



what works centre for
local economic growth

Toolkit Business Advice Subsidised consultancy

What is it and what does it aim to do?

Subsidised consultancy services are grants or vouchers for firms, or for individual entrepreneurs, that cover all or part of the costs of private advisory services. They may come in the form of a payment before or after the provision of the service. They are usually targeted at micro, small or medium size firms and aim to improve various aspects of business performance.

How effective is it?

For business creation, firm performance (mostly employment, productivity or sales) and survival, the evidence is mixed. On balance, the evidence is somewhat more positive for firm performance outcomes than survival rates or business creation.

How secure is the evidence?

Generally, the evidence base on subsidised consultancy is rather weak, meaning that the conclusions on impact and cost-effectiveness are based on a limited number of studies. More rigorous studies are required. We found no systematic reviews of the effectiveness of subsidised consultancy and no meta-analysis.

We found five studies that examined the effectiveness of subsidised consultancy in business support programmes. Only one of these provided high quality evidence based on a randomised control trial, while three provided before and after comparisons using a control group and the one was a cross-sectional comparison of treated groups with untreated groups.

Two of these studies come from the UK. For a full list of studies and summaries of their findings please see the Annex.

Is it cost-effective?

The costs of subsidised consultancy can vary substantially depending on the length and intensity of the support provided. In the programmes for which we have impact evidence, the cost of support varied from a low of around £153.8 per participant to a high of £7,602 per participant.¹ Three of the programmes considered compare costs and benefits of the schemes, concluding that the benefits, in terms of employment and turnover, far exceed the costs of consultancy services (with benefits between 7.5 and 50 times costs depending on the study). However, while this may be cost-effective from the firm's point of view, if these benefits come at the expense of other local firms, this may not be cost-effective from an area point of view.

Things to consider

- Will it provide value for money? The costs of subsidised consultancy can vary a lot across programmes so it is important to monitor and evaluate their impact, especially on firm performance.
- How long should the consultancy be provided for? Effects and costs may differ depending on whether the programme is a one-time service or it lasts for a longer period of time. Annual returns may not need to be very high to justify one-time services whereas more intensive interventions will need higher returns.
- Are gains coming at the expense of other local businesses? The very large positive effects in some of the studies might raise concerns about the possibility of displacement (i.e. supported firms gaining market share at the expense of local competitors, so the net local effect may not be positive). 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).²
- What type of firms will benefit most? The effect of subsidised consultancy may vary by firm characteristics (e.g. it may be more effective for medium-size firms than for smaller firms).

¹ Using the 2009 USD-GBP exchange rate of 0.641169 in both cases.

² Available here: <http://www.whatworksgrowth.org/policy-reviews/area-based-initiatives/>

Annex: Evidence on Subsidised Consultancy Services

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, and to promote business productivity and employment growth. These interventions are justified economically where there is a lack of information available to firms (e.g. where the firm is unaware of what advice is available to them) or where there are wider economic impacts 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.

In this case we focus on subsidised consultancy – where the firm is given a voucher or grant to cover some or all of the costs of private sector advisors. Although the primary role is financing rather than matchmaking, in some models, the public sector may also help the firm find the appropriate consultancy service.

We looked for evidence that evaluated the effects of subsidised consultancy on firm performance measured as an increase in employment, sales, profits or productivity. We also sought evidence on the impact of such subsidised consultancy services on firm survival.

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.³

Using these criteria, we found five studies that looked at the effectiveness of subsidised consultancy.

³ 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

Study 105 (which scores two out of a possible five on the Scientific Maryland Scale, or SMS) examines the effect of private external consultancies on small and medium enterprise turnover, job creation, and financial indicators (solvency, liquidity, and profitability) in the Walloon region (Belgium) over the period 2000-01. Support is given through a grant paid after the consultancy assignment on the basis of invoiced consultancy fees, or by means of a repayable loan covering all consultancy costs. Using firm level data, the authors find that the use of private external consultancies has no link with net job creation, turnover, or financial indicators.

Study 126 (SMS 3) evaluates the effects of external consultancy support on small and medium enterprise (SME) sales turnover, employment and survival provided under the UK Enterprise Initiative over 1988-1994. The programme covered six business areas (known as 'initiatives'). This study focuses on the marketing initiative due to its popularity. For firm survival the authors find no impact for smaller firms but for mid-sized SME firms support raises firm survival rates between 4% and 10% per annum. For firm growth they find extremely strong effects (£1,000 in assistances generating £30,000 pounds in increased sales turnover and one extra job).

Study 29 (SMS 3) evaluates the effects of the North Jutland Entrepreneurial Network (NiN), a regional programme in Denmark that facilitates the provision of business support, on business creation and growth over 2002-2005. More specifically, this programme provides three types of advice: business counselling, subsidised consultancy services and tailored support. In this context, subsidised consultancy refers to advice and guidance provided to the firm for up to 4 hours by private sector consultants. It is funded by vouchers that subsidise 50% of the market price of the service. Using individual level data, the researchers find that subsidised consultancy increases two year survival rates by about 8% and four year survival rates by 5.2%. They also find a 50% increase in the number of employees and a positive effect on sales, although the effects on employment vanish after the first year.

Study 231 (SMS 3) examines the effects of consultancy cheques (i.e. a grant that firms are given to pay for freely chosen providers of consultancy services), provided by a Swedish governmental programme (the Regional Business Development programme) on firm performance, measured as value added, and on firm survival over the period 2004-2007. Consultancy cheques usually cover up to 50 per cent of the service. Using firm level data, the authors do not find any impact of these consultancy cheques on total production (firm's performance) nor on firm survival.

Study 107 (SMS 5) looks at a programme in Mexico providing subsidised business consulting services to micro-, small and medium sized businesses. Consultants were asked to diagnose the problems of participant firms and suggest solutions and assist in implementing them. Firms were randomly selected to participate in the programme which was highly subsidised: micro enterprises paid only 10% of the market cost of the consulting services, small enterprises 20%, and medium sized enterprises about 30%. The programme led to very large productivity gains in firms who received the advice. Those who participated experienced an increase of 44% in employment, an increase of monthly sales of around 80% and an increase in profits of 120% with respect to non-participants.

Cost effectiveness

The costs of subsidised consultancy can vary substantially depending on the length and intensity of the service provided. In the programmes for which we have impact evidence the cost of support varied from a low of around £153.8 per participant to a high of £7,602 per participant.⁴

The Danish North Jutland Entrepreneurial Network programme (Study 29) costs £640,000 per year.⁵ In terms of benefits, the scheme creates around 600 new enterprises and increases their employment by 50% after one year. However, only about one third of the costs are directly attributable to the subsidised consultancy element, while it is not possible to attribute benefits to the subsidised consultancy services as opposed to the other tailored counselling elements. The authors calculate that 300 new jobs are created one year after participation (that is the increase of 50% in firm size one year after participation on the programme). These estimates suggest the cost-effectiveness of the overall programme (not distinguishing between tailored counselling and subsidised consultancy services) is £1,067 per firm, and £2,133 per job created.

Study 126 presents cost-effectiveness computations for the UK Enterprise Initiative and the specific marketing consultancy scheme evaluated. The whole scheme led to an average sales increase of £138,700 and around five jobs in 1996. The authors compare these benefits with the average cost assistance (with a 5% discount rate), which are of £4,600. Given the effect sizes for the Marketing Initiative within the whole programme, they claim that this element is responsible for an increase in sales of around £2,100m (in 1994 prices) and an extra 725,000 jobs.

Study 107 also presents cost-effectiveness figures for a Mexican programme of subsidised consulting to micro, small and medium firms. The average increase in profits is estimated to lie between £3798.52 and £5497.87 per month, compared with a cost of £493.8 per month for the consulting services, showing that the returns of hiring a consultant may be well worth the cost.⁶

4 Using the 2009 USD-GBP exchange rate of 0.641169 in both cases.

5 Using the 2009 USD-GBP exchange rate of 0.641169

6 Using the 2007 USD-GBP exchange rate of 0.499806

Evidence Reviewed

Ref. No	Reference
029	Pons Rotger, G., Gørtz, M. and Storey, D.J. (2012): "Assessing the effectiveness of guided preparation for new venture creation and performance: Theory and practice", <i>Journal of Business Venturing</i> , 27, 506–521.
105	Lambrecht, J. and Pirnay, F. (2005): "An evaluation of public support measures for private external consultancies to SMEs in the Walloon Region of Belgium", <i>Entrepreneurship & Regional Development</i> , 17(2), 89-108.
107	Bruhn, M., Karlan, D., and Schoar, A. (2013): "The Impact of Consulting Services on Small and Medium Enterprises Evidence from a Randomized Trial in Mexico". Policy Research Working Paper 6508. The World Bank.
126	Wren, C., and Storey, D.J. (2002): "Evaluating the effect of soft business support upon small firm performance", <i>Oxford Economics Papers</i> , 54, 334-365.
231	Mansson, J., and Widerstedt, B. (2012): "The Swedish Business Development Program: Evaluation and some methodological and practical notes. In: European Regional Science Association", European Society of Regional Analysis. Bratislava, Slovakia, 2012.

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