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MANAGEMENT CONSULTING IN THE ACTIVITY OF SMALL AND MEDIUM ENTERPRISES

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Key words: consulting, management consulting office, small and medium enterprise.

Abstract

The paper presents the role of consultancy and areas of consulting applications in the activities of enterprises. In Poland, small and medium enterprises have looked for external management consulting because of frequent changes in the environment and lack of financial means. A cost-free system of consulting service was created, which has been in operation within the National System of Services for Small and Medium Enterprises since 2005, next to financial advisory services offered by financial institution. Free but professional management consulting should lead to decreasing differences between small and large enterprises and improvement in competitiveness of those companies.

KONSULTING W DZIAŁALNOŚCI MAŁYCH I ŚREDNICH PRZEDSIĘBIORSTW

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Słowa kluczowe: konsulting, punkt konsultacyjny, małe i średnie przedsiębiorstwa.

Abstrakt

W artykule przedstawiono znaczenie konsultingu w działalności przedsiębiorstw, a także wskazano obszar jego zastosowań. Ze względu na częste zmiany otoczenia i brak środków finansowych małe i średnie przedsiębiorstwa w Polsce szukają doradztwa na zewnątrz. Oprócz dotychczas oferowanych usług doradczych instytucji finansowych, od 2005 r. w ramach sieci Krajowego Systemu Usług dla Małych i Średnich Przedsiębiorstw funkcjonuje system bezpłatnych usług konsultingowych dla małych i średnich firm. Bezpłatne, profesjonalne usługi doradcze mają prowadzić do zmniejszenia różnic między małymi i dużymi przedsiębiorstwami i do poprawy konkurencyjności tych ostatnich.

Introduction

Management consulting is the service increasingly frequently used in activities of enterprises. It is the activity involving specialist advice or issuance of opinion on important issues that is to facilitate taking a rational decision. An individual issue as well as a package of issues (e.g. related to an investment project) can be the subject of consulting.

The demand for consulting increases; it results from organizational changes in enterprises as well as excessively frequent legal and market changes and new possibilities of access to capital. All those factors cause that consulting will assume progressively more organized forms. Economic consulting gains special importance during good market situation when many enterprises get involved in investment projects requiring project development including assessment of its economic effectiveness. As the sector of small and medium enterprises represents almost 99% of existing enterprises the studies on consulting encompass that group of business entities.

Goal, scope and methodology of study

Determination of types and scope of consulting services provided for small and medium enterprises by consultation points organized by the National System of Services for Small and Medium Enterprises and banks, with which those entities cooperate is the main goal of the conducted studies. This paper focuses on the nature of consulting, its types and application in Polish enterprises, particularly in Warmia and Mazury voivodship. The following thesis was assumed for the study: Consulting develops dynamically and in the future it will assume diversified forms.

Reports obtained from Polish and Warmia and Mazury Agency for Regional Development formed the basic source of data. In addition, interviews were conducted with 16 employees of consultation points providing free consulting services for enterprises belonging to the covered sector of enterprises. Independent of those sources interviews were conducted with a group of 50 entrepreneurs who used the services of advisors employed at the consultation points and bank advisors. The study was treated as a pilot; the further studies will be conducted systematically on a large group of entities conducting business activity in Warmia and Mazury voivodship.

Definitions of modern consulting

According to common understanding consulting means the activity of providing specialist advice or issuance of opinions on very important issues that create certain doubts and, as a consequence, are source of risk to the operation (DĘBNIĘWSKA 2005, p. 12). F. W. Taylor who noticed the important role of consultants in building an efficient organization was first to point out the importance of consulting.

Fritz Steele defines consulting as a form of providing help concerning the contents, process and structure of a task or a series of tasks in case of which the consultant is not responsible for performance of any specific task but helps those who bear such responsibility. According to Block the role of a consultant is fulfilled by anybody who tries changing or improving the situation while having no direct control of it. L. Greiner and R. Metzger define business consulting as contracted advisory services provided to enterprises by qualified and trained persons who support the client in an objective and independent way in identification and analysis of business problems recommending specific problem solutions and help, according to client's demand in the process of implementation of such solutions (DOROZIK et al. 2005, p. 24).

Consulting is based on offering knowledge and skills applicable in practical management and in solving business related problems. A person becomes a consultant through acquiring practical experience and knowledge on a specific subject. Consulting can be seen as professional services or as a method of securing advice and practical help. During present times consulting has developed as a specific sector of professional activity providing help to enterprises and their managements in the process of improving business and trade practices as well as activities concerning the entire enterprise. Narrowly, consulting can be understood as a form of help by one party to another party; widely it can be understood as activity providing, in addition to the help mentioned above, also education, training, research and development work for systems and projects as well as technical support for developing businesses (BOBIŃSKA 2004, p. 8).

The above definitions highlight the role of the consultant providing such services. Development of modern consulting in Europe caused branding those practicing in that profession with attributes such as professionalism, confidentiality, objectivism, neutrality in analysis and strong motivation to develop the optimum solution. Consultants should be independent and objectively recommend the customer the line of activities. They receive remuneration for services but they should not obtain benefits from activities undertaken by the client on the basis of recommendations given. In case of issuing opinions on more complex issues knowledge of specifics and goals of the given enterprise,

deep functional knowledge of the industry, methods of conducting business, technique of work, development trends and competition are necessary.

Subject of consulting

Consulting is the activity in which at least two parties participate: the buyer and the contractor. The following areas of consulting have been identified: provision of specialist information and advice, data analysis e.g. financial-economic analysis, diagnostic activities, i.e. preparation of reports and analyses, explanation of the nature and status of the subject matter (e.g. discussion and interpretation of legal acts, nature of various economic phenomena) and assistance to the client in interpretation of opinions (e.g. audit report issued by the auditor).

The subject of consulting can be an individual issue and then we call it the individual issue consulting; in case of a larger group of issues we deal with comprehensive or global consulting.

According to consulting beneficiary, consulting can be provided to: corporations, small and medium enterprises, semi-banking and non-banking institutions, territorial government institutions and households (FLEJTERSKI, WAHL 2003, p. 58).

According to the provider of consulting services internal and external consulting has been identified. Internal consulting is done by a unit especially established for that purpose and operating within the structure of the given entity. External consulting takes place when the service is commissioned to an external consulting entity, which, because of its knowledge, gives the opportunity of taking a rational decision by the same limiting the risk.

As concerns area of services consulting is divided into legal, economic, financial, investment, personal, tax, money market, securities, banking, insurance and other (STECKI 1997).

System of consulting services for small and medium enterprises

Small and medium enterprises, despite short history, have the decisive influence on economic development of individual regions. That is evidenced by the share of that sector in generated GDP, number of enterprises and employment as well as its share in international trade. SMEs represent around 99% of registered enterprises in both Poland and the European Union.

It should be highlighted, however, that despite dynamic development small and medium enterprises in Poland encounter numerous diversified barriers hindering conduct and development of business activity and frequently even making it impossible. Those are barriers resulting from the policy of the State in areas such as fiscal policy, labor market, frequent changes in legal regulations, lack of capacity of the judiciary system and bureaucracy of Polish officers. Large companies have the entire staff of employees specialized in given areas to solve the problems. Small companies are looking for external consulting. Unfortunately some of them do not have funds to use professional advice. That is why, for many years now, both practitioners and scientists have been justifying the need for organization and development of a system of free consulting services for small companies. Free and at the same time highly professional consulting services are to lead to closing the gap between the large and small enterprises and improvement of competitiveness of those later ones.

As of 1996, the National System of Services for Small and Medium Enterprises (KSU) has been in operation in Poland. Currently it is coordinated by the Polish Agency for Enterprise Development (PARP). As of 2005 the consulting activities by KSU centers have been financed by the jest PARP within the currently operating network of consultation points. Their operation is based on the Act of November 9, 2000 on establishment of the Polish Agency for Enterprise Development (DzU nr 109, poz. 1158, z późn. zm.) and the Regulation by the Minister of Economy and Labor of August 17, 2004 on providing financial assistance not related to the operational programs by the Polish Agency for Enterprise Development (DzU nr 181, poz. 1877, z późn. zm.).

All organizations providing consulting services are verified on the basis of the following criteria:

- adequate technical and economic capacity necessary for independent provision of specified services,
- securing provision of services by people possessing necessary qualifications,
- service quality assurance system,
- observation of the principles of professional ethics in activities conducted.

Consultation points (PK) function as first contact institutions for small and medium entrepreneurs. There are almost 200 such points countrywide. The basic support provided by the PK is free off charge as the operational costs are covered by the European Union from the European Regional Development Fund funds (sub-measure 1.1.1 “Support to business environment institutions associated in the KSU network”). Consulting of innovation focused character or of a wide scope is provided at a partial fee. Service price is calculated by individual PKs (there are no uniform standards for pricing). The basic (free off charge) consulting services cover the following areas:

- law, marketing, finance, taxes, etc.,
- available aid programs financed from the State budget, structural funds and other available in the market and principles of application for subsidies,
- offer of external financing by banks (credit/loan origination terms and conditions, interest rates, maturity, intended use, types of securities) and other financial institutions, e.g. leasing companies, loan funds, loan guaranty funds and capital funds,
- detailed issues requiring longer preparation or even specialist consultation.

Consulting services provided to the SMEs sector by the banks

Banks are the partners with which entrepreneurs cooperate the most often. The banks also notice the specific needs of the SME sector customers, which is reflected in development of special product offers for that group of entities. Those financial institutions offer comprehensive services to enterprises expanding their offer by consulting services. Those services are mainly the financial consulting. Results of studies carried out among entrepreneurs and concerning the scope of financial consulting services offered to them by banks they collaborate with are presented in Figure 1.

As shown in Figure 1, financial consulting services cover the basic issues concerning non-cash settlements and placement of cash surplus. They are offered within the frameworks of a standard bank products by only around

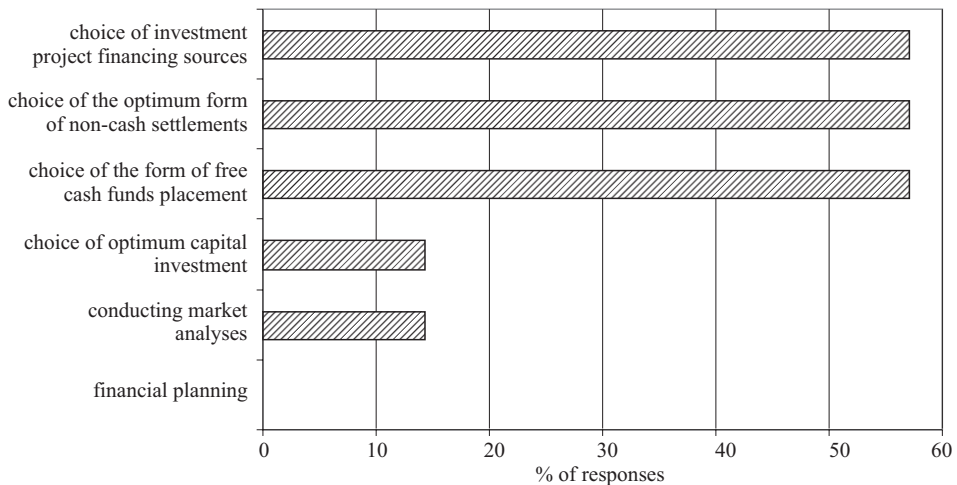


Fig. 1. Scope of financial consulting services provided by banks

Source: Own work based on studies.

60% of banks collaborating with the respondent entrepreneurs. Few entities can obtain more specialized services such as plans of capital investments or preparation of market analyses however such products do not include the consulting services in financial planning, investment optimum parameters analysis or preparation of marketing strategies. In the majority of cases the offer does not single out the specific needs of smaller entities – micro and small enterprises, and frequently they are treated in the same way as individual clients.

Within the frameworks of their products banks offer entrepreneurs a very limited range of consulting services that are included in the price of the current collaboration of the bank with the entrepreneur. It is delivered through bank employees and it covers products offered by the given financial institution only. For those reasons we cannot talk here about modern consulting services but just financial consulting services.

Entrepreneurs indicate that banks also try to expand their package of consulting services on use of the European Union aid funds developing the so-called “Union offer”, however, the focus mainly on standard financial-settlement and lending services (Fig. 2).

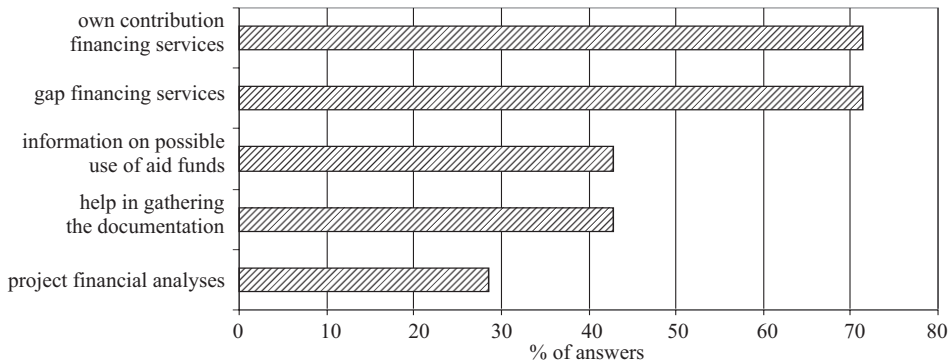


Fig. 2. Services offered by banks as concerns financing of projects covered by European Union subsidies

Source: Own work based on studies.

Entrepreneurs expect an offer extending beyond financial services and as a consequence they search for them in the market of professional consulting services. In this case the basic barrier is the limited financial capacity; as a consequence the offer of free services provided by various government agencies, foundations and associations is more attractive for them.

Free consulting services for enterprises in Warmia and Mazury voivodship

Consulting services provided within the system of consultation points are increasingly popular among owners of small and medium enterprises. The number of consultation points in Warmia and Mazury voivodship during the years 2005-2007 is presented in Table 1.

Table 1

Number of consultation points in Warmia and Mazury voivodship and in Poland during the years 2005-2007

Area	Year		
	2005	2006	2007
Warmia and Mazury voivodship	10	12	11
Poland	145	202	192

Source: Own work based on PARP reports for the years 2005-2007.

The largest number of consultation points operated in Poland in 2006 when their number as compared to the preceding year increased by 39.31%. As at March 31, 2007, in this voivodship as well as other regions consultation points not satisfying the technical requirements, which made appropriate provision of services, were liquidated.

In 2007 there were 11 consultation points in Warmia and Mazury voivodship located in the following towns:

- Olsztyn (3 points) – Association of Private Trade and Services, Warmia and Mazury Agency for Regional Development (functions as the regional point), Foundation for Support and Promotion of Enterprise in Warmia and Mazury;
- Pasłęk – Economic Development Society “Pasłęka”;
- Nidzica -“Nida” Foundation;
- Iława – Iława Chamber of Economy;
- Łukta – Regional Development Foundation “Łukta”;
- Braniewo – Elbląg Chamber of Industry and Commerce;
- Działdowo – Działdowo Development Agency;
- Mrągowo – Chamber of Various Trades;
- Elbląg – Elbląg Chamber of Industry and Commerce¹.

Consultation points situated in Warmia and Mazury voivodship were established on various dates. The initial ones started operation during the

¹ www.wmarr.gov.pl (21.03.2007).

third year quarter of 2005. In 2006 the Polish Agency for Enterprise Development conducted the next round of competitions as a result of which new points were established. The information and promotion activities caused that an increasing number of entrepreneurs used free consulting services nationwide and in Warmia and Mazury voivodship. The numbers of clients and services provided to them by consultation points in Warmia and Mazury voivodship are presented in Table 2.

Table 2
Numbers of consultation points; clients and number of consulting services provided to them in Warmia and Mazury voivodship during the years 2005-2006

Consultation point*	Year			
	2005**		2006	
	clients	services	clients	services
Regional in Olsztyn	73	83	143	272
Local in Pasłęk	22	29	79	123
Local in Iława	68	285	145	521
Local in Działdowo	34	72	51	73
Local in Nidzica	12	13	43	76
Local in Olsztyn	104	119	223	272
Local in Mrągowo	75	115	152	226
Local in Elbląg***	–	–	112	228
Total	388	716	948	1791

* The other points started operation as of January 1, 2007

** Consultation points operate as of the third quarter of 2005

*** Point started operation during the third quarter of 2006

Source: Own work based on PARP data

During the period from the third quarter of 2005 through the fourth quarter of 2006, 1336 entrepreneurs used consulting services in Warmia and Mazury voivodship and in 2006 that number was almost 2.5 times higher than during the preceding year. In total 2179 consultations were provided, 1791 of them in 2006. During the entire presented period owners (employees) of micro enterprises dominated among the users of the consultation points; offer (Fig. 3).

The structure of covered enterprises using consulting services was dominated by micro and small enterprises; they were young businesses operating no longer than 3 years. The number of enterprises covered according to the duration of business operation is presented in Figure 4.

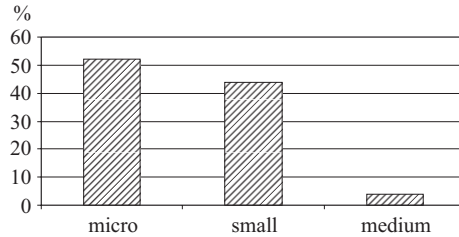


Fig. 3. Structure of enterprises using the services of consultation points in Warmia and Mazury voivodship by size

Source: Own work based on PARP data.

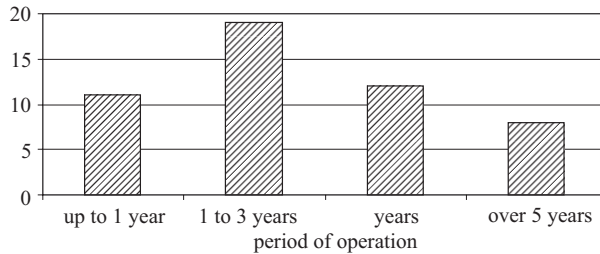


Fig. 4. Number of enterprises using consultation points in Warmia and Mazury voivodship by duration of business activity

Source: Own work based on studies.

Enterprises needed free information in various areas, as they did not have sufficient funds to employ a qualified employee or hire an appropriate specialist. Micro-enterprises operating in business for no longer than 3 years were in most cases characterized by poor financial standing and lack of financial capital for investment activities and in some cases even for the current operation. They required mainly the information on non-reimbursable funding for business operation to stay in the market. Such possibilities of supporting investment projects were initially offered from preaccession funds and then from structural funds. Those funds were most frequently used by entities with stable market position oriented for further development of activities embarking on modern investment projects.

Entrepreneurs reported the need for services focused on solving specific problems and not acquiring new skills in business management and development. The conducted pilot studies clearly indicate that the entrepreneurs reported the highest demand for professional information services of financial and tax nature (Fig. 5).

Entrepreneurs were interested the most frequently in obtaining information on current and investment activities financing sources (the best credit and

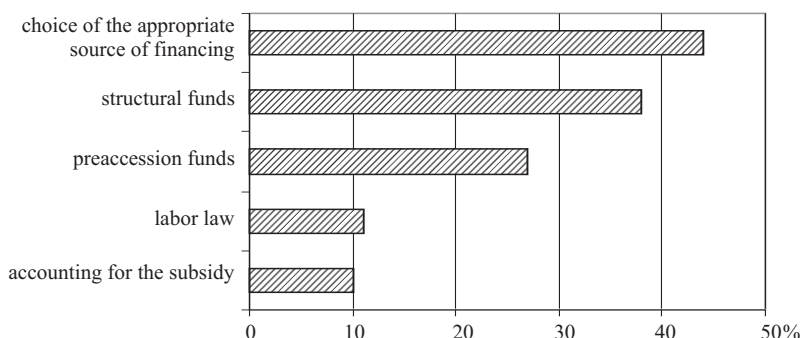


Fig. 5. Problems for consultation most frequently reported by entrepreneurs

Source: Own work based on studies.

loan offers, subsidies from preaccession and structural funds). Consultants provided the entrepreneurs with guidance on the principles of preparing applications for financial support (in most cases from programs PHARE, SPO WKP and IROP Measure 3.4 Micro-enterprises), choice of the appropriate program as the source of financing for the planned project, principles for selection of accredited contractor (in particular for conducting the offers comparison procedure) and accounting for the subsidies.

The majority of respondent entrepreneurs ranked quality of services provided by consultation points, particularly those concerning sources of financing, high. Some of them indicated excessively long waiting time for solution of the problem presented. This applied most often to legal, tax and accounting issues as specialists in those areas were in most cases external contractors not always available to provide assistance to the interested entrepreneurs. Additionally the specifics of the presented issues in those areas caused that the specialists were required to conduct very detailed analyses of the problems, legal acts and executive regulations as well as consultations with other consultants or officers.

The conditions of providing the services were also subject to assessment. That element was ranked average in the consulting activities; the respondents indicated, e.g. the lack of a separate room for consultations.

The interviews with entrepreneurs indicate that most frequently they obtained information on the possibilities of obtaining free consultations from radio and press advertisements, promotional articles and from people who earlier used such services.

Conclusion

The need for diversified consulting is increasing as a consequence of legal, organizational and market changes as well as internal changes in the individual business entities. Many difficulties of organizational, legal and financial nature are encountered by entrepreneurs in their investment activities, which require consulting assistance by specialists in various areas. Not always small entrepreneurs are able to obtain that assistance (because of low number of specialists, lack of funds for the purpose and for other reasons).

The conducted pilot studies indicate that free consulting services are provided for an increasing number of entrepreneurs, mainly micro and small ones. Consulting services encompassing an expanding spectrum of issues, starting from start-up of a business through legal and other issues related to the labor law to the sources of financial capital for supplementing own funds for current activities.

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