A model for effective planning of SME support services

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ABSTRACT

This paper presents a model for effective planning of support services for small and medium-sized enterprises (SMEs). The idea is to scrutinize and measure the suitability of support services in order to give recommendations for the improvement of a support planning process. We examined the applied support services and matched them with the problems and needs of SMEs, based on the survey conducted in 2013 on a sample of 336 SMEs in Serbia. We defined and analysed the five research questions that refer to support services, their consistency with the SMEs' problems and needs, and the relation between the given support and SMEs' success. The survey results have shown a statistically significant connection between them. Based on this result, we proposed an eight-phase model as a method for the improvement of support service planning for SMEs. This model helps SMEs to plan better their requirements in terms of support; government and administration bodies at all levels and organizations that provide support services to understand better SMEs' problems and needs for support.

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1. Introduction

The first step in improving support services for SMEs should be the identification of the actors involved in the support system. There are two main actors: those who are in need of support (SMEs and entrepreneurs) and those who provide the support (government and its institutions, international institutions and other organizations that provide support). The actors who ask for support (SMEs) have their needs and form their own expectations of support, which is usually done by the managers and owners of SMEs. If these needs are not satisfied adequately, it may result in creating problems. The actors who provide support are actually trying to help SMEs. The problem occurs because the support services that these organizations design are usually detached from the actual needs of the SMEs sector, so the delivered support activities are not in line with SMEs' requirements. Curran and Blackburn (2000) identified this problem as one of five reasons why the low use of support services by SMEs might occur. Support services often do not have suitable structure, dynamics and other characteristics. Successful management of support services is in

the very root of successful implementation of support services in the SMEs sector, and cannot be applied without the data from SMEs. To determine tailored support services, this paper sets out to explore SMEs problems and needs for these services and the types they use. The main research question is: Does the support service that is more consistent with what the owners-managers of SMEs expect in terms of solving problems in SMEs, have higher impacts on the overall business of SMEs? The intention is to show whether the support services for SMEs can be improved by customizing them according to SMEs needs, and whether this leads to the improvement of planning support services to SMEs and their success. The answer to the research question is given by analysing 336 SMEs who are surveyed through the 'Survey on conditions, needs and problems of SMEs in Serbia', conducted in 2013. The survey shows that better results are achieved by SMEs that use customized support services. Based on this conclusion, we proposed the methodology for improving the planning process of support services for the SME sector as a model for successful SME support service planning. Therefore, the first step is to determine the needed SME support services, and then plan other elements of support (such as details on the types, volume, range, periods, and methods of delivery).

This paper is structured as follows. Section 2 presents the literature overview on this topic. Section 3 describes the current

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conditions of the SME sector, business environment and actual support policy in Serbia. Section 4 presents the Survey on support service suitability for SMEs in Serbia. Section 5 presents the main results of this survey, gives answers to the research questions and discusses the results. Section 6 presents the eight-phase model of effective planning for support services. Section 7 concludes the paper and discusses future research.

2. Literature overview

SMEs are special types of enterprises that became very important in the last decades of the 20th century. They are recognized as: the engine of national economies' growth (Spicer & Sadler-Smith, 2006, p. 134); the biggest potential of self-employment; new job generator; companies that have great influence on national, regional and local development; a tool to prevent the migration of people from economically passive geographical areas; and companies with international importance. According to the criteria defined by the European Commission, SMEs are determined as companies with up to 250 employees, whose annual turnover does not exceed €50 million and/or whose annual balance sheet does not exceed €43 million (European Commission, 2005, p. 5).

The importance of the SME sector in Serbia and in the EU is reflected in the following statistical facts. The SME sector in Serbia accounts for 99.8% of all enterprises and generates 64.9% of employees, 64.3% of turnover, and 54.1% of the Gross Value Added (GVA) (Sertić & Ignjatović, 2014). SMEs in the European Union (group of 28 EU countries) make 99.8% of all enterprises, create 66.8% of jobs in non-financial business economy, and provide 58.1% of the GVA share (Muller, Gagliardi, Caliandro, Unlu Bohn, & Klitou, 2014, p. 14).

SMEs make a heterogeneous group, with different size, age, sector, location and growth profiles, run by owners-managers with different capabilities and motivations (Johnson, Webber, & Thomas, 2007). Despite diversity and specificity of each of them, SMEs have many common features. This paper focuses on the shortage of SMEs' resources as the main business constraint of SMEs. It reflects on the other characteristics of SMEs: (a) Integration of ownership and management; (b) SMEs' small capacity; (c) Specialized (niche) market; (d) Generally limited financial resources. According to Barney (1991), the necessary condition for developing competitive advantage and reaching company's strategic goal is the availability of resources. He notes that sustainable competitive advantage of a company comes from its resources that are valuable, irreplaceable and difficult to imitate. Although SMEs are short of material resources, they have special characteristics that refer to the innovative strength (Ranga, Miedema, & Jorna, 2008): entrepreneurial spirit, lack of bureaucracy, increased flexibility and ability to respond to unexpected developments in the field, close collaboration with suppliers and customers. Due to the limitation of SMEs' resource potential it is obvious that SMEs need extra help.

Shortage of financial resources is one of the most commonly used justifications for the problems and failures of SMEs. Owners of SMEs have difficulties with finance because they invest their personal savings and assets and the funds borrowed from family and friends into their business (Irwin, 1998, p. 162). Based on the SMEs' characteristics, particularly on modest resource capacities and the problems they face, it can be concluded that the SME sector needs help and support. SMEs' environment is a potential source of business help and support. Through formal and informal networking, SMEs try to outsource for refilling the shortage of business resources. Due to that, business environment can be defined as a business potential and resource of SMEs (Lazić-Rašović & Omerbegović-Bijelović, 2006). According to Porter (1990, p. 73)

"root of companies' competitiveness is in the nature of their business environment". Actors of SMEs' business environment are their stakeholders: customers, suppliers, competitors, banks and investors, educational and research institutions, government and its institutions, local communities, environmentally oriented organizations, media, organizations and agencies that provide support to the SME sector (Omerbegović-Bijelović, 2006, p. 5). SMEs can benefit and receive help and support from their stakeholders (in money, material resources, knowledge, information). Each stakeholder is interested in observing and supporting the existence and development of a specific SME.

SME support services refer to any form of financial or non-financial help to SMEs that is provided by the environment, by other individuals, companies, institutions and state. SMEs can receive support services from different formal and informal providers and stakeholders in their environment and enterprises in their value chain. Clearly, the sources of various forms of SME support can be: supply chain participants, banks, agencies (accountants, lawyers and consultants), business associations, government organizations, chambers of commerce, media, owners' family, firm's owner's social network, their friends, and others. Bennett and Robson (1999) explain how buyers and suppliers can be a good source of information and help: (a) Customers of a company may provide a good signal of product's market success; (b) Suppliers are the sources of information about new technologies, opportunities and chances for innovation and cost reduction.

The use of external support is strongly associated with successful business growth (Bennett & Robson, 1999). Chrisman and McMullan (2004) have shown that small businesses that use the support services of public agencies have a higher rate of survival and growth than the firms that do not use these types of services. Ramsden and Bennett (2005) differ several outcomes of external advice for SMEs and divide them into two main groups: 'Soft' or subjective outcomes – intangible benefits that businesses receive from advice (improved ability to manage, ability to cope with problems) and 'Hard' or objective outcomes (increase in business profitability, increase in business turnover, reduction in business costs).

Therefore, the support services are very important and their improvement can help the SME sector more effectively.

According to the basic categories of resources, the support that can be provided to SMEs is divided into two main types: financial and non-financial support.

Financial support refers to the financial help of various institutions and organizations for starting new businesses (start-up loans) or improving the business of existing SMEs (loans to finance current operations). Access to financial market is an increasingly significant barrier to business growth (Lee, Sameen, & Cowling, 2015). In many cases, money given to support an SME is not a help itself, but a resource for the achievement of specific objectives. Therefore it must be spent on planned activities: for purchasing equipment, employees' trainings, export activities and innovation of products, services, processes and management. Patzelt and Shepherd (2009) claim that entrepreneurs can achieve their strategic goals only if they have sufficient and available sources of funds. Generally, when considering financial support there are two main types of SMEs' financing: internal and external. In many cases internal funding sources are prioritized while the use of external sources is delayed until the internal sources are exhausted (Abdulsaleh & Worthington, 2013). According to the European Commission (2013), 50% of SMEs in the EU have used loans as a source of financing over the last two years. This source of SMEs' financing in Serbia is more frequent (71% of SMEs) than the EU average.

Non-financial support refers to the support that does not include money as the main resource of support. Instead it includes