



what works centre for
local economic growth

Toolkit Business Advice Public Advisors

What are they and what do they aim to do?

Public advisory services offer counselling or advice on running a business. The advice is provided directly by publicly funded agencies (as opposed to schemes where the public sector facilitates access to private sector advice).¹ Public advisory services may be offered either to established firms or to individual entrepreneurs before or after they start a business.

How effective are they?

The evidence suggests a generally positive effect of public advisory services on employment. There are also positive effects on firm survival and firm creation. However, the evidence on other measures of firm performance - sales, productivity and profits - is more mixed. The available evidence finds no effect on patents, credit rating or capital at the firm level, or earnings at the individual level.

These findings suggest that public advisory services may be more likely to increase employment than productivity, sales or profits. This is in contrast to the findings of our systematic review of a broader range of business advice programmes which showed somewhat better results for sales than for employment and productivity. It is important to note, however, that our evidence reviews apply higher

¹ This distinguishes public advisory services from both subsidised consultancy and publically funded business mentor schemes. See our separate toolkit pieces on these two approaches.

evidential standards and it may be that the stronger effects for employment simply reflect the self-selection of firms to use public advisory services when they are already looking to grow employment.

How secure is the evidence?

The evidence base on public advisory services is not as weak as for other areas of business support. However, the conclusions on cost-effectiveness are still based on a limited number of studies. More rigorous studies are required. We found no systematic reviews of the effectiveness and no meta-analysis.

We found ten studies that examined the effectiveness of public advisory services as a form of business support. One study is a randomised controlled trial, and the remaining studies are mixtures of before-and-after analysis and cross sectional comparisons of firms who received support with firms who didn't.

One of the studies comes from the UK. For a full list of studies and summaries of their findings please see the Annex.

Are they cost-effective?

Three of the ten studies report cost information. Two of these examine programmes targeted at firms rather than individual entrepreneurs. For these two schemes, information on programme costs and the estimated employment benefits suggests a cost of £1,067-£3,248 per job created.

The third study examines a programme targeted at individuals. Using a cost benefit analysis that takes into account the cost of the programme, as well as changes in earnings and unemployment benefits, they find the programme has a net cost to society of £938 per participant on average. However, for the subsample of unemployment benefit recipients, who experience larger self-employment effects and sacrifice less wages, there was a benefit of £1,204 per participant. Note, however, that this programme combines elements of both training and public advice, and it is not possible to uniquely attribute costs or benefits to either form of support.

Overall these findings suggest that public advice may be a cost effective way of promoting employment both at the firm level, and at the individual level (if targeting the unemployed). However, while this may be cost-effective from the firm's point of view, if this additional employment comes at the expense of other local firms, this may not be cost-effective from an area point of view.

Things to consider

- At what stage in the business start-up should support be provided? The effect of support to individual entrepreneurs may depend on whether advice is provided before or after business start-up (with possibly greater benefits when provided before).
- How long should support be provided? There may be diminishing returns to the number of hours spent supporting a particular business which suggests that mechanisms to limit the quantity of advice provided may improve cost-effectiveness.
- What type of firm will benefit most? The costs and benefits of support may differ according to the type of firm (e.g. large firms may benefit more) and the characteristics of the entrepreneur (e.g. unemployed don't forgo earnings).
- Is additional employment likely to come at the expense of other local firms? If so, this will reduce the net-benefits of the programme. This is more likely to be a problem for firms that tend to serve local markets (see our evidence review on other Area Based Initiatives).

Annex: Evidence on Public Advisory Services for Business Support

Business support is information, structured advice or longer term mentoring provided to firms by government funded programmes. Such interventions typically aim to increase rates of firm creation, to improve business survival, or to promote business productivity and employment growth. These interventions may be justified economically when it is cheaper for collective provision to overcome the information barriers faced by firms (e.g. where the firm wants to understand rules concerning exporting) or where there are wider economic benefits of giving advice to a single firm (e.g. where innovative behaviour is subject to ‘spillovers’). In our toolkit we focus on five forms of business support outlined in Box 1 below.

Box 1: Five types of business support

Public advisory services are programmes where the counselling or advice comes directly from a publicly employed official or institution such as a local business centre.

Business mentors describes programmes where the public sector does not provide advice directly but acts in a financing or ‘matchmaking’ role – putting SMEs in touch with mentors from the private sector.

Subsidised consultancy describes programmes where the firm is given a voucher or grant to cover all or part of the costs of private sector consultation. In some models, the public sector may help the firm find the appropriate consultancy service, however, the primary role is financing rather than matchmaking (in contrast to business mentors).

Training covers programmes where individuals from firms receive training in business or entrepreneurship. In the case of entrepreneurs this may be training focussed on how to start up a firm.

Tailored support may involve any of the four types of support above (or other types), but where advice is tailored to the specific firm or entrepreneur’s requirements. This often involves a greater intensity of support and possibly a combination of several types of support.

The evidence discussed in this document is for public advisory services – where advice is provided directly by publicly funded agencies (as opposed to schemes where the public sector facilitates access to private sector advice).

We looked for evidence that evaluated the impact of public advisory services on firm outcomes. We focused on evidence from the OECD, in English. We considered any study that provided before and after evidence on the effect on participants; or cross-sectional studies that compared effectiveness for firms receiving different kinds of support. We also included more robust studies that compared changes to participants with a control group.²

Using these criteria, we found ten studies that looked at the effectiveness of public advisory services in business support. The next section examines the evidence on the effectiveness of such support.

² For more information on how we rank the robustness of evaluations, take a look at our introduction to the Scientific Maryland Scale: <http://www.whatworksgrowth.org/resources/the-scientific-maryland-scale/>

The evidence

Advice to individual entrepreneurs

Study 29 (SMS 3) examines the effect of a variety of counselling measures on firm creation, survival and performance in Denmark. Using data on individual entrepreneurs the authors find that counselling improves survival and growth in sales, employment and productivity over 2002-2006.

Two studies, 227 (SMS 5) and 233 (SMS 5) look at the impact of Project GATE (Growing America Through Entrepreneurship), a microenterprise programme aimed at supporting start-ups that was implemented as a randomised controlled trial in the United States. The 'entrepreneurship training' programme combined elements of classroom training and one-on-one business counselling, therefore, it is not possible to disentangle the effects of each of these two forms of business support. Study 227 (SMS 5) uses data on individual entrepreneurs finding an increased probability of owning a business in the first few quarters after random assignment. It also found an increased chance of being self-employed for the first few quarters, decreased chance of wage employment for some quarters but found no effect on total employment. There was little or no impact on earnings from self-employment, wage employment or total employment. Finally, the study finds no, or very little, impact on receipt of unemployment benefit. Study 233, using the same data, also finds that the project has limited impact on business ownership. Ownership increases by 13 percentage points in the short-run but this effect disappears 6 months after the training completion. In addition, the study finds no effects on business sales, earnings or employment. Overall, neither study 227 nor 233 recorded any long term benefits to the GATE programme.

Study 8 (SMS 2) examines the impact of counselling assistance on performance of new ventures in the US. Using a dataset of individual entrepreneurs the authors find that counselling has a positive association with new venture employment growth in 2004. The study finds that there may be diminishing returns to the number of hours spent supporting a particular business.

Study 19 (SMS 3) investigates the effect of publicly funded coaching programmes taken before and after starting a business on the growth of start-ups in Germany. Using use firm level data for 2005 the authors find no positive effect on sales growth. However, there is a positive effect on subsequent employment growth for coaching taken before starting up (but no effect for coaching taken after).

Advice to firms

Study 190 (SMS 2) examines the impact of technical and managerial advice on innovation in Turkey. Using firm level data the authors find that advice is not linked to the number of patents filed in 2005. It does however lead to an increase in innovation efforts, and innovation decision, suggesting that the advice may help firms in the early stages of the innovation process.

Study 230 (SMS 3) examines the effect of publicly provided business advice on the performance of tech start-ups in Germany over 1994-2006. Using firm level data the authors find no impact of business advice on firm capital, employment or credit rating.

Study 237 (SMS 2) examines the effect of hours of publicly provided counselling on firm survival in the United States over 1994-2001. Using firm level survey data the authors find that assistance in the early stages of firm development is associated with improved survival (equivalent to 4-8 years).

Study 228 (SMS 3) examines the effect of different business support interventions on firms growth in the UK in 2005. Using firm level survey data the authors find that intensive assistance boosted employment

and sales growth. Only some types of non-intensive assistance increased sales and there was no effect on employment for non-intensive assistance.

Study 236 (SMS 2) examines the effect of hours of publicly provided managerial or technical assistance on firm survival and the firms' financial situation (an composite of sales, profits, cash flow and market share) in the United States over 2008-2011. Using firm level survey data the authors find a positive relationship between counselling and survival. However, they find mixed results for the financial outcomes. For smaller firms (with revenues below £6,000) there is a negative association between counselling hours and financial outcomes.³ For larger firms there is a positive relationship. Unfortunately, this study did not consider whether there were diminishing returns to the number of hours spent supporting a particular business.

The evidence suggests a generally positive effect of public advisory services on employment.

The evidence suggests a generally positive effect of public advice on employment outcomes. Three of five studies that examine employment outcomes find a positive effect on employment or negative effect on unemployment (Studies 8, 19 and 29). Only one study finds no effect (227) and one shows a mixture of positive and zero effects (228).

There are also positive effects on firm survival and firm creation.

Three studies (29, 236 and 237) report positive effects of public advice on firm survival and creation. One further study finds advice given to entrepreneurs increases their probability of starting a business, at least in the early period following the programme (227).

However, the evidence on other measures of firm performance - sales, productivity and profits - is more mixed.

The evidence on firm performance outcomes (sales, productivity, profits) is more mixed. Only one of four studies that examine firm performance outcomes finds a positive effect of public advice (29). One finds a mixture of positive and negative effects (236), one finds no effect (19) and one finds a mixture of zero and positive results (228).

The available evidence finds no effect on patents, credit rating or capital at the firm level, or earnings at the individual level.

There is no effect on any of the remaining outcomes studies, based on evidence from one study each: firm patents (190), individual earnings (227), firm capital (230) and firm credit rating (230).

³ Using USD-GBP of 0.641169 for 2009. The precise revenue amount is \$9,416 and calculated as the exponential of the estimated effect of counselling hours divided by the estimate from the interaction between counselling hours and log(firm revenue).

Cost effectiveness

Three of the ten studies report cost information.

Study 29 reports an annual budget of just over £0.64m in 2009.⁴ The treatment effect estimates suggest the benefits were the creation of 600 firms and 300 jobs. Cost-effectiveness can therefore be calculated as £1,067 per firm and £2,133 per job created.

Study 227 reports a full cost benefit analysis for project GATE. This programme combines elements of both training and public advice, and it is not possible to uniquely attribute costs or benefits to either form of support. The cost to society of implementing the programme was £726 per participant in 2005.⁵ The effect of the programme was to (temporarily) increase self-employment as the expense of employment. This led to an increase in self-employment earnings but a decrease in salary earnings. On average the net effect is a cost of £938 to society per participant. However, for the unemployment insurance (UI) group, who experience large self-employment effects and sacrifice less wages there was a benefit of £1,204 per participant. The conclusion is that project GATE is cost effective for UI recipients. One problem with these cost effectiveness calculations is that the benefits are based on differences between the treatment and control groups that are statistically insignificant. This means that the actual effect could still be zero and that the differences reflect chance. (In fact, study 233 which re-examines the GATE using the same data doesn't find an effect on business earnings.)

Study 228 provides costs of the UK Business Link programme. The average cost in 2005 per company supported is £527. The cost of intensive assistance is £1,624 and the cost of non-intensive is £217. Using the estimates in the study provides a cost of £3,248 per job created for intensive assistance. The employment benefit for non-intensive assistance is insignificant however, if it were significant, the magnitude of the estimate suggests a cost of £904 per job created.

Things to consider

There may be diminishing returns to the number of hours spent supporting a particular business which suggests that mechanisms to limit the quantity of advice provided may be cost-effective

Two studies (8 and 237) report diminishing returns to counselling hours. This evidence is based on a negative parameter estimate for the number of counselling hours squared.

One study (228) may appear to contradict the idea of diminishing returns since it finds a bigger effect for intensive assistance than non-intensive assistance. However, the more intensive programmes in this study may be associated with more than just additional hours. Further, although there is a larger effect for the intensive programmes, it is unclear if the effect is itself changing in the intensity of support (e.g. subject to diminishing returns).

4 Using USD-GBP of 0.641169 for 2009.

5 Using USD-GBP of 0.550022 for 2005.

The effect of support to individual entrepreneurs may depend on whether advice is provided before or after business start-up.

One study (19) finds that a publicly funded coaching programme in Germany only has a positive effect on employment growth when given to entrepreneurs before they start their business and no effect if given to business owners after they have established their business.

The costs and benefits of support may differ according to the type of firm (e.g. large firms may benefit more) and the characteristics of the entrepreneur (e.g. unemployed don't forgo earnings).

Two studies (227 and 236) report benefits that vary according to the target group.

Study 236 finds that for smaller firms (with revenues below \$9,000, or £6,000) there is a negative association between counselling hours on financial outcomes but that for larger firms there is a positive relationship.⁶ Study 227 (SMS 5) which investigates the Project GATE (Growing America Through Entrepreneurship) programme, found larger effects on self-employment for participants claiming unemployment insurance (UI) than for the average participant. Given these participants sacrificed less salary earnings, on average, the programme has better cost-effectiveness for the UI group, as discussed below.

⁶ Using USD-GBP of 0.641169 for 2009. The precise revenue amount is \$9,416 and calculated as the exponential of the estimated effect of counselling hours divided by the estimate from the interaction between counselling hours and log (firm revenue).

Evidence Reviewed

Ref. No	Reference
8	Chrisman, J.J., McMullan, W.E., Kirk Ring, J., and Holt, D.T. (2012) Counseling assistance, entrepreneurship education, and new venture performance, <i>Journal of Entrepreneurship and Public Policy</i> , 1(1), 63-83.
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236	Solomon, G.T., Bryant, A., May, K., and Perry, V. (2013) Survival of the fittest: Technical assistance, survival and growth of small businesses and implications for public policy. <i>Technovation</i> , 33, 292–301.
237	Chrisman, J.J. and McMullan, W.E. (2004) Outsider Assistance as a Knowledge Resource for New Venture Survival. <i>Journal of Small Business Management</i> , 42(3), 229–244.

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