

## Paying fees for government business advice: an assessment of Business Link experience

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**Paying fees for government business advice: an assessment of Business Link experience**

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## Paying fees for government business advice: an assessment of Business Link experience

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## Paying fees for government business advice: an assessment of Business Link experience

### Abstract

Business Link in Britain provides a unique opportunity to examine a government policy support to small firms which has targeted fee income as a major part of its management objectives in order to increase the ‘sense of value’ of the services offered. The paper examines the influence of fees on client impact and satisfaction. It finds that fees have no significant relationship with client satisfaction or impact. Government targets and manager/advisor policies have, therefore, been wrong to pursue an explicit fee-based targeting strategy. Instead, satisfaction and impact are most significantly influenced by the character of the Business Link provider, being significantly higher for franchises managed by chambers of commerce and other agents, and being poorer for independent stand-alone providers. Service type has a significant influence on the propensity to charge a fee and on service impact. SME characteristics have little influence on client evaluations. The policy implication is that advisors should focus on what they do best and can quality-assure; in other cases they should use referral to other professional advisors. The scope to raise fees from government advice services is, therefore, opportunistic and limited, and should not be incentivised

**Key Words:** Consultancy, Fees, Business Link, Customer satisfaction, SMEs

## Paying fees for government business advice: an assessment of Business Link experience

### 1. Introduction

Advice and counselling services provided to Small and Medium-sized Enterprises (SMEs) by government agencies, or by public-private agencies that receive a level of government support, are a widespread phenomenon in the US and in Europe (see e.g. Chrisman and Katrishen, 1995; MetaMetrics Inc, 1986; OECD, 1995, 2000; EU SMEs Observatory, 1993, 1995). The US Small Business Administration, established in 1953, for example, provides financial, technical and management assistance for business start-ups, and growth. Similar initiatives have now been adopted throughout Europe, in part reflecting the value now placed on SMEs in the development of economic growth.

Despite this widespread development, the role of any fees that are charged in the delivery of services is a neglected topic. Fees are rarely mentioned in promotional literature, and policy evaluations have almost entirely neglected the issue of whether a fee was charged for the service and what impact this had on the managers, advisors or clients. Yet the scope to charge SMEs a fee may have a major influence on how advisors perform and is likely to be a strong influence on SME evaluations of advisor performance.

The British government's advisory system for SMEs has, however, made fees a major part of its targets and means of operation. First established in 1993, the Business Link programme has developed a network of local advisory centres which deliver information, advice and counselling services across a wide field of different SME activities – ranging from financial and accounting advice to exporting, training, and product and process innovation. A key target for this system was originally to be self-financing. By 1997 this became a target to be part self-financing through fees. This was sought, in part, in order to reduce the costs to government, but also because politicians and policy designers felt that SMEs would more highly value a service that they paid for (or at least to which they contributed). The emphasis on fee targets was

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3 down-played in government aims after a redesign of the system in 2000, but, as we  
4 show below, fees have remained an important part of Business Link finance.  
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9 This paper assesses what lessons from the use of fees are offered to government  
10 advice schemes in other countries by the special experience of Business Link. Whilst  
11 in theory a market opportunity may exist for government services of this kind, it  
12 remains an empirical question how fees affect the effectiveness of these services.  
13 Previous assessments of the use of fees have shown that they have little or no relation  
14 with client evaluations, or may even be negative (Bennett and Robson, 2000, 2005).  
15 However, that analysis was based on a smaller scale sample and did not fully control  
16 for the influence of service type and other factors in influencing fee charging capacity.  
17 The current paper develops a fuller analysis using Instrumental Variables and a wider  
18 range of controls to measure Business Link management characteristics.  
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28 The arguments that led Business Link to emphasise the use of fees are discussed in  
29 the next section. The main part of the paper then assesses the effect of fees on SME  
30 client assessments. New evidence from a large-scale survey of SMEs is used to  
31 compare assisted businesses that were, or were not, charged a fee.  
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### 37 **Fees and Business Link**

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40 Business link was developed by the British government as a new, locally-based SME  
41 information and advice service to replace previously centralised schemes. The  
42 theoretical and political justification for the decentralisation of business support to  
43 local partners focused, as specified in the original DTI (1992a) *Prospectus*, on a belief  
44 that there was deficient business demand, the market was failing to provide sufficient  
45 advice, and that government-sourced services could increase the resources available  
46 to firms and hence improve the overall rate of business growth, and thus economic  
47 growth of the economy as a whole. The local aspect was seen as the best way to  
48 engage with SMEs by tailoring and marketing services in specific locations.  
49 Improvements in tailoring services were also seen to need the involvement of the  
50 private sector in provision and an improved customer focus and professionalism (DTI,  
51 1992b). One means by which this was sought was to charge fees to clients.  
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There were two aspects to the aim of charging fees. The first was to re-align the partners who collaborated in the supply of services. The re-alignment of partner services was sought because if each partner continued to receive the same subsidy from government that it had previously received then government believed that little real change would occur in the services delivered. In the words of the senior minister at the time, Secretary of State Michael Heseltine (1992, p.9), “There is already....plenty I would have thought to lever a major uplift in the quality of current support activity”. Indeed, Heseltine initially argued that the long-term objective of the initiative should be that it should be entirely self-financing, with government support seen as essentially pump-priming. The *Prospectus* for Business Link, therefore, sought that Business Link “should move to self-sufficiency as rapidly as possible” (DTI, 1992a, p.3). As a result, in the early phase of Business Link the local partners had to build into their financial and business plans a means to achieve a self-financing target which was initially set for the end of a five-year pump-priming period.

By 1997, the fully self-financing target was reduced to one which set 25% as the target for fee income. The Chair of the government’s panel to assess Business Link local operators, David Grayson, came to the view that “Business Links are not expected to survive on their own without public funding” (Grayson, 1995). The more cautious approach was reflected in Grayson’s (1996) statement that the government should be “funding services where there is market failure” and “should be charging for some of their services” rather than all, with “the percentage of the total budget that is generated from client fees” used as a benchmark rather than a target for specific individual services; i.e. fees should be charged only where opportunities arose. This confirmed the views of private sector advisors. For example, Barclays Bank (1996, p.96) stated that “it is not viable to assume Business Links should be entirely self-financing. A continuing element of government support will, therefore, be required”. The 25% target figure was set as “a rule of thumb. It is not scientifically based, but is considered to strike a reasonable balance between the need for Business Link to be a commercial body and the need to address market failure” (DTI, 1999b).

The second reason why fees were sought was to improve client valuation: it was thought that clients would better value what they paid for. The government believed

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that the more that Business Link tried to emulate the private sector, the higher service quality would become (FSG, 1997; quoted in Priest, 1999). Grayson (1995, 1996) and DTI (1997a) believed that customers better valued what they paid for. This became a key part of the *Service Guide* to which local partners worked (DTI, 1997a). Grayson stated (1996, p.133): “charging is about credibility, demonstrating value and setting the right culture. ....small companies value much more those services for which they are paying .... They must be run in a business-like way and operate commercially (albeit with a clear public purpose)”. The 2000 re-design of the system continued this view. For example, DTI (1999a, p.20) acknowledged that “charging for value-added service remains an important principle ....Franchisees will, therefore, be expected to have an effective charging policy ....(which can) assume that the existing approach to income generation, including the current broad assumption of 25% of income from customers, will continue”.

David Irwin, the first chief executive of the Small Business Service, which was the awarding body for Business Link contracts in 2000, confirmed that the service “won’t be free. I do believe that people in business should be paying something for good quality advice” (quoted in *Financial Times*, 4 May, 2000). Indeed, this is restated formally in the *Business Link Strategy 2001/04*: “for more intensive support, including making use of business advisors, it is reasonable to expect customers to make a contribution towards the cost of the service. It will be appropriate for that contribution to increase as the relationship develops” (SBS, 2001, p.14). However, the specific target of 25% fee income was dropped after 2001, and the government “will not use income generation as a performance measure”. Despite this “Business Link will be expected...to develop their own pricing arrangements” (SBS, 2001, p.14). Hence, although fees have now been down-played, they remain part of the Business Link process, and the succeeding chief executive of the Small Business Service, Martin Wyn Griffith, retained a concern that businesses value the service they receive, and that they may better value what they pay for. For example, he has quoted figures for the payback rate of benefits to SMEs as a return for the costs of their paying for advice, using this as a model to justify government support for SMEs (Griffith, 2003).



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Despite the claims for the benefit of fees, a significant body of criticism has suggested that fees can distort the behaviour of Business Link managers and their advisor staff and undermine the client experience. The recent strategy for Business Link acknowledges that “charging...has been a contentious issue, as it can distort priorities” (SBS, 2001, p.14), and that “it should not dictate priorities to distort actions” (DTI, 1999a, p.19). But the model of intensive advice, coupled with fees, inevitably does produce distortions as a result of the tension between objectives: whether Business Link is truly gap-filling or just trying to raise income; whether it fills a market failure or is competing with the market using government subsidies; whether the services being actively marketed with the bait of subsidies will actually do the SME any good; and whether the emphasis on fees encourages the retention of clients, thus undermining the role of Business Link and its PBAs as a neutral broker, reducing the likelihood of referral of clients to the most appropriate external supplier (Sear and Agar, 1996; HoC, 1996; Tann and Laforet, 1998; Lean et al., 1999; Mole 2002a, b; Bennett and Robson, 2000, 2003). A survey by MORI (1997) for DTI showed very ambiguous evidence of client support for Business Link fees: 38% of respondents felt that the services were worth paying for, 19% did not, and 43% did not know. Similarly 37% felt Business Link represented good value for money, 11% did not, and 57% did not know. Indeed, the chair of the Small Business Council, set up to advise government on SME policy, acknowledges that “there is a structural flaw in that the support they (Business Link) offer is partly financed by the services they sell” (William Sargent, 2002, p.31)

The more general literature on how SMEs use and value business advice and consultancy does give some support to the idea that the costs of advice positively influence client assessments. But it is an adventurous conclusion to suggest that this literature offers strong guidance to how a governmental service should be organised, or that costs alone rather than service intensity and quality are the main positive influence on client experience. For example, Bennett and Robson (2005) compared various suppliers of advice to SMEs and find client satisfaction and fee level (total cost) negatively related in general, and this is particularly true for the use of private sector advisory sources. For public sector sources there is no significant relation of fee level and satisfaction. This is evidence from a relatively small sample of SMEs and hence cannot control for differences in service types or different modes of

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Business Link service delivery, which are both likely to be influential in the form of relationships evident. However, it suggests serious doubt that the use of fees per se offers any guaranteed route to improved client evaluation. Instead satisfaction and client impact appear to be chiefly related to service intensity.

The service experience (quality, field and intensity), then, as much as the mode of delivery or fee may be the key influence on satisfaction. Even when fee targets were at their strongest, there was no uniform charging policy; it varied between Business Link operators in different areas, and varied within each operator by service field and advisor propensity to charge (see e.g., Sear and Agar, 1996; Tann and Laforet, 1998; Priest, 1999; Lean and Sadler-Smith, 1999). As a result, most assessments of Business Link services show strong variance in the type of services normally carried a fee. Priest (1999), for example, found that Business Link fees were charged for diagnostic services in 80% of cases, for PBAs is 67% of cases and for financial packages and innovation and technology advice in 55% of cases. Other services experienced fees in a range from 6% to 47% of cases. There is thus a great range of fee behaviour within and between Business Link operators depending on service types, and this tends to be directly related to the service intensity (consultant hours or days required) of each client experience.

Similar results are evident in DTI (1997b) financial statistics and in preliminary assessments by Bennett and Robson (2000). DTI monitoring statistics for 1999 show a level of about £32m per year in fees being raised from about 100,000 clients, with a mean fee level of £300 per client. This is about 25% of the clients using the service, and they contribute about 9% of total income. This is the same level as in 1997 (Priest, 1999). The figure seems to be broadly stable, since 2002 and more recent data show fees still to be 8.5% of total income, but the proportion of SME users experiencing a fee has risen to 38% (Bennett and Robson, 2003); hence, there are a greater number of firms experiencing fees, but their average costs are now lower.

Hence, although fees are certainly charged, the previous evidence for the positive influence of fees on client assessments is meagre. What evidence there is suggests that the scope for fees to be charged varies considerably by service type. Given the continued strong use of fees by Business Link in order to bridge their income gap, and

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3 the widening scope of users paying a fee, assessment of their effects on clients is long  
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5 overdue. The rest of this paper seeks to provide such an assessment.  
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## 8 9 **Assessment**

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12 This paper uses information from two surveys. The first survey is a survey of how  
13 SMEs use Business Link. This derives from the University of Cambridge ESRC  
14 Centre for Business Research (CBR) survey of SMEs. The wave of this survey used  
15 is for 2002. Some comparisons are also drawn from earlier CBR surveys. Full detail  
16 of this survey is given in Cosh and Hughes (2003). In summary, the CBR survey is a  
17 mail-out with telephone follow-up drawn from the sampling frame of Dun and  
18 Bradstreet, with random selection from stratified quota samples for manufacturing  
19 and business service firms over the SME size range of 1-499 employees. Tests of non-  
20 response bias show the sample to be unbiased and representative with respect to firm  
21 size, sector and age. The respondent sample size is 2127 of which 24% are users of  
22 Business Link. This is a large-scale survey, which offers a means to assess  
23 government business support on a comparable basis across different services fields.  
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35 The second survey is of the Business Link operators themselves. This was undertaken  
36 by mail with telephone follow-up to cover the same 2002 year as the SME survey and  
37 covers the early stage of the period in which fees were de-emphasised. It has a 100%  
38 response rate. Some additional financial details for each Business Link are added  
39 using the legal register of companies where Business Link accounts have to be  
40 registered (Companies House records).  
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48 These surveys provide information on SME clients and the local Business Links. In  
49 the rest of this paper we first assess how SMEs use Business Link and then assess  
50 how fees influence SME evaluations of impact and satisfaction. This is followed by  
51 assessment of how fee charging strategies differ between services and local franchise  
52 operators, after controlling for other differences in SME client characteristics.  
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## Client evaluation

Previous analysis of Business Link has shown that it has made considerable impact on the market for business advice. Even in its early years, awareness of BL quickly reached 70% within 1-2 years of local outlets opening (MORI, 1997). Use of BL by the end of 1997 had reached 9% of all firms with at least one employee and 19% in the main target group of firms with 10-199 employees (DTI, 1997b, Monitoring Statistics). Government impact studies have suggested very positive impacts of BL advice on turnover and profits (PH Group, 2002). Satisfaction assessments, whilst low in early stages (see e.g. DTI Monitoring Statistics; Priest, 1998), have increased. By 1997 BL had become the single most used government source of advice, with a fairly high emphasis on intensive support involving site visits and/or contract relationships with clients (Bennett and Robson, 1999; 2000; Bennett and Smith, 2004). Subsequent development has seen the use of Business Link services exhibit steady growth in market penetration, increasing from 21% of established SMEs (with one or more employee) in 1997 to 24% in 2002 (Bennett and Robson, 2003).

The assessment below uses two measures of client evaluation: impact and satisfaction. The impact of business advice on SMEs is a complex phenomenon inviting both 'hard' and 'soft' outcomes (such as increased profits or sales, as well as improved ability to manage, solve problems or to learn) (Hill and Neeley, 1988; Nowak and Washburn, 1998). The survey did not allow scope for all the different dimensions of outcome to be assessed. Instead a single measure of impact in five categories is used. The respondent is asked to evaluate whether the advice was crucial (5), important (4), moderate (3), little (2), or had no impact (1) to the firm meeting in its business objectives. The mean score for Business Link is 2.4 which is between little and moderate.

Satisfaction is used as a second assessment criterion. In our survey the respondent is asked to rate the advice received in four categories: very satisfied, satisfied, dissatisfied and very dissatisfied. The overall satisfaction level (% either satisfied or very satisfied) is 81.5% in 2002 (Bennett and Robson 2003). Satisfaction is an important complement to impact as a measure of client outcomes. It is more intuitive and based on feelings and perception, often deriving from the process of personal

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3 exchange that occurs between the client and adviser. Hence, it is a very effective  
4 means of assessing how far Business Link advisers provide a convincing, helpful and  
5 efficient service. It is particularly appropriate for services with a high intensity or  
6 high technical content where clients may not have the skills or resources to evaluate  
7 output in other more objective ways (Nowak and Washburn, 1998). Satisfaction will  
8 reflect criteria such as level of personal attention, confidence they feel in the adviser,  
9 speed and efficiency in dealing with queries, and other predominantly 'soft' elements  
10 of service delivery (Woodruff and Gardial, 1996; Shemwell et al., 1998).  
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19 Our central emphasis is on fees. Fees are measured in this paper by whether or not a  
20 fee was charged, for each service type. Business Link services cover eleven main  
21 fields, corresponding to government specifications of service requirements. However,  
22 in our survey the frequency of use of some of these services is too small to provide  
23 valid estimates. For this reason our analysis mainly focuses on the five most  
24 frequently used service categories: provision of general information and advice,  
25 PBAs, sales and marketing advice, training and Investors in People (IiP) accreditation,  
26 and grants. These services account for about 70% of total use and provide strong  
27 contrasts of fee potential between low intensity (information) and high intensity  
28 services (PBAs, training/IiP), with marketing and grants as intermediate categories of  
29 intensity. Each client is asked to state whether a fee is charged for the specific service  
30 they have used for the particular Business Link involved. This captures the variation  
31 in Business Link operators as to whether any individual field of service is charged or  
32 not, and whether it was charged on this occasion.  
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46 In addition, we use controls for the difference between types of SME since other  
47 studies show there to be significant sources of variation in the take-up and evaluation  
48 of external business advice by different types of SME (see e.g. Storey, 1994; Bennett  
49 and Robson 1999). The variables used, with the prior expectation of their effects, are:  
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55 *SME size*: number of employees. Larger firms may experience higher impact  
56 and satisfaction as a result of their higher internal personnel capacity to make  
57 use of advice and control its delivery.  
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*SME growth*: rate of employment growth 1999-2002. Growth is expected to have a positive relation with impact and satisfaction since it may be a surrogate for need which allows better focused requests for advice.

*SME profitability*: declared pre-tax per employee. More profitable firms are more likely to be willing to pay for advice and hence may be more easily satisfied when a fee is charged.

*Skill level*: the proportion of the workforce with higher or intermediate skill levels. Higher skills should allow advice to be better used internally and better controlled to fit needs; this may also lead to advice being sought which is more targeted or technically more sophisticated.

*Innovation record*: (0/1) dummy for firms that have “introduced an innovation that is new to the firm or industry in the previous 3 years”. This is the response to a specific question in the survey on the respondent’s innovation record. Innovating firms may have higher impact and satisfaction as a result of more targeted needs.

*Sector*: (0/1) dummy for manufacturing compared to services. We have no prior expectations for the influence of sector.

In addition, *the number of staff in the local Business Link* is used to control for scale differences between different Business Link local bodies, which have differing emphases on intensive or extensive services evident in their varied staff ratios. Larger staff resources should increase the scope for higher impact and satisfaction as a result of the greater expertise available.

A further difference between Business Links used in the analysis is a categorical variable for the *type of franchisee*. Since 2001 Business Link services have been delivered by local franchisees who are local operators that bid for contracts from government to run the services under the Business Link brand. Under their government contract, franchisees must act as independent bodies with the franchise as their “only line of business”. However, franchisees are of various types: some are

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3 independent local partnerships (24), some are linked to local chambers of commerce  
4 (10), some are linked to other local bodies (7), and two are private sector companies.  
5 Although they are all arms' length of related organisations and they must work to a  
6 standardised contract, the type of franchisee is expected to make a difference to the  
7 management of the franchise, and how this affects referrals and links to other service  
8 providers. This is likely to affect user experiences and the fee propensity. A  
9 categorical variable for franchise type is included in the analysis to assess the  
10 influence of this factor. It is expected that provision by chambers of commerce or  
11 private sector companies may increase impact and satisfaction, as their management  
12 may be closer to business needs compared to independent franchisees. Franchises  
13 linked to these bodies may also gain positive benefits through referral to other  
14 services provided by that franchisee compared to independent franchisees.  
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### 28 *Service type and fees*

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30 The previous discussion has indicated strongly that the type of service and its  
31 intensity may be strong correlates of whether a fee can be charged. Indeed, the design  
32 of Business Link recognised that a key determinant of fee-raising potential was likely  
33 to be the intensity of service provided. Each service field offers different  
34 opportunities to Business Link operators, and even low intensity information  
35 provision may be charged for if an operator is prepared to do so and the client is  
36 prepared to agree to pay. However, two of the services fields we examine are  
37 expected to have the highest propensity to charge fees: PBAs and liP.  
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46 Personal Business Advisers (PBAs) attempt to maintain a detailed and longer-term  
47 involvement of advisors as consultants to SMEs and this can increase their potential  
48 to charge fees. This was recognised at the outset of Business Link and formed a  
49 critical part of the original design. Intensive and long-term client relationships  
50 ("repeat business" and "client account management") were key concepts in the  
51 original *Prospectus* (DTI, 1992a). The focus on intensive counselling and fee targets  
52 were mutually self-reinforcing. They led to the foundation of the concept of a PBA as  
53 a core part of Business Link services. PBAs were to become expert 'account  
54 managers', seeing a SME client through various stages of development over many  
55 years. The PBA also became a key part of the way in which fee income could be  
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3 raised, with PBAs being given personal targets for their fee earnings that were passed  
4 down from the government's targets for fee raising. It was hoped that through PBAs  
5 the value of services would be more readily seen and clients would be more willing to  
6 pay.  
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11 Investors in People (IiP) is also an intensive service with strong fee potential. It aims  
12 to stimulate manager and employee commitments to training. The IiP standard  
13 emphasises the acquisition of formal employee and manager qualifications and  
14 provides a formal framework of accreditation as part of the government's strategy to  
15 improve "the growth capability of UK businesses .... by raising performance across a  
16 range of areas, such as: management skills, workforce development, use of innovation  
17 and adoption of best practice across different business functions" (DTI, 2003; see also  
18 DTI, 1992a).  
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28 Given these expected variations between our five service fields, it is first important to  
29 test the interrelationship of service type and fees. This is undertaken in Table 1,  
30 which shows the simple logit estimate of whether a fee is charged or not, related to  
31 service type, controlling for other variables.  
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36 These results are very informative. They indicate that fee intensity does not  
37 systematically vary with most SME characteristics, nor is it influenced by the  
38 different types of franchisee. The critical determinant of fees is the type of service.  
39 As expected, SMEs are much more likely to experience a fee when they use one of  
40 the two intensive services of PBAs and training/IiP assessment, but the medium  
41 intensity service of sales and marketing advice also has a significant relation to fee  
42 raising. This is in comparison with the base case of information provision, which is a  
43 very low intensity service which is expected rarely to carry a fee. Interestingly,  
44 advice that leads to obtaining a grant does not bear a higher chance of experiencing a  
45 fee than the base case. These results confirm the general expectation that fees are  
46 charged in an opportunistic fashion, where the service experience allows it. The only  
47 SME characteristic that influences the propensity to charge a fee is the growth history  
48 of the SME. Companies that have declined in employment over the previous three  
49 years are less likely to be charged a fee. This suggests either a managerial response  
50 by Business Link that makes them more reluctant to charge a fee for SMEs that are in  
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3 decline, or that declining SMEs are less willing to pay a fee and/or they seek services  
4 that are less able to support fees.  
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9 The interaction between fee charging and service type suggests that these have to be  
10 treated carefully in subsequent estimation. For this reason instrumental variables (IV)  
11 estimation is used below. IV estimation allows the interaction between independent  
12 variables and the error term to be removed. It requires an instrument that is  
13 meaningful and that is strongly correlated with both X and Y variables and is  
14 independent of the errors.  
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21 The correlation matrix between the main variables is shown in Table 2. This shows  
22 that the age of the firms is a strong contender for use as a IV: it is strongly inter-  
23 correlated with firm size and with use of fees, service type, impact and the other  
24 variables. This suggests that it is a suitable IV. The estimates are developed below  
25 first for impact and then for satisfaction.  
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### 30 31 *Impact* 32

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35 The IV model for impact is shown in Table 3. This shows both anticipated and some  
36 surprising results. No characteristics of the business itself have significance on the  
37 level of impact that a SME experiences, and for the case of firm growth, profitability,  
38 skill level and innovation, the signs are in the opposite direction of those expected.  
39 These results do, however, tend to confirm that fee charging propensity (and its likely  
40 impact) are opportunistic rather than systematic by firm type.  
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48 Our main focus is on Business Link aspects. The IV estimates here are in line with  
49 expectations. The franchisee is a highly significant influence, increasing impact  
50 assessments compared with independent franchisees by over one rating level (from  
51 moderate to important) in the case of chambers of commerce, and for franchises that  
52 are linked to other bodies. This confirms that links to other bodies provide benefits of  
53 greater impact, which probably results from greater tendency for referral, potential for  
54 economies of scale and scope, or the opportunity for a stronger private sector-led  
55 client focus.  
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Impact is strongly influenced by the service fields used, as expected. The use of PBAs, training/IiP and sales and marketing advice is significantly likely to increase impact compared to business information. But the use of grants does not significantly increase impact, though the sign is in the expected positive direction.

There is, however, *no* evidence that fees increase the perceived impacts received from government advice services after controlling for other variables in the equation. Impact appears to be chiefly strongly associated with the type of service provider and the service field and is largely independent of the type of SME and fee charging. Service providers that are linked to the delivery of other services to SMEs, or have a stronger private sector focus, are more likely to receive higher impact ratings.

### *Satisfaction*

The estimates of the IV model for client satisfaction are shown in Table 4. Our key variable, fee charging, again shows no significant relationship with satisfaction. This indicates that there is no relation of increased client evaluation from using fees. There is thus no indication of improved commerciality of the advisors/managers of Business Link resulting from fee charging, as hoped by Government objectives.

Firm type and service type have little effect on satisfaction. For the service fields this is a surprise. It had been expected that satisfaction would reflect some of the scope for intensification provided by different service types. However, if differences of intensity are occurring, as they must between the base case of information provision and the more intensive services of PBAs and training/IiP, then this is not influencing satisfaction.

Instead the main influence on satisfaction is the type of franchisee. Chamber of commerce and other partner organisations that operate Business Link franchises both have significantly higher satisfaction scores than the base case of independent franchisees. Again, we believe this is likely to arise mainly from the enhanced scope for effective referral between the Business Link and the other bodies and from their stronger client focus as a result of their private sector status. Although we cannot be certain about the causes of these higher levels of satisfaction, it is clear that for the

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client, satisfaction is bound into a complex local management and delivery process where franchise type is very important to the how opportunities to charge a fee are used, and the effect this has on client experience.

The overall scale of the franchise, in terms of staff resources, is also a highly significant positive influence. This is to be expected since greater staff resources should lead to a greater capacity for client care. There are considerable differences in size of local Business Links, which may influence the economies of scale and scope in service delivery. Overall staff size varies, for example, varies from 14 to 136 across the system (mean 61.9), which gives very varied scope for scale economies, whilst staff per £m of turnover varies from 3.8 to 22.3 (mean 11.9), which shows wide variations of in-house service intensity and delivery strategy.

The variables used to control for the influence of differences in the SMEs themselves show few significant effects. Innovation and profitability each have a weakly significant relationship, but this is negative. These relationships may reflect SME capacity in a reverse way to that expected. As innovation and profitability increase this may increase need, but make the needs identified by the SME more specific and difficult to satisfy. Skill level, growth and firm size although not significant, however, are positive influences on satisfaction, as expected, reflecting the greater capacity of larger and more skilled firms to better design their advice requests and/or a greater capacity to manage the advice process to gain the greatest satisfaction from it.

### **Implications and Conclusion**

This paper has sought to fill a gap in the literature of policy assessment for government support to SMEs: the effect of fee charging on SME assessments of government-supported advisory services. It has done this through analysis of the unique strategy developed for Business Link in Britain, that fees are expected to contribute an important part of the client experience (initially targeted first at 100% of income, subsequently reduced to 25%, and now sought where opportunities offer). Fees were sought as a policy goal in part to reduce the burden on public finances and in part because it was believed that customers more highly value the services they pay for. This was sought as a means to make government advisory services more

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3 commercial and professional in culture and hence improve client assessments.  
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5 However, the use of fees is left to local managers and advisors to determine, and is  
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7 thus 'opportunistic' in each case.  
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10 The paper has focused on the impact and satisfaction of SME clients with the services  
11 they received and whether they did or did not pay a fee. The impact assessments  
12 show that the nature of the provider is significant: chambers of commerce and other  
13 bodies that take on Business Link contracts achieve significantly higher impact and  
14 satisfaction than independent franchisees. Their staff size is also an important  
15 influence on satisfaction.  
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22 However, our assessment shows that where opportunities are used by local Business  
23 Link managers/advisors to charge a fee, this has *no* significant relation with either  
24 impact or satisfaction, once service type is controlled for. A further important result  
25 is the very limited influence of any SME characteristics on impact or satisfaction.  
26 Client evaluation thus appear to be largely independent of the type of firm. This  
27 confirms many earlier analyses of Business Link, and indeed other advice delivery,  
28 which suggests that advice is a very specific service requirement tailored to each  
29 individual firm's need not their generic characteristics (e.g. Hill and Neeley, 1988;  
30 Woodruff and Gardial, 1996; Shemwell et al., 1998; Bennett and Robson, 1999,  
31 2005).  
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42 There are some important conclusions to be drawn from these results. First, the major  
43 influence of service type on impact shows an interrelation with service intensity, as  
44 expected. However, the relationship is inverse: the coefficients relating to service  
45 field *decline* as service intensity increases, being strongest for sales and marketing,  
46 then for PBAs and then for training/IiP. This suggests that Business Link is best  
47 when it tries to do least! Although the more intensive services of PBAs and  
48 training/IiP have significant influences on impact this is lower than for less intensive  
49 sales and marketing advice process.  
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58 Second, the positive impact influences for these services suggests that many of earlier  
59 problems of Business Link, particularly of PBAs, are being overcome (see HoC,  
60 1996; Tann and Laforet, 1998; Mole, 2002a, b). This may in turn reflect the stronger

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3 accreditation process that has been developed for PBAs and training/IiP. However,  
4 the more strongly positive influence of sales and marketing advice is more surprising.  
5 This is a field where there is little professional training or qualifications available  
6 from professional institutes and thus where quality can be difficult to assure. The  
7 strong assessment for Business Link sales and marketing advice may reflect this less  
8 controlled market so that Business Link internal controls may be able to boost quality  
9 in an important field which is generally more suspect in its quality. These results,  
10 therefore, may indicate how the 'brand' of Business Link has now developed. It  
11 appears to be strongest for those services which have the strongest internal  
12 accreditation and quality controls.  
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23 Third, however, the lack of influence of type of service field on client satisfaction,  
24 suggests a tempering of any implications drawn for the different service fields. Thus  
25 whilst impact (which measures the value to the business) is influenced by service type  
26 as expected, the client satisfaction (which measures the quality or confidence in the  
27 form of service provision) appears independent of service field.  
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33 Fourth, for both impact and satisfaction, the nature of the provider is one of the  
34 strongest influences. Business Links provided by chambers of commerce, or linked to  
35 other organisations, appear significantly more able to improve impact and satisfaction  
36 than independent providers. Further research is clearly needed on how this improved  
37 performance is achieved. However, the likely implication is clear. An independent  
38 provider is more likely to retain clients in-house and has no benefits of economies of  
39 scope with other services it provides. In contrast chambers of commerce and other  
40 agents are already in the market supplying advice to SMEs. They are thus more likely  
41 to cross-refer clients to their other services, gain economies of scope from this other  
42 provision, and draw on their experience of dealing with SME clients to improve  
43 quality. There also appear to be economies of scale and scope for satisfaction as a  
44 result of larger staff numbers in some Business Link than others. We may also  
45 hypothesise, but it needs further testing, that the private sector ethos of chambers of  
46 commerce and other organisations makes them more likely to be customer focused.  
47 Hence, this paper extends earlier findings with greater confidence (Bennett and  
48 Robson, 2000), that the main influence on Business Link performance is management  
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3 and advisor performance. But this paper allows us to conclude that differences in  
4 franchise type are a major influence on this manager and advisor performance.  
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9 Fifth, the analysis has demonstrated that there is no significant influence of charging a  
10 fee on client evaluation. This is similar to earlier conclusions (Bennett and Robson,  
11 2000), which was able to assess the effect of fee size as well as fee propensity. The  
12 new results show similar results for fee propensity` from a larger and superior data set  
13 and undertaken with greater controls for the interrelation of service field and fee  
14 charging behaviour. The analysis also concerns a period when Business Link is fully  
15 established so that there should be no start up or transition effects in the structure of  
16 the system.  
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24 Sixth, the lack of any major influence of SME characteristics on client evaluations  
25 contrasts with many policy prescriptions to target advice on firms of a certain size,  
26 sector, growth history or innovation record, and conflicts with policy assessments that  
27 suggest that the smaller the SME the less able it is to use and evaluate the advice it  
28 receives.  
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35 These findings lead to four important policy implications. First, our major policy  
36 conclusion is that fee charging as an explicit and targeted policy was a mistake for  
37 Business Link. As we have shown, it has no influence on performance. There are no  
38 grounds for arguing that clients more strongly value Business Link services that are  
39 charged for. It is most important, therefore, that any residual incentives or rhetoric in  
40 favour of targeting fee revenues are removed. Although explicit targeting by the DTI  
41 has been removed since 2001, it is clear that many Business Link managers and  
42 advisors still remain strongly committed to fees. Moreover, the Chief Executive of  
43 the Small Business Service has still spoken in favour of measuring the benefits of  
44 advice to SMEs through the payback of the costs they pay (Griffith, 2003). These  
45 residual commitments need to be eliminated.  
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57 Second, Business Link should focus on what it does best: basic information provision  
58 with minimal or no fee, sales and marketing advice, and intensive counselling/advice  
59 in fields where it can quality assure its advisor outcomes (particularly PBAs and  
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3 training/IiP). It can, therefore, enhance its brand and client satisfaction by a more  
4 focused approach.  
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9 Third, satisfaction and impact will be significantly improved by developing provision  
10 in conjunction with broader-based service providers such as chambers of commerce  
11 or similar bodies. Independent, stand-alone providers provide significantly poorer  
12 client evaluations and need to be improved or phased out.  
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17 Fourth, for advisory bodies in other countries, our results show that fee income does  
18 offer some scope to mitigate government costs, but a fee strategy should only be  
19 contemplated as offering opportunistic and limited opportunities. Any emphasis on  
20 fees as targets should be avoided, as it can be severely distortionary to both managers  
21 and advisors, and will offer no improvements in client evaluations.  
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	<b>Fee Charged</b>
Number of Employees	0.28428 (0.25236)
Employment Growth	-0.00540** (0.00214)
Profitability per employee	0.00209 (0.01775)
Skill	-0.14566 (0.58567)
Innovator	0.08510 (0.27620)
Manufacturing / Services	-0.42135 (0.32226)
Number of BL employees	-0.00367 (0.00562)
Chamber of commerce franchise	-0.03891 (0.40447)
Other organisation franchise	0.42588 (0.49220)
PBA	1.09726*** (0.37680)
Sales and Marketing	1.70121*** (0.43667)
Training and IiP	1.27095*** (0.35119)
Grants	0.29952 (0.39434)
Constant	-1.13883*** (0.33452)
Log likelihood	-189.10
N	319
Percentage Correctly Classified	66.14

Table 1: Multivariate estimates of coefficients in a logit model of whether a fee was charged, standard errors in parentheses. (\*\*\*  $p < 0.01$ ; \*\*  $p < 0.05$ ; \*  $p < 0.1$ ). The excluded categories are: for the type of BL services, business information; for franchisee, independent.

	Firm age	Firm size	Growth	Profitability	Skill level	Innovation	Sector	BL staff	Impact	Fee	PBA	Sales	Training	Grants	Exporter
Firm age	1.0000														
Firm size	0.4425	1.0000													
Growth	-0.5622	-0.2312	1.0000												
Profitability	0.1154	-0.1039	-0.0202	1.0000											
Skill level	-0.3396	-0.0899	0.3372	0.1084	1.0000										
Innovation	0.1888	0.1984	-0.1946	0.1039	0.0614	1.0000									
Sector	0.3783	-0.0412	-0.2831	0.0245	-0.5727	0.0915	1.0000								
BL staff no.	0.1363	0.0535	-0.1381	-0.1876	-0.2178	-0.0799	0.2202	1.0000							
Impact	0.1634	-0.1662	0.0880	0.0435	-0.0533	-0.1322	0.0326	0.0476	1.0000						
Fee	-0.1215	0.0828	-0.1033	-0.0380	-0.0221	0.0803	0.0038	-0.0354	0.1052	1.0000					
PBA	0.1411	-0.1406	0.0283	-0.0145	0.0270	-0.0104	0.0222	-0.0465	0.1294	0.0613	1.0000				
Sales	0.1431	0.0078	0.0132	0.0292	-0.0757	0.0077	0.0367	-0.0308	0.0420	0.1028	-0.1358	1.0000			
Training	-0.1717	0.1725	0.0359	0.0157	0.1005	-0.0360	-0.1733	-0.0552	0.0053	0.1727	-0.2432	-0.1896	1.0000		
Grants	-0.1297	0.0420	0.0048	-0.0143	-0.0541	0.0034	0.0484	0.0762	0.0213	-0.0418	-0.1999	-0.1558	-0.2792	1.0000	
Exporter	0.1750	0.0896	-0.2570	-0.1120	-0.0491	0.2475	0.2120	0.0211	-0.0008	0.1137	0.0678	0.0616	-0.0739	-0.0013	1.000

Table 2: Correlation matrix of main variables

	<b>Impact</b>
Number of Employees	0.058 (0.230)
Employment Growth	-0.001 (0.002)
Profitability per employee	-0.016 (0.016)
Skill	-0.214 (0.489)
Innovator	-0.237 (0.240)
Manufacturing/ Services	-0.069 (0.281)
Number of BL employees	-0.002 (0.006)
Chamber of commerce franchise	0.516 ** (0.245)
Other organisation franchise	0.683 ** (0.340)
Fee charged	2.544 (1.692)
PBA	0.936 ** (0.468)
Sales and Marketing	1.369 ** (0.662)
Training and liP	0.971 * (0.554)
Grants	0.448 (0.342)
Constant	2.623 *** (0.847)
F (14,270)	0.86
Root MSE	1.75
N	285

Table 3: Multivariate estimates of coefficients of instrumental variable estimates of the client assessments of impact using standard errors in parentheses. (\*\*\*)  $p < 0.01$ ; \*\*  $p < 0.05$ ; \*  $p < 0.1$ ). The excluded categories are: for the type of BL services, business information; for franchisee, independent.

	<b>Satisfaction</b>
Number of Employees	0.047 (0.081)
Employment Growth	0.000 (0.001)
Profitability per employee	-0.009 * (0.005)
Skill	0.247 (0.177)
Innovator	-0.170 * (0.087)
Manufacturing / Services	0.119 (0.107)
Number of BL employees	0.005 *** (0.002)
Chamber of commerce franchise	0.386 *** (0.125)
Other organisation franchise	0.391 ** (0.160)
Fee charged	0.256 (0.510)
PBA	-0.047 (0.164)
Sales and Marketing	-0.297 (0.236)
Training and liP	0.069 (0.180)
Grants	-0.191 (0.119)
Constant	2.026 *** (0.267)
F (14,302)	2.75 ***
Root MSE	0.688
N	317

Table 4: Multivariate estimates of coefficients of instrumental variable estimates of the client assessments of satisfaction, standard errors in parentheses. (\*\*\*  $p < 0.01$ ; \*\*  $p < 0.05$ ; \*  $p < 0.1$ ). The excluded categories are: for the type of BL services, business information; for franchisee, independent.