

Delic, Anamarija; Alpeza, Mirela

## Article

# Consultancy Services Market for Micro, Small and Medium-Sized Enterprises in Croatia

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## CONSULTANCY SERVICES MARKET FOR MICRO, SMALL AND MEDIUM-SIZED ENTERPRISES IN CROATIA

Anamarija Delić<sup>1</sup>, Mirela Alpeza<sup>2</sup>

### ABSTRACT

*Business advisors and their impact on the performance of micro, small and medium-sized companies (MSMEs) have been in the focus of many researchers for a long time. MSMEs are reporting increasing interest in professional business advice, but only a small share of MSME owners is using consultancy services. This paper analyzes the consultancy market sector for MSMEs in Croatia, with a special focus on differences in the perspectives - gaps and overlaps of the supply (consultancy companies) and the demand side (MSME owners) of the market. The main objectives of the study are to identify and analyze determinants that influence consultancy market for MSMEs in Croatia, through opinions and views of the owners of MSMEs, on the one side, and consultants as service providers, on the other side (mirroring perspective).*

*The empirical evidence in this paper is provided through secondary research and primary research – a survey conducted among 303 MSME owners and 60 providers of consultancy services for MSMEs. The main findings of this study enable segmentation of the users of consultancy services for MSMEs and identification of market niche for MSME consultants. Based on the research results, recommendations for better understanding of MSME owners as clients of consultancy services are created, especially those related to improving marketing and service development strategies. The results of this study and the recommendations can be used by a wide network of advisory service providers for MSMEs (e.g. accountants, lawyers, IT consultants) for improving the quality of service and identification of market niches.*

**Keywords:** consultancy market services, micro, small and medium-sized companies, entrepreneurship supporting institutions

**JEL:** L84

### 1. INTRODUCTION

Micro, small and medium-sized enterprises (MSMEs) are important part of every national economy. With the rate of 99.8% of MSMEs present on the EU28 market, this sector provides employment for 66.8 % employees of the total workforce and produces 57.9 % of the total value added generated by the non-financial business sector.<sup>1</sup> Although all the national governments recognized the importance of the MSME sector, and therefore developed different services that could help and boost further growth of that sector, there are still obstacles that hinder their development. Owners of MSMEs usually complain about finding skilled workforce, access to finance and finding new customers.<sup>2</sup> Business environment in which MSMEs operate is complex, dynamic and under constant process of changing, while this sector is more affected by market distress and macroeconomic changes.

In dealing with all these issues external help, especially the expert one, could provide necessary assistance and answers. The literature review revealed a great interest of the researchers in the impact that usage of external expertise could have on performance of MSMEs, but very few were focused on MSMEs that still hesitate to seek for the advice. The aim of this paper is to detect the determinants that are crucial for seeking and using external help, but also to identify the reasons for not asking one. On the other hand, for the complete understanding of this complex relationship between client (owners of the MSMEs) and consultant, it is necessary to find out consultant's opinions. Standpoints and opinions on the same issues, from clients and consultants, are researched and compared (mirroring perspective), which provided new insights into the problem that was analyzed from different angles.

<sup>1</sup> Josip Juraj Strossmayer University of Osijek, Faculty of Economics in Osijek, [adelic@efos.hr](mailto:adelic@efos.hr)

<sup>2</sup> Josip Juraj Strossmayer University of Osijek, Faculty of Economics in Osijek, [malpeza@efos.hr](mailto:malpeza@efos.hr)

By identifying necessary characteristics and expertise that clients (owners of the MSMEs) demand from consultants, it becomes possible to recognize the biggest obstacles to the development of the consultancy market in Croatia. Conclusions and recommendations could help in shaping policies that can help in developing that market, but also to consultants to understand better standpoints and needs of their potential clients.

## 2. PREVIOUS RESEARCH/ LITERATURE REVIEW

With the rise of the number of MSMEs in national economies, working in very dynamic environments, it become obvious that the owners of MSMEs need help in running their everyday businesses. Most MSMEs fail due to a lack of marketing or managerial skills or capabilities and technical expertise (Dyer and Ross, 2008). The number of companies registered for offering external help or advice also recorded a considerable rise. Owners of the MSMEs reported that the impact of the advice was important and crucial (Bennett and Robson, 1999). Researchers confirmed positive relationship between growth of MSMEs and external advice (Wren and Storey, 2002), which was measured through sales turnover, employment, exports, and profitability (Turok and Raco, 2000).

External advice is usually targeted on filling specific needs of MSMEs (Ramsden and Bennett, 2005) which will enable owners of MSMEs to overcome some specific problems, legal issues or provide them a strategic view of market or the company itself. Owners or managers of MSMEs need to extend their expertise beyond their background competencies in order to survive on competitive markets. Turok and Raco (2000) emphasize that management weaknesses are widely considered to be the most important internal growth constraint facing MSMEs. But many owners of MSMEs are either unaware that such services exist, they are skeptical of their value or confused about who to choose among many external advisers on the market (Gibb, 1998; Storey, 1994). Christiansen and Klyver (2006) and Nicolescu et al. (2013) have found paradoxes in the researches about MSMEs and their use of advisory services.

There is no doubt that owners of MSMEs need some external advisory help, but they use it very seldom and owners of MSMEs find professional management advice of little or no use at all. Other researchers (Bennet and Robson, 1999; Berry et al., 2006; Ramsden and Bennet, 2005; Blackburn and Jarvis, 2010) report that business advice is crucial for survival of MSMEs in the dynamic and constantly changing markets. Research results are pointing out to two very important facts – owners of MSMEs use external help, but consultants are not their first choice and determinants that are affecting the process of choosing external advisers are still subject of research. Also, according to research results, the level of market development (also the diversification of the services offered), dynamics and complexity of the environments can be an important factor for searching some advice from external adviser.

Bennett and Robson (1999) reported that external help for MSMEs could be grouped into six areas: professional specialists, professional generalists, market contacts, social contacts, business associates and government agencies. Among all experts that can provide external help to MSMEs, accountants dominate (Collins and Jarvis, 2002; Matlay et al., 2005). Accountants are, according to Blackburn and Jarvis (2010) the first choice of MSME owners. While Bennett and Robson (1999) and Carey et al. (2005) claim that determinants of advisory services are completely objective and measurable: competence of the adviser or accountant, size of the firm (frequency of meeting the accountants increases with size of the company), industry and firm growth, Berry and Sweeting (2006) claim that determinants of business advice are more complex. They have proved that among these determinants the key role are played by the “soft” ones: trust, relationship and professional ethics in the provision of business advice. Gooderham et al. (2004) claim that professional accountants are shown to be extremely important in MSMEs while introducing implementations and changes. They maintain a broad base of expertise, enabling them to contribute to the success of MSMEs by providing services beyond the traditional ones, such as accounting, auditing and assurance services (Greenwood et al., 2002; Kamyabi and Devi, 2012). While maintaining

their traditional focus, accountants tapped into the business advisers market. Blackburn et al. (2010) suggest that accountants' services go beyond conventional taxation and financial issues and include business development advice and "emotional" support. Over time, the amount and type of advice from accountants has evolved according to both the needs and the strategic intent of accountants (Doving and Gooderham, 2008), which seriously changed the business advice market and the position of the consultants. Owners of MSMEs and their accountants have developed relationships and gained mutual trust, which reduced information asymmetry costs.

Recognizing the importance of MSMEs, governments also wanted to soothe the barriers in their business eco-system. Establishment of government agencies, focused on providing help to MSMEs in coping with everyday challenges, changed dramatically the market of business advice. By offering free or subsidized advice, government agencies (usually business support organizations) became important competitors to all other business advice providers, especially consultants. While in some countries, such as Business Link in the United Kingdom, programs and advice from government agencies recorded impressive results, in others (results from Canada, Romania and Croatia) those agencies did not achieve planned results and outreach. Curran and Blackburn (2000) identified five factors that explain failure of owners of MSMEs to use public resources and services offered by government agencies: lack of confidence, services are of poor quality, poor marketing of those services, rates higher than owners are willing to pay and poor fit between services that are offered and those that MSMEs need. Since government policies are tailored to be universal for all MSMEs, owners often have a feeling that they are "disconnected from the reality of small business".<sup>3</sup> Since every industry has its own specifics, individualized programs are welcome but cannot be offered by government agencies and civil servants. They do not have the necessary expertise or authority to adjust services to the requirements of individual firms.<sup>4</sup> Also, among research results Audet and St-Jean (2007) conclude that MSME owners want accessible, efficient and fast service, which government agencies can hardly deliver.

Owners of MSMEs seek for advice that is fit for purpose, relevant, timely delivered, and of high quality (Blackburn and Jarvis, 2010). Consultants bring fresh and unprejudiced points of view with problem solving capabilities and they complement internal resources and capabilities, providing reliable information, independent evaluation, making expert recommendations, giving legitimacy, and changing strategic orientation (McLachlin, 2000). Choosing among different advice providers on the market, owners of MSMEs will decide upon trust, relationship that has been built through cooperation, reputation that advisers have on the market (especially among owners of MSMEs), expertise or specialization and perceived value of the advice (Blackburn et al., 2010). Offering good work and good service are not enough to attract and retain customers (Soriano et al., 2016).

According to Mihai (2009) research results indicate that there is an acute lack of information among MSMEs regarding the consultancy services on the market. Inefficient communication between business advice providers can be one of the major reasons for owners and managers of MSMEs turn to their accountants in searching for business advice. Evidence from developing countries revealed insufficient number of individuals qualified for providing quality advice (Fernandes and Mattoo, 2009).

Owners of small companies tend to rather solve problems on their own, than to open their company to a stranger (Bennett, 2007). Good reputation and recommendation are the most significant factors that influence the usage of the consultancy services. Expertise and fresh perspective can bring the company only business advisers that have experience and reputation. Despite a common belief that price of the service is a significant factor for choosing business adviser, Blackburn et al. (2010) proved that owners and managers of MSMEs think rather about the value of the advice and the change that adviser can bring in the company.

## **2.1. Consultancy market in Croatia – supply side of the market**

Previous research (Bennett, 2007; Mihai, 2009; Fernandes and Mattoo, 2009) showed that market specifics but especially business eco-



systems can influence the supply side of the consultancy market. Also, government policies and establishment of the network of government agencies or business support organizations can significantly change the picture of consultancy market. Croatian consultancy market also has its own country specifics.

The commercial and professional infrastructure for the development of MSMEs in Croatia is providing support to MSMEs by two types of organizations: entrepreneurship supporting institutions and professional private consulting companies.

The network of entrepreneurship supporting institutions encompasses 30 regional development agencies, 35 centers for entrepreneurship, 30 business incubators, 3 business parks, 9 technology parks, around 100 business zones whose activities are financially supported primarily by their founders (local or/and regional municipalities in majority of cases), EU funded projects and Ministry of Entrepreneurship and Crafts grants.

Croatia does not have a unified database of the business entities and information about the consultancy services market. According to FINA (Financial Agency) consultancy services are provided by 2,799 professional consultancy companies, where majority of them (59%) is located in Zagreb County, where 34% of all Croatian MSMEs operate. Geographical distribution of the consulting companies is uneven. The number of MSMEs per consulting company varies from 18.1 in the City of Zagreb to 268.5 in Lika-Senj County. Consultancy market and perception of quality of professional infrastructure support for MSMEs within GEM – Global Entrepreneurship Monitor research is graded with 2.6 in 2015, while EU average is 3.1.<sup>5</sup> This grade indicates dissatisfaction of MSME owners and managers with available services on the consultancy market, but also as a mismatch between demand and supply on the market.

## **2.2. MSME sector in Croatia – demand side of the market**

Croatian economy is mostly grounded on the MSME sector. This sector makes 99.8 % of total

companies in Croatia and provides workplace for 69.2 % of total employees.<sup>6</sup>

According to GEM research results, the level of activity in start-up businesses is lower than the average of the countries involved in GEM research (Croatia 7.7, GEM countries' average is 8.0), but the majority of the companies were started because of necessity. Furthermore, Croatia has a small number of growing companies, among which 71.8 % offered a product that was not new to anyone. The Croatian MSME sector is marked with big regional differences. The majority of MSMEs is concentrated around the City of Zagreb (34.15 %), while other poorer counties (like Lika-Senj County) suffer from low entrepreneurial activity.

Croatian MSMEs work in very dynamic, complex and difficult environment. Obstacles that hinder growth and development of MSMEs are pretty much constant over the years. Among the biggest ones, according to World Bank's Doing Business are protection of investors, dealing with construction permits and registering properties.<sup>7</sup> These issues are followed by corruption, high tax rates, and limited access to finance. Obstacles, next to low level of innovativeness are the main reasons that MSMEs stay small. With the products that are not new to no one, Croatian MSMEs are not competitive and majority of their incomes comes from domestic, national market.

## **3. RESEARCH METHODOLOGY**

The empirical part of this research consists of secondary and primary data collection. The secondary research included data collection from the existing documentation and research results – FINA (Financial Agency), CEPOR (SMEs & Entrepreneurship Policy Centre) and data from GEM - Global Entrepreneurship Monitor research about the MSME sector in Croatia. The results of this part of the research enabled better understanding of this sector; needs and obstacles that hinder or at least make difficult for MSMEs to grow. These obstacles could require external consultants' help. The secondary research was also used to identify consultancy companies and to analyze services they offer on the Croatian market.

The second part of the research was primary data collection from two samples: MSME owners (in total 303 respondents from the MSME sector with 0-249 employees) and MSME consultants (in total 60 respondents from domestic consultancy firms and individual consultants) about their needs, opinions and future plans. The objective of the primary research was to compare the supply side (consultants) and the demand side (MSME sector) of the market. In pursuit for the determinants that shape the decisions for using external consultants' advice, the comparison was conducted of the consultants' and MSMEs' opinions and standpoints about the factors that influence decisions when using consultants' advice. The data from both MSME owners and consultants were collected by two different questionnaires, developed based on study objectives and findings from two in-depth interviews (one with a consultant and one with an entrepreneur). The primary data collection among both samples was conducted by CATI methodology by using integral and completely automated system for telephone interviewing. The stratified random sampling was used for sample selection. Stratum was defined based on geographic distribution of MSME companies and consulting companies. The total population was divided in five regions (Slavonia, Central Croatia, Zagreb region, Dalmatia and Primorje). The number of interviews in each region was defined according to the number of targeted business entities in regions. Inside of each region (stratum) random sample selection was done. The basis for random selection was database of all companies that submitted annual financial report in 2012 (for MSME Study) or list of 500 consultancy firms identified through the secondary research (for Consultant Study).

#### 4. RESULTS AND DISCUSSION

The majority of the MSMEs that have participated in the research originated from the trade sector (31%), followed by the production sector (17%), while the remaining 52% of enterprises fall into the category of providing other services. More than half of the enterprises (62.4%) included in the research were oriented toward domestic (Croatian) market, and only 9.6% were exclusively oriented toward foreign markets.

The biggest problems enterprises face are various legal issues (51% of enterprises), followed by the problems in financial management (43.9%), and problems in sales or marketing (43.6%). The key problems companies must solve in the next year are problems related to the financial management, searching for loans, and problems in sales or marketing. In addition, 8% of the companies stated that they have no problems to solve. Other problems (12%) for companies are related to building permits, concessions solvency, collection of complicated tenders, finding business opportunities, business expansion, and state bureaucracy.

Despite these issues and challenges, 78% of the respondents have not hired a consultant in the last three years, 9% hired a consultant only once and 13% have hired a consultant several times. The largest number of those that used consultants' help, used it for solving various legal issues and problems related to business planning and project preparation (19.4%).

Croatian MSMEs prefer domestic consultants (91% of the respondents hired the Croatian ones) and they obtained information through word of mouth or recommendation (71.6%) or through the Internet (19.4%).

When asked to evaluate their satisfaction with consultancy services, company owners expressed most satisfaction with consultants' expertise and knowledge ( $M=4.31$ ), while they are least satisfied with usefulness of cooperation ( $M=3.9$ ). The majority of enterprise owners that used consulting services would repeat their cooperation with the consultants (certainly yes 43%, probably yes 28%), while 14% of them would not repeat cooperation with consultants.

Understanding the business problem, expertise and knowledge, and the speed of giving feedback are the best rated satisfactions according to the enterprises stating that they would certainly and probably use services of consultants. The least rated satisfaction is value received for the price, usefulness of cooperation and overall results.

In most of the cases, non-users of consulting services are informed and familiar with the offer of consulting services in Croatia (70.8%), while

8.9% have requested offers from consultants. The majority of non-users of consulting services have not used services because they managed to solve their problems on their own, so that there was no need for consulting services (67%), while the other reason for not using consulting services is the high cost of the service (15.5%). The main reasons for the lack of trust between enterprises and consultants are: riskiness, enterprises have not heard much positive about consultants, consultants talk much and charge dearly, consultants have no connection with the real situation and have no intention of investing their own money.

The largest number of non-users of consulting services stated that they will use consulting services if they will be convinced that they will benefit from them (39.4%), if the service provided is more reasonable priced (21.2%), and if they can first receive free advice and then, based on that experience, they will think about the cooperation (12.3%). Other reasons crucial for enterprises' use of consultant services are: commission system, connection of consultants with the results of tenders, expanded business

guarantee of solving problems, and increased volume of work.

When asked about future plans related to use of consultancy services, the largest number of enterprises would use consultants in order to solve problems related to writing plans and projects, business planning, and when seeking for business partners and investors, while the smallest number of enterprises would use consultants in order to solve problems related to engineering.

The owners of MSMEs and consultants mostly agree on the criteria when selecting an external consultant – knowledge and expertise, understanding the business problem, recommendation and previous experience. Geographical proximity and company origin are rated as the least important criteria. Still, biggest gaps can be found in relation to certificates where MSMEs give higher rating than consultants, just as is the case with intuition. Recommendation, important from every perspective, is somewhat higher rated by consultants (Figure 1).<sup>8</sup>

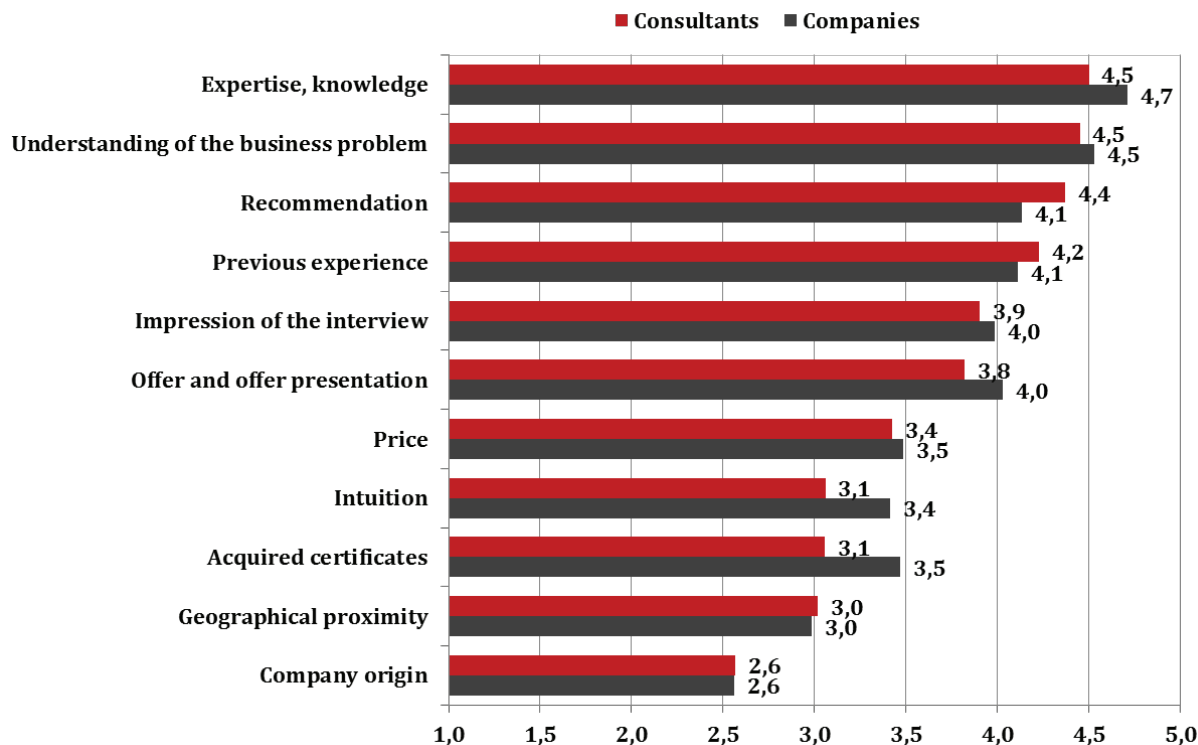


Fig.1. Rating of the importance of each criterion for the selection of the external business consultant, business prospects and consultants

Source: Alpeza, M., Mikrut, M., Oberman Peterka, S., Delić, A. (2014) Croatia Consultancy Market Study, CEPOR – SMEs & Entrepreneurship Policy Centre and European Bank for Reconstruction and Development, Zagreb, p. 28

In addition, 58% consulting companies have a membership in a consultant association, such as Association of Consultants within the Croatian Chamber of Economy (62%), HAMAG INVEST Network of consultants (6.9%), and Croatian Association of Management Consultants (3.4%). Almost 70% of surveyed consultants have specific certificates and licenses and 31% of consultants do not have any certificates or licenses. The most represented form of promotion and sales of consultancy services is recommendation - word of mouth (47.3%), advertising through their own website (34.5%), advertising through the Internet (12.7%), and advertising through the traditional media (1.8). In addition to the traditional methods of advertising listed in figure 39, most of the respondents contact potential clients on their own initiative (83.3%), by visiting gatherings (83%), using social contacts (79.2%), and by presenting their services at various events (62%). A slightly fewer number of the interviewed consultants make additional investments in advertising (44.2%), developing formal marketing strategy (33.3%), while the smallest number of respondents develop formal sales strategy (25%).

## 5. CONCLUSION AND RECOMMENDATIONS

The commercial and professional infrastructure for the development of MSMEs in Croatia provides support to MSMEs by two types of organizations: entrepreneurship supporting institutions and professional private consulting companies (more than 2,500 according to FINA data), where majority of them (59%) is in Zagreb County. The areas of providing consulting services and areas to which MSME consultants are most oriented are primarily associated to writing plans and projects for application to tenders for various incentives, loans, EU funds, etc., and with business planning, including preparation of investment projects, market research, marketing plans, searching for business partners and investors. Consultants in general have wide knowledge and cover a range of fields, but there is an insufficient number of consultants with specialized expertise.

In the last three years, 22% of MSMEs have hired a consultant when solving legal issues, problems

related to business plan preparation, problems in financial management or management in general. The most important criterion for choosing a consultant is expertise and knowledge, followed by understanding of the business problem and experience. The least important criteria are origin of the company, geographic proximity and price. MSMEs in general perceive themselves as being familiar with the offer of consultancy services market in Croatia. In most cases, non-users of consulting services have not used services because they have managed to solve their problems on their own.

The majority of MSME consultancy companies are familiar with consultancy associations in Croatia, and every second consultancy company in Croatia has a membership in a consultancy association. Both, at this point, are not recognized as the proof of quality meaning that they are not able to transfer the value on consultants if not recognized as value holders. Certificate should reposition itself from "just a label" to "label of trust".

Based on the research results, recommendations for advisory service providers for MSMEs are developed: **Recommendation 1** - Consultants should focus on the key problems in business that members of the MSME sector recognize as significant for solving in the next period such as issues of legal nature, problems related to financial management, problems related to marketing and sales. Furthermore, consultants should focus on the areas where demand for consulting services is not met: energy saving and environmental protection measures; introduction and upgrading of computer information management systems, implementation, preparation and certification of quality management systems, systems for improvement of accounting and controlling, engineering studies, implementation of modern human resources management systems; **Recommendation 2** - Consultants should develop own formal sales and marketing strategies with the aim of higher quality approach to sales and marketing of services, and a more credible presentation of the importance of creation of the same approach in clients' businesses; **Recommendation 3** - Consultants should organize free-of-charge half-day workshops for entrepreneurs with topics on issues they can help solving by



providing consulting services and present successful examples from their own consulting practice in order to build credibility and entrepreneurs' trust in the capacity for providing help in solving problems. Consulting services to entrepreneurs should be offered with the option to choose different modes of payment, which would reflect consultant's willingness to participate in the risk of decision-making and implementation of solutions proposed by the consultant, and self-confidence in the ability to provide support in solving problems and developing entrepreneur's business.

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