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Who benefits most? The effects of managerial assistance on high- versus low-performing small businesses

Joo Hwan Seo [a,*], Vanessa G. Perry [a], David Tomczyk [b], George T. Solomon [c]

[a] The George Washington University School of Business, Department of Marketing, Funger Hall, Suite 301, Washington, DC 20052, United States
[b] Quinnipiac University School of Business, 275 Mount Carmel Avenue, Hamden, CT 06518, United States
[c] The George Washington University School of Business, Department of Management, Duquès Hall, Office 315D, Washington, DC 20052, United States

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ABSTRACT

This study investigates the relationship between outside managerial assistance and small business performance using a conditional quantile regression approach. The model was tested using a sample of 902 ventures that received managerial or technical assistance from the U.S. Small Business Administration's Entrepreneurial Development Resource Partners. Results show that outside assistance for primary business functions, such as marketing strategy, promotional strategy, financial management and general management, is more effective for firms with lower levels of financial performance. Outside assistance for secondary business functions, such as human resources and obtaining capital, is likely to have a greater impact on firms in the middle- to upper-quantile levels. Based on the results, we propose that managerial outside assistance providers should employ different approaches for firms with lower versus higher levels of financial performance.

1. Introduction

According to prior studies in entrepreneurship, public-sector entrepreneurial assistance programs have had positive influence on new venture creation by improving the capabilities of their founders (Gatewood, 1993). In addition, these programs may positively affect a venture's success by leading to revenue and employment growth that exceeds national averages. However, because these public-sector management and technical assistance programs are expensive and rely upon public funds, evaluation of these programs remains a consistent focus of scholars and policymakers. U.S. government oversight agencies such as the Office of Management and Budget are required to provide analysis and policy recommendations pertaining to programmatic funding. Both advocates and critics of entrepreneurship programs, including researchers, policymakers, and the U.S. Small Business Administration (SBA), are interested in determining whether outside assistance has a significant economic impact. Although the outcomes of these programs have been a subject of debate (e.g. Wood, 1994), researchers have argued that outside assistance programs for less-experienced entrepreneurs lead to the creation and development of sustainable competitive advantage (Chrisman & McMullan, 2004; Chrisman, McMullan, & Hall, 2005).

Thus, previous studies have acknowledged the value of and need for managerial outside assistance. In general, these studies have found that entrepreneurial assistance programs improve the abilities and problem-solving skills of individuals pursuing the venture-creation process (Lang & Golden, 1989). Outside assistance programs are shown to not only help entrepreneurs develop knowledge for their nascent ventures, but also assist them once they begin and are fully functioning (Chrisman, Hoy, & Robinson, 1987). Effective management and technical assistance (face-to-face counseling) have been shown to help small businesses overcome their weaknesses and to implement appropriate managerial functions (Chrisman et al., 2005; West & Noel, 2009). Although a number of articles have attempted to account for the helpfulness of assistance programs as a knowledge resource, such studies tend to focus on generalities rather than the specific needs of individual firms.

Recognizing the specific needs of individual firms is important for a simple reason—they are fundamentally different from one another in a number of areas such as entrepreneurial skills, experiences, history, values, strategies, and industry structures (Chrisman, Bauerschmidt, & Hofer, 1998). In other words, all ventures are heterogeneous and the resource needs of each venture are idiosyncratic (Alvarez & Busenitz, 2001; Lichtenstein & Brush, 2001; West & Noel, 2009), and all ventures have individual specific resources to lead to the heterogeneous outputs (Alvarez & Busenitz, 2001). Thus, this study focuses on specific outside assistance programs seen as a knowledge resource.

The current study builds on existing research by examining the effects of outsider assistance on small businesses at different levels of performance. We propose that the different levels of firm performance are a function of managerial assistance, along with key firm and owner characteristics. This paper begins with a brief review of the managerial

* Corresponding author. Tel.: +1 217 766 1693; fax: +1 202 994 8999.
E-mail addresses: joohwans@gwu.edu (J.H. Seo), vperry@gwu.edu (V.G. Perry), David.Tomczyk@quinnipiac.edu (D. Tomczyk), gsolomon@gwu.edu (G.T. Solomon).

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assistance literature to summarize the existing theory of knowledge resources for small businesses as well as the limitations of these resources.

2. Theoretical framework

Unlike large companies, most entrepreneurs have less experience, knowledge and history in business (Chrisman et al., 2005; West & Noel, 2009). As a result, they devise simple strategies in complex circumstances (Alvarez & Busenitz, 2001). Even when entrepreneurs have considerable business experience, knowledge gaps can persist. These knowledge gaps may appear in a range of areas, including finance, marketing, accounting, employee management, staff recruitment, and the gathering of information about competitors and customers (Chrisman & McMullan, 2004; Chrisman et al., 2005; Zahra, Neubaum, & Larrañeta, 2007).

Although entrepreneurs are ready to learn, external knowledge from consultants is not free, and entrepreneurs are often unable to afford private consultants for valuable information or advice to improve performance. However, the accumulation of knowledge can potentially increase a venture's sustainability and competitiveness as entrepreneurs become better equipped to handle a range of managerial problems (Olavarrieta & Friedmann, 2008; Sullivan & Marvel, 2011). Outside assistance programs, whether in the nascent, start-up, or operating phase, can also help entrepreneurs reduce their knowledge gaps in specific areas (Chrisman & McMullan, 2004; Chrisman et al., 2005). Furthermore, learning and knowledge can help them avoid uncertainty and promote advantageous venture outcomes (Alvarez & Busenitz, 2001; Chrisman et al., 2005; Wu and Shanley, 2011).

Prior studies have investigated the relationship between venture performance and specific knowledge resources such as financial management (Ladzani & Van Vuuren, 2002), and human resource management (Haber & Reichel, 2007). Other outside assistance programs broadly cover how to set up a business, how to manage aspects of human resources, development, competition, and the use and adaptation of technology (West & Noel, 2009; Wiklund & Shepherd, 2003).

However, according to Alvarez and Busenitz (2001), entrepreneurs need specialized disparate knowledge; not only are firms heterogeneous, but distinct knowledge allows them to better select appropriate markets and engage in production. Through direct observation or hands-on experience leading to both explicit and tacit knowledge, they will be able to exploit existing opportunities and succeed (Minniti & Bygrave, 2001; West & Noel, 2009). Specifically, when outside assistance programs help entrepreneurs learn by doing by providing guidance and specific feedback, entrepreneurs will be more likely to gain the specific knowledge necessary for the implementation of appropriate strategies (Chrisman & McMullan, 2000).

We assume that these outside programs would have a positive impact on not only new ventures, but also established businesses. We believe that the numerous types of outside assistance programs have an impact on performance based on the specialized disparate knowledge resources they provide, as well as assistance related to marketing strategy, promotional strategy, financial management, and general management, which is beneficial for all firms. Since lower-performing firms are more likely to have more limitations regarding core knowledge, the ability to receive new knowledge, and the ability to hire outside counselors, the core knowledge areas should lead to an improvement in performance for them. In contrast, higher-performing firms are more likely to have that core knowledge, which has probably contributed to their current success. However, they may still face knowledge gaps related to other internal and supportive information. Thus, we posit that there is a significant relationship between the types of outside assistance as a knowledge resource and the different levels of performance.

Outside assistance programs for entrepreneurs are designed to help business owners identify problems and gain entrepreneurial knowledge in areas such as purchasing equipment, creating alliances, selling their products, and hiring staff—consequently saving time and money (Ladzani & Van Vuuren, 2002). Managerial outside assistance has been shown to be the key to the growth of small firms embarking on growth strategies (Florin, 2005). Most studies examining outside assistance over the past three decades have looked primarily at the aggregate performance effects of such assistance. For example, Chrisman (1999), Chrisman and McMullan (2000, 2004), and West and Noel (2009) evaluate the effectiveness of assistance programs—most commonly SBDCs, although others have been included as well—in this light and determined that the programs are effective. As a result, outside assistance programs should help entrepreneurs acquire more comprehensive managerial knowledge. Therefore, outside assistance programs should have a positive impact on the venture development process (Chrisman & McMullan, 2004; Chrisman et al., 2005). We thus expected to see a positive relationship between more knowledge resources and higher performance.

Hypothesis 1. Managerial outside assistance programs as knowledge resources have positive effects on firm performance.

Several studies have also examined how the specific types of training—such as accounting (Ho & Mula, 2004), finance (Deeds, Decarolis, & Coombs, 1997; Ladzani & Van Vuuren, 2002), marketing (Pearce & Michael, 1997), obtaining capital (Florin, 2005), and start-up, operating, and expansion issues—have affected small business performance. These studies have generally evaluated the impact of the assistance in very specific ways. For example, Ho and Mula (2004) defined business performance as net profit and owner's remuneration.

Rummler and Brache (1995) discuss assistance relating to two categories: primary business functions and secondary business functions, with primary functions related to the core business and resulting in a product or service received by the firm's external customers, and secondary functions related to supporting and operating issues such as capital development, human resources, and international trade. Primary business functions encompass management, strategic, and administrative processes, from marketing and promotional strategy to financial and general management. In addition, previous literature has recognized the importance of marketing strategy, promotional strategy, and financial and general management in the development of entrepreneurial ventures (Brinckmann, Salomo, & Gemuenden, 2011; Coviello, Brodie, & Munro, 2000; Rasmussen & Sørheim, 2006).

Fig. 1 represents our framework for understanding outside assistance programs. In previous research, managerial outside assistance programs were shown to uniformly impact firm performance. In contrast, we propose that the effects of managerial outside assistance will vary based on the type of assistance (i.e., assistance with primary versus secondary business functions) and the firm's level of performance.

Hypothesis 2. The effects of managerial outside assistance will vary depending on the level of firm performance. In other words, the effects of managerial assistance will differ between low-, middle- and high-quantile levels.

Marketing support effectively increases sales, breadth of production and geographic coverage to improve performance (Pearce & Michael, 1997; Soriano, 2010). A marketing strategy is necessary for the development of a small business in order to emphasize the product and service offering, to engage with primary customers, and to strongly invest in personal relationships (Coviello et al., 2000). In addition, promotional strategy positively relates to firm performance and positively influences societal attitudes about entrepreneurship. The relationship between promotional strategy and firm performance is stronger in more dynamic environments (Wallace, Little, Hill, & Ridge, 2010). Also, there is evidence that