm growth that could be used are market share, return on capital employed, and measures of productivity. Growth can also take the form of personal development of management and

employees, technology innovation, and professional recognition (Orser et al., 1996), whilst Hakim (1989) makes a distinction between businesses which are actively attempting to grow and those which are not. In this paper we focus on objective measures of SME performance which are provided from our survey data. Unfortunately desires and returns on capital are not available within our survey responses.

Previous attempts to explain SME growth have focused on three main areas. Firstly, the effect of SME size, where the issue is the absolute numbers of jobs generated by firms of different initial sizes. Secondly, there has been a debate about picking winners, where contention revolves around how many firms, as a proportion of the initial stock, are responsible for employment creation (Freel, 1997a,b). Thirdly, there has been a distinction between new and old firms, where different authors have contended that employment creation can be attributed to new firm formation rather than growth and expansion of those firms that are already in existence at the start of any period under analysis (Robson, 1996).

In the economics and management literature several hypotheses have been presented about management objectives and behaviour as reasons why firms grow (Trau, 1996). For example, the ownership, control and discretionary behaviour of managers is argued by Baumol (1959) to drive objectives of sales revenue maximisation. Marris (1964) takes the argument further by focusing on managerial expertise and Williamson (1964) focuses on managerial discretion, which both suggest that profit maximisation need not be the only driving force of the business. The greater the dilution of the shares of owner managers, and the more an owner takes a back seat in the day-to-day business activities, the greater is the possibility of management behaving differently from pure profit maximisation.

O'Farrell and Hitchens (1988) identify several other elements that explain SME growth, (i) stages of growth, where a small firm is believed to pass through a sequence of growth stages; (ii) the strategic view, where small firm growth develops from overcoming the impediments that have hindered previous phases of development; and, (iii) the strategic management perspective, which emphasises the personal and leadership character-

istics of management (Gibb and Scott, 1985). The strategic management approach also includes many contributions from management studies exponents. For example, Porter presents the idea that the fundamental basis of above average performance in the long run is sustainable competitive advantage. Porter (1985) identifies three competitive strategies: overall cost leadership, product differentiation, and focus.

There is also a wide range of industrial economics interpretations which attempt to move away from neo-classical economics. Arguably the most well known theory is that associated with Penrose (1959) who argues that there are, at any given time, limits to the expansion that existing managers can accomplish which restrict the rate at which management is able to increase its numbers of employees, which limits further its managerial capacity.

Lastly, one of the most widely posited hypotheses is that firm growth is a result of chance, irrespective of management's goals and strategies. This is associated with Gibrat (1931) who presented a series of postulates that, (i) there are many causes of size changes, (ii) none of these is believed to exert a major influence on size change, and (iii) their effect is independent of the size of firms. Taken together Gibrat's three assumptions produce a template where a firm's rate of growth can be viewed as a random walk. This was termed by Gibrat as the "law of proportionate effect". The implication of Gibrat's (1931) idea of stochastic models of SME growth is that logarithmic transformations are applied to sales and employment growth. There are problems with this approach. Ijiri and Simon (1971), for example, show that growth in one time period is usually strongly linked to growth in subsequent time periods, which induces serial correlation. Second, there is the effect of mergers and takeovers. Third, as Trau (1996; p. 39) argues, "the major point within this framework is represented by the very difficulty of distinguishing the long-run effects of the Gibrat's law (if any) from the consequences of 'local' determinants of firms' behaviour, given the relative shortness of generally available time series. In the medium term, deviations from the 'law' may be quite large: 'random' growth can only show up in an infinite time horizon".

In empirical assessments, a number of factors

have been shown to have a direct or indirect influence on SME growth. For example, Westhead and Birley (1995) assessed the role of eighty-eight variables which can influence employment growth. The results of their regression analysis performed upon data constructed from a postal survey indicates that the chief determinants of growth are the nature of customers and suppliers and the role of external competition. For service firms, the financial structure of the company is also important. They find little or no influence from the type of principal owner-manager, the nature of the business itself (such as sector), the perception of the trading environment (sparsity and economic characteristics), nor of the role of local support services. From this they conclude that because of the complexity of employment growth there are few fully satisfactory explanations of why growth occurs. However, Westhead and Birley's findings, which are echoed in other work (e.g. Freel, 1997a), tend to support Porter's general contention, that it is a market conditions and the structure of competition that are the main determinants of SME growth.

The above discussion serves to show that there is a diverse range of interpretations of the factors which are believed to influence the growth of firms, but the key factors are likely to be the supply chain and the competitive environment. The role of external advice is not usually among these key factors, but it can be argued that it should have been more fully considered in previous research. We develop this consideration below.

3. The influence of external business advice and collaboration on SME growth

Despite the lack of association of SME growth with the use of external advice and local supports to SMEs found by Westhead and Birley and some other studies, there are grounds for believing that a wider analysis might yield different results. First, Westhead and Birley and most studies have assessed only employment growth, whereas it is important that the growth and performance of a firm should be assessed on several dimensions, including those most relevant to the owners and managers, of financial performance, as we discussed earlier. Second, there is

considerable evidence in other studies of the positive association of external supports and advice (see e.g. Storey, 1994; Trau, 1996; Johnson et al., 1994). The use of external advice has also been found to be strongly associated with successful business growth by Harrington et al. (1991), Berry-Lound and Parsons (1994), Illeris (1994) and Bryson et al. (1997). However, there may be problems in these studies, that it is growing firms that chiefly seek and use external advice, rather than advice being a major determinant of growth.

A priori, the use of external advice can be expected to be related to SME growth. The main reasons why external advice is used has been found in most previous analyses to be to fill gaps in internal staff or management expertise, for specific and one-off tasks, and to develop new internal procedures or processes (Hill and Neeley, 1988; Clark, 1995). Hence, we would expect that firms that are experiencing growth or undertaking innovation would have more gaps to be filled that lead to higher use of advice from a wider range of fields than stable firms. Similarly, it may be that firms experiencing stress from declining markets also have emerging gaps in external expertise that need use of external advice. Hence, the use of advice may be higher for both firm growth and decline.

Certainly since the mid 1980s there has been a rapid increase in the use of external advice and consultancy by SMEs in most countries (see e.g. Moolaert and Todtling, 1995). In the survey used in this paper 95% of respondents use at least one source of external advice between 1994 and 1997 (Bennett and Robson, 1999a). If the sample is re-weighted to reflect the firm size and sector characteristics of the national economy 84% of all firms are using external advisors. It must be assumed that this extensive use of advice is sought by SMEs because it offers positive benefits to firm performance.

There is a wide range of sources of external advice used by SMEs. The survey used in this paper allows relationship to be examined for most of the major suppliers. Among the private sector, accountants are the most widely used, followed by banks and lawyers (see Bennett and Robson, 1999a). Business friends or relatives are also a frequent source of business advice, often acting as

the preferred and most valuable route for many of the smallest owner-managers (Department of Employment, 1991) – particularly for managers who are reluctant to disclose details of their companies to external sources. The supply chain can also provide important sources of external advice. Collaboration or interchange of information with customers can act as barometers for how well products or services are doing. Similarly suppliers may assist with the diffusion of information on new technology, product or service innovations, or simply in offering information on alternative materials at lower costs.

The role of customers and suppliers of advice may be particularly important through networks of collaboration and local embeddedness (Sabel, 1989). But, in detailed surveys Curran et al. (1993) and Curran and Blackburn (1994) indicate that in the case of Britain there is little evidence of extensive or supportive local networks for SMEs. Indeed these surveys point to a general decline in the social context of inter-firm relations. Nevertheless, local context as a potential for collaborative advantage can be important as an underpinning to the conditions for more ready growth. Porter (1998), for example, arguing that local clusters of business agglomeration offers potential growth benefits. As a result, in the empirical section of the paper, we assess the role of local as well as national/overseas formal or informal collaborative or partnership arrangements in providing support.

A special category of private sector suppliers are business associations, which offer supports chiefly to the self-selecting group of businesses that choose to be members. In our survey two types of associations are included, sector trade and professional associations, and local chambers of commerce. The services provided by associations vary considerably, but detailed assessments suggest that they are chiefly providing services which are low cost, low frequency and low duration answering one-off brief advisory problems (Schneiberg and Hollingsworth, 1991; Bennett, 1998).

There are also a number of government-backed sources of external advice. In Britain the most significant of these is the Small Business Service Business Link (BL). This is similar to the U.S. Small Business Administration and was launched

in 1992 to provide a network of local business advice centres to SMEs. This ranges from specialist consultancy (chiefly on exports, marketing, innovation and technology, or product/service design) to generalised consultancy based on Personal Business Advisors (PBAs), provision of grants, and the provision of information (see DTI, 1992; Agar and Moran, 1995; Priest, 1999). Take-up by the time of the survey used in this paper has been very large, with market penetration covering 112,000 businesses, representing 9% of all SMEs under 200 employees (DTI, 1998). But the quality of the services provided by BL has come under scrutiny, with wide variation in satisfaction levels reflecting quality variation of the management and the advisors in the system (Bennett and Robson, 1999b).

In addition to BL, Training and Enterprise Councils (TECs), and their Scottish counterparts of Local Enterprise Companies (LECs) play an important role as the local agents of many government advice programmes, mainly vocational qualifications and apprenticeships, providing grants or subsidies in these fields. There are also enterprise agencies, which are often government-subsidized or contracted. These offer a range of counselling, advice and business training chiefly focused on pre-start and start-ups, and to a lesser extent for young and established businesses. Finally, there is a range of regional development agencies which seek to help mainly established businesses. They are particularly important in Scotland, Wales, rural areas, and in some older industrial cities.

The intensity of external advice in the same survey has been previously found to be strongly focused on the private sector, with consultants and customers having the most intensive relations with their clients in terms of site visits and written contracts (Bennett and Robson, 1999c).

The fields of external advice sought by SMEs vary considerably. Previous studies have produced substantially different estimates of the levels of use of fields of advice or consultancy. This ranges from 9% for advice on staff matters (Barclays Bank, 1994) to upper estimates of between 90% and 95% of business use from one source or more (See O'Farrell et al., 1992; Birley and Westhead, 1990; Smallbone et al., 1993; Bennett and Robson, 1999a). Previous research suggests that the most

frequently used fields of advice are taxation and financial management, computing, training, advertising and marketing, and business strategy (SBRC, 1992; Keeble and Bryson, 1996; Hitchens et al., 1996) but there are important differences in emphasis for different types of firms, by size, sector and level of technology, for each service field. Major differences between firms as a result of their size and technology, are shown in studies of training and recruitment by Atkinson (1994), Engineering Council (1994), Barclays Bank (1994); in studies of the use of financial management and legal services by Barclays Bank (1994), Curran and Blackburn (1994); in use of management consultancy and market research by Wood et al. (1993), Bryson et al. (1993; 1997); and the use of computing, advertising and a range of technical services by O'Farrell et al. (1992), and SBRC (1992).

Our analysis seeks to assess the relation between advice and SME growth for each of the main suppliers and fields of advice.

4. Survey methodology and development of an exploratory model

The following empirical assessment of the relationships between SME performance and the use of business advice employs the 1997 ESRC University of Cambridge Centre for Business Research (CBR) Survey. In this survey external advice is defined as being linked with meeting the business' objectives (which were defined in the immediately preceding questions), and respondents were prompted that they should interpret advice as excluding basic information provision. Respondents were asked to identify from a list of 13 sources and 12 fields each field and source of advice they had used to pursue their business objectives in the previous 3 years. The sampling framework of the CBR survey is drawn from Dun and Bradstreet. The surveyed firms were contacted by mail with telephone follow-up. The respondents numbered 2474 small firms, 58% in manufacturing and 42% in business services. The comparatively higher number of manufacturing firms was selected in order to obtain useable numbers of hi-tech as well as conventional firms (full details are given in Bullock and Hughes, 1998). The survey covered all manufacturing

activities. The business service activities include advertising, management, technical and professional consultancy and telecoms services. The survey strata are weighted towards medium/larger sized firms in order to obtain usable numbers for comparison of each size group. The final sampling proportions are 44%, 1–9 employees; 52%, 10–199 employees; and 4%, 200–499 employees. The response rate was 25.4%. The response rates have been systematically compared in terms of age, employment, turnover, pre-tax profit and legal status, and there is no significant response bias (Bullock and Hughes, 1998).

Our empirical analysis include the range of main factors which are believed to be related to firm performance. Our models place a particular emphasis on the role of sources of advice, and fields of advice. But in addition the models seek to use controls for firm type (age, size, sector etc.), as well as market conditions and management strategy. We assess the relationships for three measures of growth (employment, turnover and profits) with the use of different sources or fields of external advice, whilst controlling for the characteristics of the firm. The expectations of the role of each of these factors, as discussed in previous literature, is summarised below. The expectations are compared with our main results, in Tables I–IV, before we examine in detail the role of external advice.

The range of variables used means that there is some scope for multicollinearity. Tests of this suggest only small potential effects. We choose to retain all variables in the reported tables rather than reporting a final estimated model after removing insignificant or collinear variables. This is because we see the analysis as exploratory, to assess relationships, rather defining a final econometric estimator.

4.1. Age

Storey (1994), after reviewing the small firm literature on the relationship between age and growth, found near unanimous findings for research from the U.K. and the U.S. that younger firms grow more rapidly than older firms. Our sample survey has median firm age of 13.0 years with 6.9% less than 3 years old. Our results, shown in Tables I–IV, are consistent with Storey's

(1994) assessment. The greater the age of the firm the less likely it is to experience employment and turnover growth, and this is statistically significant. However, there is no relationship between age and profitability. The negative relationships between age and both employment and turnover growth may be explained, as Storey suggests, by owner-managers having achieved the business objectives and goals they formulated when their businesses were established. Additionally, the firms have reached a reasonably secure position in the markets in which they compete, having long ago surpassed the minimum efficient scales of production. Managers may thus be reluctant to risk the fruits of their successes by pursuing expansion in new market places which involve the possibility of failure and the weakening of the company, and also the inconveniences and headaches associated with expansion. The fact that profitability is not influenced by age tends to confirm managerial barriers to further employment and turnover growth.

4.2. Exporting

We expect exporting firms to be growing faster, as found by Storey et al. (1989) and Kinsella et al. (1993). Our survey has 42.3% of firms which are exporters, within which 53.4% are manufacturing and 25.6% of service firms, respectively, a difference which is statistically significant at $p = 0.01$ indicating a strong sector correlate of exporting. In our models there are highly statistically significant positive relationships between exporting and both employment growth and turnover growth. However, whilst there is also a positive relationship between exporting and change in profitability per employee this result is not statistically significant.

4.3. Skills

The skill level of the firm is also expected to be a positive influence on growth. In our models skill is represented by the percentage of the workforce who are employed in the managerial, technologists, scientists and higher professionals, technicians and lower professional capacities. Surprisingly we find that the level of skill has no statistically significant relationship with any of the

three measures of firm performance and that it is a negatively signed coefficient in each case.

4.4. Profitability per employee

We have also included profitability per employee as an independent variable in the models of employment and turnover growth. Ex ante, profitability per employee can have either a positive or a negative relationship with employment and turnover growth in the short and medium term – although obviously if losses are maintained in the long run a firm will go out of business. The actual finding will be the result of management preferences. For example, Coombes et al. (1991), employing multivariate models, found that the amount of profit taken out of a business as directors' remuneration was significantly negatively related to employment change. However, in our results profitability has a positive relationship with both employment and turnover growth, although it is only statistically significant in the case of the turnover growth model.

4.5. High technology

The level of technological development should influence firm growth, especially profitability. For our data 15.7% of firms are high technology firms, with 21.2% in manufacturing and 8.1% in services. However, from our survey data, technology level is not significantly related to SME performance.

4.6. Innovation

Within the policy debate on the competitiveness of the U.K. economy, prominence has been given to productivity growth and the contribution of innovation, with innovation being viewed as a vehicle to develop better products to gain access to new markets and accumulate greater market share (DTI, 1998; NAO, 1995). Moreover there are a wide range of government sponsored initiatives aimed at encouraging innovation. Because innovation has played a prominent role in previous CBR Surveys, this variable can be included in our analysis in some detail. In our models we have incorporated a definition of innovation that is a development that is not only new to the firm but

is also novel to the industry in which the firm operates. 19.7% of firms in our sample are innovators. Analysis by sector reveals that 18.7% of manufacturing firms and 21.3% of service sector firms are innovators. This difference is not statistically significant. Our results presented in Table I show that in all three models of firm performance innovation appears with positively signed coefficients. It is not significantly associated with employment growth, but it is for turnover growth and improved profitability. Indeed, innovation is one of the few variables which is related to changes in profitability per employee.

4.7. Number of serious competitors

The number of serious competitors is a measure of the local or wider competitive environment emphasised by Porter (1985, 1998) and Westhead and Birley (1995). Covin and Slevin (1989) also argue that the potential and scope available for expansion will be affected by the nature of the markets where the firms sell their goods and services. In markets characterised by intense competition the survivors have to more readily adopt organisational flexibility which may make them less averse to risk. In markets characterised by non-hostile incumbents, Covin and Slevin (1989) argue that the successful firms tend to be those which have adopted more flexibility within the firm.

In the CBR Survey, respondents were asked how many firms they regarded as serious competitors. The mean and median number of serious competitors are 15.7 and 5.0, respectively. In our regression models the number of serious competitors is not statistically significantly related to any measure of firm growth. These results are in line with Kallenberg and Leicht (1991) and suggest the local competitive conditions are less direct and more complex in the effect on SME performance than many previous analyses have suggested.

5. Assessment of the role of external advice

The main focus of our empirical assessment is the relationship between the use of external advice and SME growth. In addition, key strategic con-

TABLE I
The relationship of sources of external business advice with the percentage rate of employment growth, percentage rate of turnover growth and change in profitability

	% rate of employment growth	% rate of turnover growth	Change in profitability per employee
No. of employees	15.1716 (4.3673)***	0.6218 (9.3336)	-2.2241 (0.5206)***
Exporter/Non-exporter	10.0774 (4.8253)**	25.7464 (10.3106)**	0.8809 (0.5876)
Profitability per employee	0.1824 (0.1581)	1.2183 (0.3421)***	NA
Skill	-0.0400 (0.0839)	-0.0445 (0.1804)	-0.0108 (0.0103)
Innovator/Non-innovator	6.4469 (5.3851)	29.0848 (11.5161)**	1.2295 (0.6591)*
High technology	4.8349 (5.9540)	-5.9655 (12.6945)	-0.5343 (0.7237)
Manufacturing/Services	-11.6327 (5.7309)**	-8.1467 (12.3110)	-0.7988 (0.7026)
Age	-0.5703 (0.0802)***	-0.7673 (0.1708)***	0.0038 (0.0099)
Number of competitors	-0.0004 (0.0128)	-0.0148 (0.02729)	0.0004 (0.0015)
Accountant	1.7942 (6.2654)	5.8497 (13.4000)	0.2984 (0.7637)
Solicitor	15.2441 (5.0357)***	18.9868 (10.8139)*	1.0177 (0.6170)*
Bank	1.7629 (5.1415)	7.5432 (11.0012)	-0.8662 (0.6282)
Business friend/Relative	8.7824 (5.0311)*	0.9543 (10.7685)	-0.0364 (0.6133)
Customer	5.8442 (5.2937)	18.7930 (11.3273)*	0.3560 (0.6468)
Suppliers	12.3380 (5.3888)**	3.0812 (11.5375)	0.4447 (0.6599)
Consultants	1.4101 (4.9575)	3.9939 (10.5947)	-0.1254 (0.6041)
Chamber of commerce	1.4940 (5.4934)	8.9110 (11.7768)	-0.5765 (0.6713)
Trade/Professional association	11.5839 (5.0234)**	0.2906 (10.7308)	0.2545 (0.6121)
Enterprise agency	5.1830 (7.1314)	2.0205 (15.3347)	0.5003 (0.8714)
TEC	2.6582 (5.9365)	7.3447 (12.7174)	-0.5264 (0.7229)
Business Link/Shop/Connect	-4.8840 (5.4722)	-4.6631 (11.6884)	0.6194 (0.6653)
RDC	16.6494 (10.9403)	14.6334 (23.5112)	-1.0544 (1.3653)
Constant	19.4980 (9.4067)**	58.0824 (20.2075)	5.1691 (1.1144)
N	1085	1071	1053
F test	$F(22, 1062) = 5.42$ ***	$F(22, 1048) = 3.35$ ***	$F(21, 1031) = 1.5$ *
R ²	0.0823	0.0456	0.0098

siderations about the firm's performance are also assessed: the effect of (i) national/overseas formal or informal collaborative or partnership arrangements on SME growth, and (ii) local formal or informal collaborative or partnership arrangements. Each element is discussed in turn below. As above, the emphasis is exploratory so that a final econometric estimation is not developed which includes only significant variables.

5.1. External sources and fields of advice

The regression estimates for our three measures of firm performance and the use of external business advice are shown in Table I. One of the important features of the analysis is that we are using three different and distinct measures of firm performance, which a priori we would not necessarily expect to have the same relationships with the use

of advice. For example, whilst advisors may be expected to contribute generally in a positive way to turnover and/or profit levels, the use of an external advisor need not necessarily result in the recruitment of new employees, and instead could involve reduction by rationalisation and cost reduction of staff. Thus, whilst government may desire employment growth to achieve political aims, this is not necessarily convergent with SME goals.

The use of external advisors has surprisingly little relationship with each of the measures of growth; where it does it is chiefly for employment growth. The use of lawyers as external advisors is the only professional source which is statistically significant and associated with all three measures: employment growth, turnover growth, and increases in profitability. Given the nature of the services provided by lawyers, such as imple-

menting a number of technical legal requirements, particularly related to firm establishment, ownership and finance or leasing, we should not be surprised at these results, but the lack of statistical association of growth with use of other advisers is surprising.

Accountants are the most used source of advice in our survey, but their use appears to have no statistically significant relationships with any of our measures of firm performance. Their wide use (by 83% of the sample) clearly does not differentiate between firms with different growth histories. This finding is in accord with earlier research which found that the impact of accountants on firms' performance can be very limited (Kirby and King, 1997) and is probably chiefly related to audit.

Banks have an important financial role for firms, typically taking the form of over-draft and loan facilities. But banks also offer a wide range of advice, and Ennew and Binks (1996) argue that banks can draw on the basis of the trust and confidence their clients have in them. This notwithstanding, the use of banks for business advice has no statistically significant relationship with our three measures of performance. There is also no significant relation between the use of consultants and SME growth.

A further group of external business advisors are market contacts established through the supply chain via customers and suppliers. The use of suppliers for external advice has a statistically significant positive relationship with employment growth, but no statistically significant relationships are found with turnover growth or change in profitability. The use of customers for advice has a statistically significant positive relationship only with turnover growth.

Another source of external advice are social contacts of family and business friends. The use of business friends or relatives has a statistically significant positive relationship only with employment growth. Business associations have a statistically significant relationship only for the use of a trade/professional association in relation to employment growth.

A major group of advisors is government-sponsored agents (Business Link, TECs, enterprise agencies and regional development agencies). For none of the agents is there a statistically signifi-

cant relationships of their use with the three measures of firm performance.

Table II gives an assessment of the relation of fields of advice sought and SME growth. The pattern of the main variables used as controls is similar to Table I. There are few significant relationships of advice fields and growth. There are statistically significant positive relationships between only two fields of advice and employment growth: for business strategy and staff recruitment. There are three fields of advice which are statistically significant in our model for turnover growth: business strategy, staff recruitment and taxation and financial management. But in the model of the change in profitability per employee, none of the fields of advice is statistically significant.

5.2. *Formal or informal collaborative partnerships*

It is possible to take further the analysis of the role of customers and suppliers, which Table I indicates has some role in explaining employment and turnover growth. This is important to examine since there has been strong argument in the international business literature that in order for a firm to be successful in non-domestic markets it is important that the firm is either of large size (Chandler, 1990) or must develop collaboration arrangements. The basis of this proposition is that larger firms have greater resources and durability which enables them to bear the entry costs associated with learning about foreign markets, and the nature of their potential customers who may have different consumer and/or business characteristics than those in their own familiar domestic market. For SMEs the best way for them to enter new markets is to establish alliances with other SMEs – or with larger firms. For example, Gomes-Casseres (1997) provides an overview of the circumstances when SMEs use alliances to gain overseas business, how SMEs use the alliances, and the ramifications of alliances on SME's competitive performance. His evidence suggests that firms which are large relative to their markets tend to spurn alliances, whilst lagging firms are more likely to use alliances as a way of catching up with other incumbent players in their market.

TABLE II
The relationship of fields of external business advice with the percentage rate of employment growth, percentage rate of turnover growth and change in profitability

	% rate of employment growth	% rate of turnover growth	Change in profitability per employee
No. of employees	9.5157 (4.5713)**	-3.5087 (9.7293)	-2.6436 (0.6362)***
Exporter/Non-exporter	11.2242 (4.7863)**	24.0672 (10.1880)**	1.5290 (0.6812)**
Profitability per employee	0.1948 (0.1595)	1.2182 (0.3436)***	NA
Skill	-0.0556 (0.0848)	-0.0811 (0.1818)	-0.0088 (0.0122)
Innovator/Non-innovator	5.9322 (5.3829)	29.6605 (11.4869)***	1.4954 (0.7743)*
High technology	5.0149 (6.0029)	-7.1455 (12.7487)	-0.0389 (0.8536)
Manufacturing/Services	-8.5833 (5.6318)	-4.5293 (12.0461)	-2.0196 (0.8051)**
Age	-0.5790 (0.0796)***	-0.7962 (0.1689)***	0.0034 (0.0116)
Number of competitors	-0.0035 (0.0128)	-0.0160 (0.0271)	0.0003 (0.0018)
Business strategy	13.8243 (5.6556)**	31.7437 (12.0428)***	0.2699 (0.8050)
Management organisation	2.1954 (6.2389)	-17.3530 (13.2720)	-1.2922 (0.8899)
Marketing	3.2969 (5.3186)	2.2642 (11.3561)	0.5994 (0.7622)
Market research	1.9597 (6.0869)	0.1438 (12.9283)	-0.2357 (0.8678)
Advertising	-7.1106 (4.6513)	-7.2283 (9.9332)	-0.8210 (0.6682)
Public relations	1.0610 (6.3860)	-15.5135 (13.6910)	-0.7977 (0.9183)
Product or service design	-7.1950 (5.6604)	8.6751 (12.0211)	1.1048 (0.8069)
New technology	2.1149 (5.0671)	-6.1989 (10.7789)	-0.2799 (0.7229)
Computer services	0.9686 (4.9226)	0.6669 (10.4852)	-0.0710 (0.7041)
Staff recruitment	14.7661 (4.9738)***	27.4764 (10.6193)***	0.5589 (0.7124)
Staff training and development	0.9964 (5.1634)	3.3757 (11.0037)	0.1127 (0.7381)
Taxation and financial management	6.6307 (4.6547)	19.3222 (9.9235)*	0.5500 (0.6649)
Constant	21.9428 (8.7077)**	62.4600 (18.6475)***	6.7476 (1.2015)
N	1079	1065	1053
F Test	F(21, 1057) = 5.63***	F(21, 1043) = 4.04***	F(20, 1032) = 2.14**
R ²	0.0828	0.0660	0.0213

In Tables III and IV we have analysed formal or informal collaborative and partnership arrangements which are, respectively, national/overseas and local. In each of the models the partnerships relate either to “other firms in your line of business”, or to customers and suppliers. Firstly we examine national/overseas partnerships.

It is clear from Table III that partnership with national/overseas suppliers has some positive relationships with firm performance. More specifically for all three measures of firm performance there are positive relationships with the development of supplier partnerships, and in the cases of employment growth and turnover growth these relationships are highly statistically significant. However, for customers and firms in the same line of business there is at best a weak relationship. None of the international collaborations have a significant relationship with profitability. These results are broadly in line with Table I.

Table IV reports the results for firms’ local formal or informal collaborative or partnership arrangements. The most striking feature of Table IV is a lack of statistically significant relationships between local partnerships and the three measures of firm performance. The only statistically significant relationship is between local partnerships with suppliers and change in profitability per employee, and this is positive. This is the only highly significant relation between external source of advice or collaboration and the profitability of the firm in Tables I to IV. Although the coefficients of the suppliers’ partnership variables are also positive for employment growth and turnover growth they are not significant.

The message from Tables V and VI is also very clear. The most beneficial partnerships for firms are with suppliers. This is particularly true for national/international collaboration with suppliers for employment and turnover growth, and local

TABLE III

The relationship of national/overseas formal or informal collaborative or partnership arrangements with the percentage rate of employment growth, percentage rate of turnover growth and change in profitability

	% rate of employment growth	% rate of turnover growth	Change in profitability per employee
No. of Employees	17.1291 (4.1692)***	2.4399 (8.6866)	-2.0397 (0.4784)***
Exporter/Non-exporter	8.4530 (4.9343)*	19.7172 (10.2579)*	0.9309 (0.5782)
Profitability per employee	0.1644 (0.1621)	1.2136 (0.3416)***	NA
Skill	-0.0056 (0.0875)	-0.0496 (0.1832)	-0.0103 (0.0103)
Innovator/Non-innovator	5.8624 (5.4899)	28.9111 (11.4413)**	1.3359 (0.6485)**
High technology	4.6908 (6.1037)	-8.0806 (12.6590)	-0.3458 (0.7150)
Manufacturing/Services	-12.9057 (5.7939)**	-9.6703 (12.1035)	-0.7627 (0.6836)
Age	-0.6074 (0.0820)***	-0.8099 (0.1697)***	0.0041 (0.0098)
Number of competitors	-0.0023 (0.0131)	-0.01018 (0.0272)	2.92e-06 (0.0015)
Suppliers	24.5215 (7.1815)***	36.9326 (14.9348)**	0.8968 (0.8452)
Customers	-3.2722 (6.8081)	27.5558 (14.1026)*	-0.8181 (0.7940)
Firms in your line of business	-0.1233 (6.2992)	-5.1559 (13.0584)	-0.3267 (0.7366)
Constant	26.6718 (8.2898)***	77.0903 (17.3786)***	5.3280 (0.9337)***
N	1086	1072	1054
F test	$F(12, 1073) = 8.39$ ***	$F(12, 1059) = 6.35$ ***	$F(11, 1042) = 2.27$ ***
R ²	0.0755	0.0565	0.0131

TABLE IV

The relationship of local formal or informal collaborative or partnership arrangements with the percentage rate of employment growth, percentage rate of turnover growth and change in profitability

	% rate of employment growth	% Rate of turnover growth	Change in profitability Per employee
No. of employees	18.0455 (4.1686)***	6.2828 (8.6968)	-2.0027 (0.4746)***
Exporter/Non-exporter	10.0960 (4.9189)**	24.5804 (10.2311)**	0.8697 (0.5723)
Profitability per employee	0.17020 (0.1630)	1.1920 (0.3437)***	NA
Skill	-0.0286 (0.0862)	-0.0308 (0.1806)	-0.0104 (0.0101)
Innovator/Non-innovator	6.6315 (5.4821)	31.3157 (11.4305)***	1.2793 (0.6419)**
High technology	4.7424 (6.1193)	-6.1554 (12.7035)	-0.4334 (0.7110)
Manufacturing/Services	-12.5672 (5.8449)**	-6.6802 (12.2189)	-0.5351 (0.6842)
Age	-0.6167 (0.0824)***	-0.8472 (0.1707)***	0.0042 (0.0098)
Number of competitors	-0.0027 (0.0132)	-0.0130 (0.0273)	-0.0001 (0.0015)
Suppliers	2.6635 (11.6785)	34.8506 (24.1900)	3.0784 (1.3462)**
Customers	2.0316 (14.1901)	-14.9013 (29.3832)	-1.6938 (1.6631)
Firms in your line of business	-9.5965 (10.8757)	-12.1987 (22.5352)	0.9481 (1.2778)
Constant	26.4454 (8.4367)***	73.5025 (17.7073)***	4.9831 (0.9479)***
N	1086	1072	1054
F test	$F(12, 1073) = 7.28$ ***	$F(12, 1059) = 5.11$ ***	$F(11, 1042) = 2.69$ ***
R ²	0.0649	0.0440	0.0174

collaboration with supplies for growth in profitability. In contrast, partnerships with customers are not significantly associated with favourable results on firm performance. Similarly, partnerships with firms in your line of business are not statistically related to firm performance.

6. Conclusion

This paper has been concerned with assessing the relationships between firm performance and the use of business advice. Whilst we cannot be confident about the direction of causality (whether growth stimulates advice, or advice stimulates

TABLE V

The relationship between areas where the respondent has a significant or crucial competitive advantage with the percentage rate of employment growth, percentage rate of turnover growth and change in profitability

	% rate of employment growth	% rate of turnover growth	Change in profitability per employee
No. of employees	17.6007 (4.3589)***	1.7584 (9.3042)	-2.0381 (0.5053)***
Exporter/Non-exporter	11.4305 (5.1208)**	24.5955 (10.9150)**	0.9231 (0.6056)
Profitability per employee	0.1611 (0.1662)	1.1014 (0.3589)***	NA
Skill	-0.0344 (0.0908)	-0.0271 (0.1943)	-0.0079 (0.0127)
Innovator/Non-innovator	6.9107 (5.7504)	28.5714 (12.2867)**	1.4722 (0.8030)*
High technology	2.3982 (6.3071)	-16.6841 (13.4136)	-0.2995 (0.8959)
Manufacturing/Services	-13.3668 (6.0296)**	-11.5802 (12.8909)	-1.9198 (0.8530)**
Age	-0.5956 (0.0843)***	-0.8388 (0.1789)***	0.0009 (0.0127)
Number of competitors	-0.0030 (0.0131)	-0.0119 (0.0277)	0.0001 (0.0018)
Price	2.4952 (9.9629)	-36.7297 (21.2538)*	-0.8460 (0.9563)
Marketing and promotion skills	-3.5874 (10.6146)	20.3615 (22.5317)	-0.9299 (1.0295)
Speed of service	-7.0230 (5.7357)	-3.0209 (12.2221)	-1.4360 (0.9042)
Established reputation	-18.7594 (5.6301)***	-37.3575 (12.0267)***	0.6192 (0.9698)
Cost Advantages	-3.1512 (10.5108)	9.9011 (22.6020)	0.1070 (0.8575)
Product or service design	18.9590 (6.6437)***	36.2299 (14.1752)**	-1.4220 (1.1862)
Product or service quality	-1.7541 (5.7186)	-7.9335 (12.1834)	0.4681 (1.2346)
Specialised expertise/Product/Service	7.1988 (5.9796)	7.3813 (12.8042)	0.3828 (1.0350)
Range of expertise/Products/Services	4.5388 (6.8018)	16.1514 (14.4774)	1.9365 (1.2682)
Flair and creativity	-5.3470 (6.8262)	-2.7199 (14.5692)	-1.0377 (0.8098)
Personal attention and responsiveness to client needs	7.9563 (5.1343)	1.1284 (10.9493)	-0.5962 (0.7722)
Constant	25.7399 (9.2920)***	90.1765 (19.9212)***	8.2760 (1.2139)***
<i>N</i>	998	987	989
<i>F</i> test	$F(20, 977) = 5.44$ ***	$F(20, 966) = 4.10$ ***	$F(19, 969) = 2.61$ **
$\bar{R}^2$	0.0819	0.0592	0.0301

growth), the large scale of the survey used, wide range of sources assessed, and the extensive use of controls for firm type in the multivariate analysis do give some confidence in the generality of the findings. We find that there are statistically significant relationships for the use of external business advice with our measures of SME performance for only a small number of sources and fields, once the influence of other variables has been controlled for. This result is in line with the findings of Westhead and Birley (1995) and Freel (1997a). It suggests that general market conditions are the main determinants of SME growth, and that use of advice is related to these specific market conditions, focusing on specific niche sources, such as lawyers and suppliers.

We find the niches most directly associated with growth to be for advice on business strategy and staff recruitment, which are both significantly

associated with firm performance. There is little evidence that government-backed providers of business advice fill specific market niches, with generally a negative but insignificant relationship of use of advice and SME performance from sources such as Business Link.

The results extend and lend further support to previous studies, particularly Westhead and Birley (1995), which have suggested that external government support to businesses does not have significant effects on SME growth. Our different results are the outcome of a much larger size of sample and the inclusion of the full range of external sources of advice, not just public sector ones. Our central finding, that the private sector provides the chief relationship of use of external advice and increases SME performance, could not have been derived from Westhead and Birley's sample. The main emphasis on private sector sources is also in line with previous perceived

TABLE VI

The relationship between factors which the respondent has a very significant or crucial limitation in their ability to meet their business objectives with the percentage rate of employment growth, percentage rate of turnover growth and change in profitability

	% rate of employment growth	% rate of turnover growth	Change in profitability per employee
No. of employees	18.6811 (4.3600)***	1.3274 (9.0195)	-2.9355 (0.6051)***
Exporter/Non-exporter	9.5907 (5.0450)*	32.2672 (10.3926)***	1.5279 (0.7274)**
Profitability per employee	0.1210 (0.1876)	1.2748 (0.3942)***	NA
Skill	-0.0539 (0.0875)	-0.0375 (0.1813)	-0.0079 (0.0127)
Innovator/Non-innovator	7.5190 (5.5243)	32.0740 (11.4141)***	1.4721 (0.8030)*
High technology	3.9775 (6.2194)	-0.1264 (12.7877)	-0.2995 (0.8530)
Manufacturing/Services	-6.9155 (5.8817)	-7.3406 (12.1756)	-1.9197 (0.8530)**
Age	-0.5260 (0.0852)***	-0.6547 (0.1748)***	0.0009 (0.0127)
Number of competitors	-0.0047 (0.0129)	-0.0117 (0.0264)	0.00002 (0.0019)
Availability and cost of finance for expansion	13.1539 (6.5612)**	-0.5600 (13.6615)	-0.8460 (0.9563)
Availability and cost of overdraft finance	-10.2234 (7.0727)	2.5042 (14.6041)	-0.9299 (1.0295)
Skilled labour	7.0707 (6.2606)	24.4980 (12.9098)*	-1.4360 (0.9042)
Management skills	-3.8913 (6.6958)	-0.0066 (13.8247)	0.6192 (0.9687)
Marketing and Sales Skills	4.3815 (5.9408)	-9.3038 (12.2322)	0.1071 (0.8575)
Acquisition of Technology	1.1595 (8.1998)	3.2696 (16.9494)	-1.4220 (1.1862)
Difficulties in implementing new technology	-1.0623 (8.5203)	1.6758 (17.6358)	0.4681 (1.2346)
Availability of appropriate premises or site	4.8366 (7.1992)	3.5629 (14.7822)	-0.3828 (1.0350)
Access to overseas markets	3.8626 (8.7179)	-18.5975 (18.1115)	1.9365 (1.2682)
Overall Growth of market demand in principal product markets	-10.0797 (5.5783)*	-4.9235 (11.4800)	-1.0377 (0.8098)
Increasing competition	-27.9888 (5.3505)***	-35.6759 (11.0107)***	-0.5962 (0.7722)
Constant	24.6300 (9.0604)***	78.4823 (18.8920)***	8.2761 (1.2139)***
N	1013	1000	989
F test	F(20, 992) = 6.07***	F(20, 979) = 4.13***	F(19, 969) = 2.89**
R ²	0.0910	0.0590	0.0301

impact assessments and measures of intensity of advice (Bennett and Robson, 1999a,c).

The lack of positive relation of firm performance with the use of any government-backed agency should be a strong warning to new policy initiatives. Our analysis confirms the view of Porter, that it is primarily competitive conditions that stimulate growth not government supports. This also confirms Hakin's (1989, p. 39) comment, quoted by Westhead and Birley (1995), that "a selective policy of support for small firms is simply unworkable, not feasible on operational grounds". The findings for the negative relationship of the use Business Link with SME performance should be particularly worrying. This initiative has been targeted on "firms with growth potential" (DTI, 1992), yet our results demonstrate that its use has no significant relationship with SME performance and the signs are chiefly negative, i.e. that, if anything, the use of

Business Link is associated with poor growth and performance. This may suggest that BL is largely being used as a support for firms in difficulty, to arrest decline, rather than encouraging dynamic growth. This may be a worthy cause in itself, but it is not the aim originally sought for BL.

We have also been able to put the role of external collaborative networks into context. We find the relationship of use of supply chain collaboration as the only significant relationship between collaboration and SME performance. Collaboration with customers, and horizontal relations with firms in the same line of business, have no significant relationship with performance (and the signs are actually negative in most cases, suggesting that if anything, these relationships may be associated with driving down employment, turnover and profits). This is a strong finding to temper the enthusiasm of much academic

comment on the possible benefits of local or wider collaboration.

There is also an important contrast of international and national supply networks, which seem primarily to be associated with increasing firm employee size and the volume of turnover, with local collaborative supply that is primarily associated with increasing profitability. Collaboration appears thus to have two different roles for managers: nationally and internationally to be associated with increasing market penetration and market share (as indeed argued by Gomes-Casseres, 1996; Covin and Slevin, 1989), and locally to be associated with reductions of supplier costs or increases in product and service quality in order to increase profits.

The results presented in this paper cannot conclude on the causality of the advice-growth relationship. This is being explored in subsequent research which has replicated the survey here with the same firms in a 1999 survey. This will allow the pattern of advice at one point in time to be related to subsequent growth. The results presented here are an explicitly exploratory study. From the estimates it is clear that the main drivers of growth are market conditions and other attributes of the firm, including its size, youth and export performance. Advice appears to fill a niche role to help support growth in the case of private sector sources, or partly to help arrest decline in the case of public sector sources. Collaboration appears to be associated with improved business performance only for national and international links and chiefly through the supply chain, not as a means to control competition or develop horizontal links.

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