Development of competitive advantage of small innovative firm – the role of use and utilisation of business advice

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Keywords
small innovative firms; business advice; utilization of business advice, business development process, process perspective, dynamic capabilities, competitive advantage

Abstract

Despite considerable research work devoted to business advice, its participation in the development process of small innovative firm remains poorly recognized. Especially understanding of strategic importance of business advice and its impact on development, performance and competitiveness of small innovative firms is limited. Therefore an attempt has been made to develop a theoretical model based on resource based view and dynamic capabilities approach, which provide a logic base for analysis of business advisor's role in development of competitive advantage within an entrepreneurial process.

The paper focuses on the use and the utilisation of business advice in the context of company development model. A modelled separation of the influence and the impact of business advice brings in the important consequences in indicating business advisor's involvement in relation to strategic decisions and thus directions of firm's development. Additionally, an iterative approach to the process gives an opportunity to analyse a short as well as a long term impact and its durability.

1. Introduction

As small firms have, by definition, limited internal resources, and as some of them have additionally limited managerial knowledge and business experience, they are likely to benefit from a wise use of external expertise (Hurmerinta-Peltomäki & Nummela, 2004; Hinton & Hamilton, 2013). Especially competitiveness of small innovative firms is regarded as dependent on the ability to access the resources of external knowledge effectively (Caloghirou et al. 2004; Kang & Kang, 2009). Recent research suggests that indeed the intensity of business advice is considerably high among small innovative firms (Stawasz et al. 2004; Bennett, 2007; Johnson, 2007).

It has been recognised that small innovative firms use a variety of external advisors, ranging from family and friends to government-provided services and private consultants (Ramsden & Bennett, 2005). However, in the literature and in practice, it is visible that firms – when they operate and develop – use many more different sources of external expertise to enhance their final business offers, i.e. venture or seed capital shareholders, co-owners with a different background, employers or other entrepreneurs (North et al., 2011; Soriano & Castrogiovanni, 2012). Despite the fact that a considerable amount of studies is available on the issue of business advice, ranging from the impact of advisory services to the firm's satisfaction analysis (Bennett & Robson, 2003; OECD, 2004; Chrisman et al. 2005; Johnson, 2007; Yusuf, 2010), the development of innovative business offers and the development of small innovative firms that follows, in conjunction with differently sourced business advice, remains poorly recognised. This has an impact on difficulties in measuring business advice for small innovative firms, starting from problems with the definition of business advice itself, its role and placement within the process of development, followed by difficulties in defining possible results of business advice, and comparing those results against different criteria.

Therefore the aim of the study is discussion upon theoretical model providing the framework for evaluation of the influence of business advice on small innovative firm competitiveness. The analysis is based on theoretical approach with regard to resource based view and dynamic capabilities approach. When building in an entrepreneurial process, an attempt has been made to provide a logic base for analysis of business advisor impact in both short and long term. The model encompasses analysis of firm's resources which are collected, configured and integrated into venture's structures within an entrepreneurial process as a result of business advice provided.

Analysis conducted in this paper has been prepared within the research project financed by the Polish National Science Centre, decision number DEC-2012/07/B/HS4/03019.

2. Small innovative firms in the process of business advise

Small innovative firms are considered as especially important in today's economy (IDC, 2007; Gagliardi et al., 2013). Those are defined as firms which proactively seek new solutions in order to provide better market offers to their (potential) customers and therefore propose enhanced value in comparison to what is already available. Thus, they are looking for rents higher than typically established for the product line. Based on this condition, small innovative firms are regarded as growing enterprises managed by owners-entrepreneurs. As such, assuming possible venture financing typical for small innovative firms with a high growth potential, those are firms where the owner-entrepreneur holds the majority of shares. However, since this condition limits directly the size of the firm, the most important here is the entrepreneur's role in strategic decisions making, as well as the possible impact of third parties on those decisions (Łobacz & Głodek, 2015).

Due to their specific features, small innovative firms, as small firms in general, are considered as behaving strategically differently than bigger entities. They are described as 'emotional economic units', motivated more by 'doing' rather than by 'managing' (Dexter & Behan, 1999). Additionally, they create a very personal and idiosyncratic culture with a strong focus on informal communication (Storey, 1994; Cagliano et al. 2010; Mazzarol, 2011). Thus, they are described as making their decisions in the informal way, to a large extent grounded in trust and based on a holistic approach (Gibb, 2000). It is also said that small firms in general represent the 'culture' in which the decisions and, as a consequence, actions of the owner-entrepreneur are shaped by a motivation to be independent, an intuition and a desire for personal compatibility among the members of the entrepreneurial team (Dalley & Hamilton, 2000).

In terms of knowledge acquisition, it is highlighted that owners-entrepreneurs look for external knowledge which can be directly employed in their processes, thus, they avoid theoretical knowledge (Dalley & Hamilton, 2000). They also prefer to 'learn by doing' and stress that learning by experience is the most valuable way of knowledge acquisition (Dalley & Hamilton, 2000). External knowledge acquisition seems to be important whenever maintaining competitiveness of small innovative firms is considered. Some firms experience a critical knowledge gap resulting from relatively high complexity of technology and market exploration problems faced by innovation-focused entrepreneurs, or the erosion of innovation rent while implementing new market offers, which can be limited when more knowledge is used in the process (Bennett & Robson, 2003; OECD, 2004; Chrisman et al., 2005; Johnson, 2007; Mazzarol & Reboud, 2009; Yusuf, 2010). In both cases, it is crucial to maintain their competitiveness and profitability.

The development of small innovative firms also generates a need for the acquisition of external knowledge necessary to launch new products and to manage the process of expansion. It often requires exploration of new options and solutions that enable firms to deal with future and/or existing problems (Wren & Storey, 2002). This allows the firm to enter the next stage of its development in terms of the organisation of daily operations, configuration of resources and market interactions (Churchill & Lewis, 1983; Garnsey, 1996; Matlay, 1999; Łobacz, 2012). Thus, the use of external expertise is especially needed when new market offers are implemented. As innovative entrepreneurs are highly focused on the introduction of new offers (Łobacz, 2012), their need for business advice is supposed to be of frequent nature (Łobacz & Głodek, 2015).

3. Delivery of business advice for small innovative firms

Business advisors are perceived as market players who are able to provide knowledge resources for firms with limited access to those resources. As business advice has many different forms, ranging from the provision of general knowledge, through specialised trainings to coaching and mentoring, business advisors are variously defined in consecutive studies and in practice (Bennett & Robson, 2003; Johnson, 2007; Mole et al. 2013). Therefore, from the point of view of support they offer to small innovative firms, they are broadly defined as individuals, whether self-employed or employed within a private or public organisation, who use their knowledge to add value to the firm's business activity through the provision of short or long term support at the operational or strategic level (Łobacz & Głodek, 2015).

In this context, advice may be considered as a resource available for the small firm (Bennett & Robson, 2003; Chrisman et al., McMullan & Hall, 2005; Robson & Bennett, 2010). However, some small firms are not interested in reaching for it. North et al. (2011) indicate that 60% of British SMEs did not make any use of external formal assistance during the three years prior to being surveyed.

The subsequent authors stress, however, a huge differentiation of business advice provided specifically for small innovative firms. This includes not only the type of advice needed or the type of advisor chosen within the process (Bennett & Robson, 1999), but also the level of management which the advice influences (North et al. 2011), as well as the type of formal behaviour in relations with the advisor (Strike, 2012). In their broad study, Bennett & Robson (1999) indicate six types of business advice layers: professional specialists, professional generalists, market contacts, social contacts, business associates and government agencies. The list comprises professional private or public organisations as well as informal parties.

Although most studies focus on formal sources of advice, it was observed that owners-entrepreneurs tend to use informal ones more frequently (North et al., 2011; Soriano & Castrogiovanni, 2012). Those include friends and family or other inner-circle advisors, but also agents who are in a business relation with the firm, e.g. accountants, suppliers, bank employees, customers, and trade partners (Blackburn & Jarvis, 2010). Informal business advice is especially used by newly-established firms (up to three years from their foundation) and those in the course of the transformational process (North et al. 2011). Informal advice has been also observed to be especially important for family firms, which operate based on closer family and business relations (Strike, 2012).

While it is argued that firms which use informal advice subsequently tend to search for formal sources of knowledge (North et al. 2011), it is also suggested that the distinction between informal advice and formal assistance is not always clear cut, and formality is a function of the situation and the structure of the advice that is sought (Robson, 2008). This blurred border suggests that the categorisation of advisors based on their background may not constitute an important issue for small firms. Since the crucial issue for them is to find external knowledge ready to be directly employed in their internal processes, the differentiation based on the content of advice may be perceived as more influential.

North et al. (2011) used the content factor to differentiate between transactional assistance and transformational assistance. Transactional assistance relates to situations when support is provided at arm's length via a particular piece of information in order to assist with standard, day to day business operations. Transformational support, in turn, is observed when in-depth, diagnostic support is required in order to facilitate stepped change relating to business growth and productivity. Furthermore, Christensen & Klyver (2006) distinguish between the advisor's roles on the basis of different business relations considered. They contrast the situation in which the consultant is assumed to 'know what' and also to 'know how' knowledge should be transferred to the firm with the case when the advisor acts as a change agent, acquiring knowledge about the firm and the context in which it operates, thus participating in the creation of unique new knowledge, which can be further used as a unique strategic resource specifically by this particular firm.

Business advice for small firms includes virtually all areas of business. However, it has to be pointed out that a substantial part of advisory activity refers to the provision of services focused on dedicated, narrow topics. It is determined by the entrepreneur and refers to isolated areas of company activity. The survey done by North et al. (2011) indicated that 83% of guidance in the UK SMEs is related to specified areas. Typical advice refers to the field of accounting and legal advice related to compliance issues. Sales and marketing, survival, finance, IT systems and websites were also indicated as the areas of SMEs' interest (North et al., 2011). Other business advice areas encompass, among others: conditions relating to market information (including international markets), technical solutions relating to new products, recruiting staff or management of cash flow. This may suggest that the use of business advice is related to the problems encountered by the company in its daily operations, or challenges of development processes.

In the research done by North et al. (2011) the minority of small businesses (17%) which were involved in business advice activity in the last three years benefited from advice related to more complex issues. Thus, taking into account that some form of advice is used by less than half of small businesses, it should be noted that comprehensive consulting is extremely rare. Chrisman et al. (2005) indicate that this type of advice can provide particularly high value to innovative firms at the start-up phase.

4. Business advisors' roles in the development process of small innovative firms

The conducted analysis reveals that the delivery of business advice for small innovative firms has many different forms and dimensions and its impact is dependent on many different factors, which are approached and described separately in consecutive studies. Despite the fact that many authors touch directly on the problems faced by innovative entrepreneurs, it is necessary to include the attitude to externally sourced knowledge of pro-active and self-confident firm owners as well as difficulties in specification of problems to work on for which the external advice is needed. The currently available models propose limited understanding of the nature of business advice for small innovative firms. As a consequence, the picture of business advice for small innovative firms remains blurred and its impact on firms' competitiveness is difficult to measure. Thus the process analysis reveals a different perspective on business advice, which seems to be providing a valuable insight into the phenomenon.

The understanding of current research on business advice leads to the separation of two distinctive roles of business advisors providing their services for small innovative firms: (1) the role of expert, and (2) the role of process participant. The typically defined role of expert is to be perceived as a source of external knowledge resources which should be temporarily supplemented, as they are not needed on a regular basis in day-to-day operations, but are necessary to proceed with particular actions and at the same time incorporation of those resources into the firm's structures would be cost-ineffective. In contrast, the role of process participant is related to the transfer and creation of knowledge which is required to move forward (survive or develop) in particular circumstances; this type of knowledge is thus more intangible and in order to apply it in the firm's processes, it must be combined with knowledge embedded within the firm.

When looking at those two roles from the process perspective, two distinctive behaviours with respect to business advice are to be defined, which are called respectively (1) the use and (2) the utilisation of business advice (Głodek &Łobacz, 2015). The first one, the use of business advice, refers to the activity of an individual or a team of individuals who know frontier knowledge and best practices, and who transfer this knowledge to firms in a professional way (Christensen & Klyver, 2006). In this case, the specific portion of knowledge is delivered to the firm and the advisor is assumed to have the capability to decide what type of knowledge is in those specific circumstances required, and also how it should be implemented. The firm receives the knowledge and it may decide whether to make use of it and to what extent it will be actively engaged in its implementation. The relation may be thus described as a one-way knowledge flow. In this scenario, the outcomes of the advisory process are to some extent predictable and depend highly on the quality of knowledge which is transferred, on the one hand, and the level of involvement in the implementation of advised solution, on the other hand.

In contrast, the utilisation of business advice presumes a long term relation within the process, which involves a multidimensional combination of knowledge sourced from the background and experiences of the advisor or a team of advisors and the firm's owners. The advisor, from this perspective, is seen as a participant of the new solution development process. She/he is thus a participant of the creation process, who listens, observes, and identifies problems, but also their context (entrepreneurial, organisational, market, etc.), and then she/he actively takes part in the recurrent process of new ideas generation, selection and adjusting them to the context of a particular firm. An outcome of the process is new knowledge combined from internal (mostly the owner-manager) and external sources (the business advisor). Outcomes of this process are often unpredictable in terms of scope and time horizon, but often also spectacular and with a strategic meaning.

5. Theoretical approach to entrepreneurial process – competitive advantage from the perspective of resource based view and dynamic capabilities approach.

According to the Resource Based-View (RBV) firms are perceived as boundless of specific resources, capabilities and competences (Penrose, 1959; Barney, 1991; Mahoney & Pandian, 1992). Resources, capabilities and competences assigned to the firm distinguish this firm from other entities, which enable the firm to operate in the market in a way which is different from its competition (Mahoney & Pandian, 1992). These are acquired from the market and transformed within the organisational structures from general to more distinctive forms, defining heterogeneity of the firm and thus its competitive position. This approach suggests that firms gain a competitive advantage from both access to resources and their transformation into strategic ones to be used to deliver value within a proposed market offer (Amit & Schoemaker, 1993; Eisenhardt & Martin, 2000). Processes standing behind resources acquisition and transformation, according to organisational capability approach (Amit & Schoemaker, 1993; Helfat, 2000) – an important stream of the RBV research paradigm – are considered as capabilities, which are serving as converters with a character unique for the firm. Organisational competences are than defined as specific attributes of the firm, being a result of acquired resources and their transformation processes, and thus path-dependent. Furthermore the RBV and Competence-Based View (CBV) that follows (Freiling, 2004; Freiling, Gersch & Goeke, 2008), states that the firm have to acquire and transform its resources, as well as capabilities which enable their use over time, in order to move through subsequent phases of development (Wright et. al., 2007).

Dynamics derived from hereby specified resources transformation process may be directly related to entrepreneurial process. Academics provide many models of entrepreneurial process (Kazanjian & Drazin, 1989; Shane, 2004; Kuratko & Hodgetts, 2004; Mazzarol, 2011), which differ as approaching various problems. Nonetheless the essence of all of them lies in capturing opportunities and transforming these opportunities into market offers based on resources which are under control of an entrepreneur. Thus, it is defined in the context of the identification and exploitation of market opportunities, as well as the acquisition, configuration and integration of resources to meet the perceived market needs. Within the framework of these activities, market offers are developed based on resources integrated into firm's organisational competencies. From the perspective of RBV and CBV, knowledge about market opportunity may be regarded as a resource of the firm (not distinctive as particular market opportunity may be equally perceived by other market players, despite it may have for them different value (Braunerhjelm, et. al., 2010)), and strategic processes employed to transform this opportunity into competitive market offer as firm's specific capabilities.

As innovative firms are defined as having higher than average focus on development of innovations, the complex process related to transformation of knowledge into specific knowledge applied to the new or modified market offer should be specially regarded within an entrepreneurial process. Based on innovation process models (Vohora, Wright & Lockett; 2004; Schumpeter, 1934; Mitchell & Singh, 1996; Jolly, 1997; Tidd, 2006) it is assumed that innovation is a result of transformation of technological knowledge into its economically useful forms (Arrow, 1962) being a response to perceived market opportunity and taking place in line with market requirements. New knowledge is than regarded as an entrepreneurial opportunity (Shane, 2004; Jolly, 1997), as it creates a basis for new market offers, but also as a specific intangible resource at the same time (Barney, 1991; Eisenhardt & Martin, 2000). Processes employed to transform knowledge from its general forms into innovations are, in turn, acknowledged as specific innovation capabilities (Cohen & Levinthal, 1989; Liao, Fei, Chen, 2007).

Based on presented theoretical approach a small innovative firm development process has been described on the basis of three distinctive but strictly interconnected process layers (as presented on Fig 1): (1) development of the organisational competencies, assuming transformation of resources into organisational competences used to propose market offer, employing capabilities related to seeking for resources, configuration of resources and development of market offer; (2) development of the business concept, assuming transformation of knowledge about market opportunity into the market offer based on competitive business model, employing capabilities related to seeking for market opportunity, seeking for sources of profit and development of market offer; (3) development of the product concept, assuming transformation of technological knowledge from basic knowledge to knowledge used within innovative product, employing capabilities related to seeking for technological knowledge, seeking for application of knowledge and application of knowledge within new products.

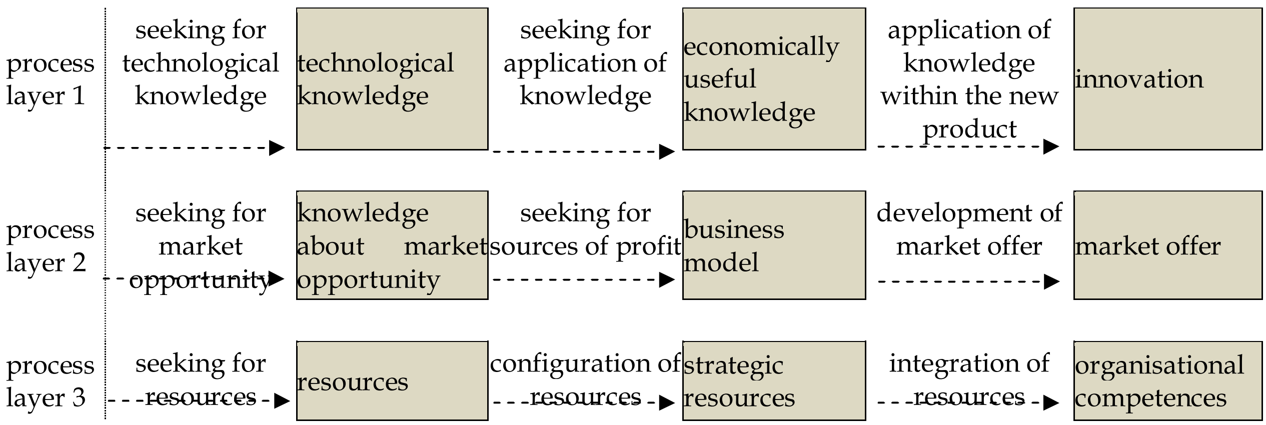

Fig 1. A small innovative firm development process – 3 layers of an entrepreneurial innovation cycle model.

An entrepreneur responsible for the process himself as well as environment in which the process is taking place determines the character of capabilities employed to use resources. For example the speed of strategic decisions and resulting from them activities depend on pro-active posture of the owners-entrepreneurs and simultaneously on requirements resulting from market dynamics (Mazzarol, 2011; Teece, 2007). Similarly, the level of commercialised products innovativeness relates to, both firm's actual position and its development level as well as market maturity justifying risk-taking behaviours, ensuring access to resources and to opportunities of strategic alliances. As competitive advantage depends on both internal organisational capabilities and external market factors, dynamic capabilities are regarded as moderators steering processes standing behind acquiring, configuring and integrating resources (Eisenhardt & Martin, 2000), and define firm's ability to fit its behaviour into particular setting (internal and external) requirements. Specifically they determine character of firm's capabilities used to transform resources and to decide upon pursuing market opportunities and for those needs gaining or releasing resources (Eisenhardt & Martin, 2000). Therefore dynamic capabilities are used as tools which strengthen existing resource configurations and thus firm's current position using path-dependent strategic logic of leverage, on the one hand, or as tools that build new resource configurations and move into fresh competitive positions using a path-breaking strategic logic of change, on the other (Eisenhardt & Martin, 2000).

As the processes related to resources manipulation are influenced by many internal and external factors, they evolve over time. Therefore within the framework of the described above model, the use of dynamic capabilities result in indispensable iterations of captured activities. These iterations, as directly connected to firm's market offer, are anticipated to be more frequent in the case of early-stage firms and when rapid changes on the market occur. Furthermore they may lead to higher level of innovativeness (from incremental to radical innovations) (Fig. 2) when consider small innovative firms (Łobacz 2012).

Additionally successive iterations within the process, whatever innovativeness is regarded, result in accumulation of resources (i.e. organizational competences) and capabilities (i.e. dynamic capabilities), which are needed to prosper effectively as the firm develops (Łobacz 2012). When so defined, the presented model in relations to small innovative firm may be regarded as an entrepreneurial innovation cycle model, capturing the competences accumulation process in relation to firm's innovativeness as a stage-based process sensitive to market dynamics.

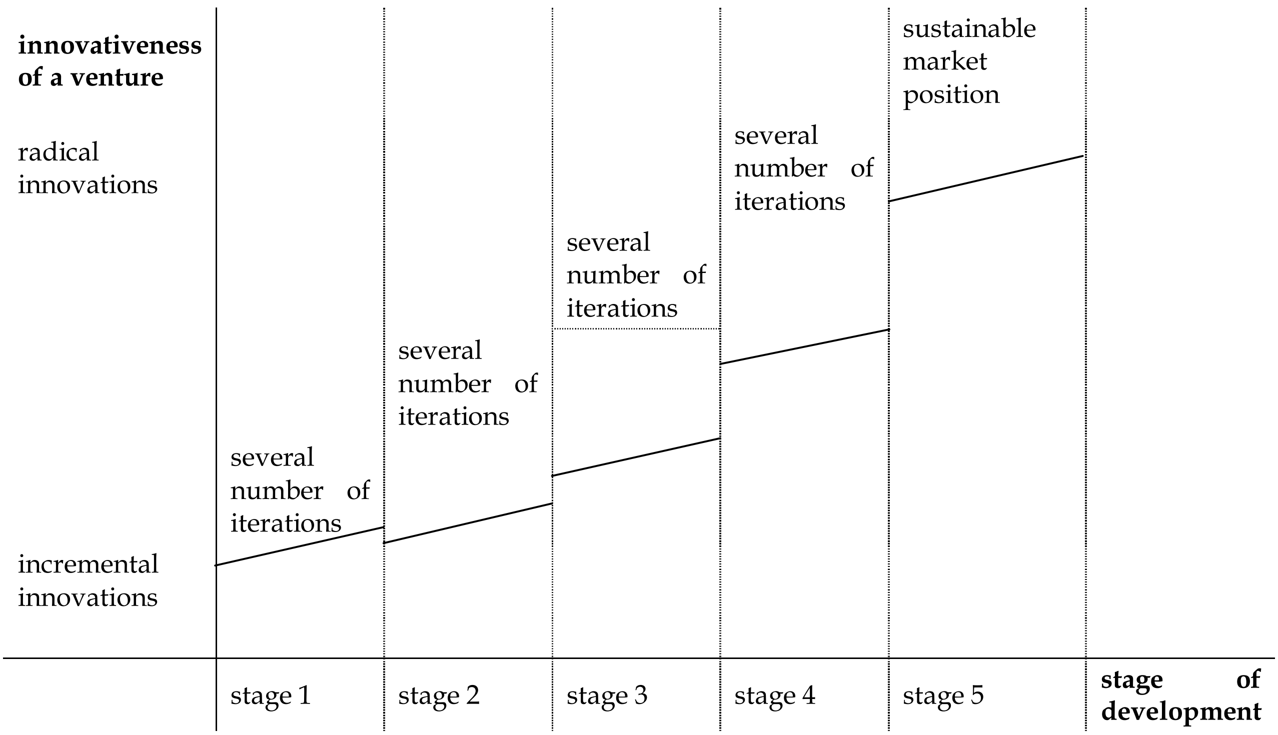

Fig 2. Iterations of the process in relation to innovativeness of a venture.
Source: Łobacz (2012)

Development of the competitive advantage of a small innovative firm is thus perceived as a result of a process. Firm's competitive position ensues from results of resources transformation at the end of each iteration of the process it generates (Fig. 2). Value of the market offer is cumulated within activities employed to deliver innovation to the market. Competitive advantage is thus dependent on resources which are under control of an entrepreneur, firm's capabilities required to transform those resources and dynamic capabilities determining relation between the performed actions to external requirements. It is anticipated that different factors (resources, capabilities) will be of greater importance at different stages of firm's development (Eisenhardt & Martin, 2000). Consecutive iterations of the process give an opportunity to continually improve all of elements of the process and thus enhance outputs

6. Business advisors impact on the entrepreneurial process – discussion and summary

The proposed theoretical approach provides a framework for analysis of business advisor's role in small innovative firm's development. It assumes an entrepreneurial process perspective with resources and capabilities used and outputs resulting from undertaken activities which define firm's competitiveness. As the model separates activities from outputs, it allows separation of influence from impact of business advice, as presented on Fig 3. Influence is therefore regarded as participation in firm's actions, regardless of their strategic significance. The impact, in turn, is understood as concrete input carried into the effect(s) (outputs) of actions. Furthermore, iterations, foreseen in proposed process approach, provide the framework for evaluation of influence and impact in the direct short time perspective as well as from the point of view of the long term.

The influence of business advisor may be analysed in relation to nine activities captured within the entrepreneurial process model, three activities related to each process layer, conceptualizing capabilities necessary to transform technological knowledge into innovation, transform market opportunity into market offer, and transform resources into organizational competences (Fig 3). In relation to each activity a business advisor may serve as process facilitator (utilisation of business advice) and/or broker of knowledge (use of business advice) which may affect the way, in which the process proceeds. For example a three-level participation scale can be regarded: (1) initiation of the activity, (2) direct personal participation in the activity, (3) determination of the activity. At each level a strategic involvement of an entrepreneur may be measured in relation to stage of venture development and its innovativeness.

MATRIX OF ACTIVITIES				MATRIX OF OUTPUTS			
process layer	process perspective (activities)			process layer	process perspective (outputs)		
development of a product concept	seeking for technological knowledge	seeking for application of knowledge	application of knowledge within the new product	transformation of technological knowledge	technological knowledge	economically useful knowledge	innovation
development of a business concept	seeking for market opportunity	seeking for sources of profit	development of market offer	transformation of market opportunity	knowledge about market opportunity	business model	market offer
development of an organisational competences	seeking for resources	configuration of resources	integration of resources	transformation of resources	resources	strategic resources	organisational competences
general description of activities	identification of opportunities	seeking for exploitation of opportunities	exploitation of opportunities	general description of outputs	entrepreneurial opportunity	concept of entrepreneurial venture	commercialised concept of entrepreneurial venture

Fig 3. An entrepreneurial innovation cycle model – matrix format separating activities from outputs

Source: based on Łobacz (2012)

The impact, on the other hand, is measured on the basis of outputs defined as results of the actions undertaken within the process (see Fig 3). Hence the model provides a framework for analysis of a direct impact being a straight consequence of executed action (for example an impact on developed and accepted business model as a consequence of seeking for sources of profit), as well as a following impact, which is a consequence of an activity executed earlier in the process (in proposed example: as a consequence of seeking for market opportunity). Moreover, a matrix format brings in the possibility to move throughout all outputs defined, and thus analyse a spreading power of an impact or possible trade-offs. Additionally, an iterative approach allows going beyond the matrix to successive processes (related to successive market offers) and thus analyse a long term impact and its durability.

The model has been acknowledged as providing a useful framework for analysis of the use and the utilisation of business advice efficiency in relation to small innovative firm development. Although it has a solid theoretical base, it simplifies process approach so as it can be broadly used, especially for explorative studies based on qualitative methods. Consecutive activities as well as outputs may be variously operationalised to provide an input into economic theories and management science.

A modelled separation of the influence and the impact brings in the important consequences in indicating business advisor's involvement in relation to strategic decisions and thus directions of firm's development. This is because in several circumstances business advisor's leverage effect on the firm's performance may be low despite of his/her high involvement in firm's operations. Research results show that this is, for example, visible when the business advice is related to innovative processes which are undertaken on a relatively small scale, compared to major company processes or to unsuccessful innovative projects which are not finalized with new products (Łobacz & Głodek, 2011; Łobacz & Głodek, 2012).

Furthermore, the model provides a transparent framework for analysis of direct and indirect consequences of various forms of business advice, i.e. training, coaching, mentoring, general business advice, and strategic advice. Following the matrix logic it is possible to analyse each form separately or in specifically determined boundless. It is particularly important when small innovative firms are considered, where it is expected that the consecutive growth stages are related to a need for different forms of advice (Łobacz, 2012).

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