

THE RELATIONSHIP BETWEEN BUSINESS CONSULTING AND SERVICE INNOVATION IN SMES IN UK

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Abstract: This paper aims to examine the relationship between business consulting and service innovation (knowledge management and strategy development) in UK SMEs. Specifically, exploring the underlying factors that influence such a relationship to help both consulting firms and SMEs improve collaboration efficiency and maximize the positive impact on innovation consulting projects. Quantitative method and Qualitative method are designed to collect the data in this paper. The analysis shows that the consultancy has a positive influence on service innovation in SMEs. Furthermore, the related factors that affect the results of innovation consulting projects and potential solutions for consulting firms and SMEs are also provided.

Keywords: business consulting; innovation; SMEs; management efficiency

1. Introduction

1.1 innovations

With increasing globalization, the highly competitive environment, and the complexities of changing demographics along with high expectations from customers, innovation has been a critical competitive factor in emerging economies. In the last decade, more and more enterprises have shown their interest in innovation and started to perform innovative activities. Witell et al. state in their research that most companies have improved their competitiveness and service performance through service innovation, such as IKEA, Google, Apple, Starbucks. However, Mortara and Minshall mention that mainstream studies on service innovation focus mainly on large and multinational companies. This might be because SMEs face lots of challenges in pursuing innovation and commercializing it into services and products for increasing their profitability.

1.2 Business consulting

The demand for business consulting has been growing rapidly for last decades as it can not only provide professional knowledge in a wider range of areas but also is generally recognized by enterprises as an agent of organizational change and development. However, The role of the consultancy in SMEs is still poorly perceived in the literature, and the results of empirical research are ambiguous. For instance, a scholar shows a positive influence of consulting services on the management level and financial performance of SMEs. By contrast, Yusoff et al. pointed to the minimal effect of management consultants on the developmental orientation of managers in SMEs.

1.3 Aims of this research

Given the importance of SMEs in the economy, the absence of service innovation in SMEs in literature, and the ambiguity of consulting results in SMEs, this study contributes to filling these gaps by assessing the relationship between the consultancy use and innovation in services in SMEs. This paper discusses the impact of consulting services in terms of knowledge management and strategy development on service innovation. Specifically, the contribution is aimed at exploring the underlying factors that influence such a relationship. Understanding their relationship and the underlying factors, which can help both consulting firms and SMEs improve collaboration efficiency and maximize the positive impact on innovation consulting projects. The research questions are established based on the aims of this research:

RQ1: What is the influence of consulting services in terms of knowledge management and strategy development on service innovation in SMEs?

RQ2: What are the underlying factors that business consulting has more or less effect on service innovation?

RQ3: For both consulting firms and SMEs, how to maximize the positive impact on innovation consulting projects?

2. Analytical framework and research sample

2.1 Research sample

Individual SMEs which have ever used consultancy in UK are the sample units of this paper, and any employees or managers who are working in or have ever worked in these SMEs are the participants of the questionnaire. The sampling technique uses convenient sampling from classmates, colleagues, friends, teachers, and social media (e.g., Facebook, LinkedIn). This research finally covered 135 SMEs.

Qualitative data was collected from a well-structured questionnaire through one by one face to face interviews or email. People who are or ever were (A) the key employees in consulting projects, (B) the managers who are (were) involved in consulting projects, and (C) top management or executives of the company, are the participants of interviews. Finally, 8 people from different SMEs were invited to participate in the interviews.

2.2 Analytical framework

Regarding data analysis, this survey provides two types of data, the questionnaire data and the interview data. The questionnaire data was to find out how many people thought the relationship between the use of consultancy and service innovation is positive, and

how many people believed there is a negative or no any relation between them. The next was to present the specific data based on this relationship, for instance, which aspects do the respondents think the impact on? Knowledge or strategy, or both? How many people are satisfied or unsatisfied to the consultancy use? Based on the interview data, it is necessary to find common ideas and recommendations for generalization. Moreover, the result is compared with the literature to show the difference and similarity. Finally, the answers to the research questions are revealed based on the data analysis.

3. Research results

3.1 The relationship between the use of consultancy and service innovation

Figure1 shows the final results of the relationship between the use of consultants and innovation in services. Data indicates that 71.23% of people (9.9% strongly) support the positive relationship argument, although there are still 20.95% of respondents (4.57% strongly) disagree with this view. Furthermore, 7.81% of people have a moderate attitude towards this relationship.

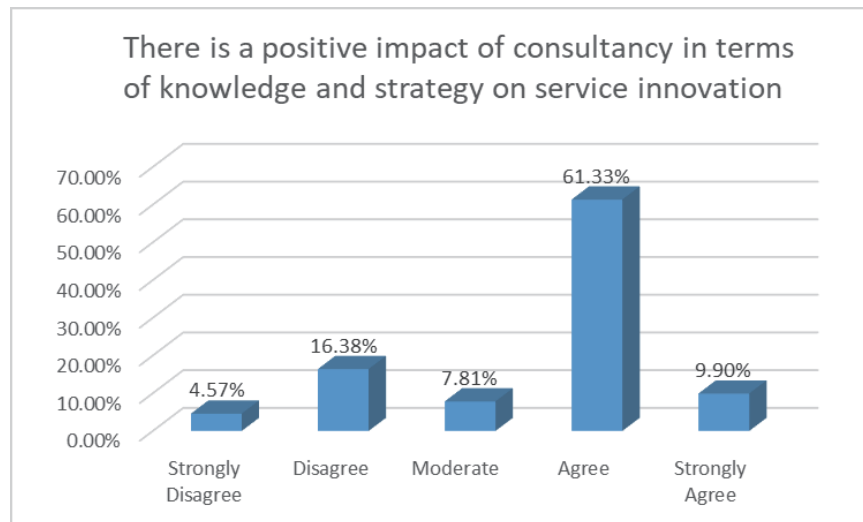


Figure 1: results of the relationship

Table 1 summarizes the percentage of results, according to the data below; people think that the positive impact of consultancy on knowledge management (79.43%) is more than strategy development (68.57%). Additionally, 65.72% of respondents have a positive attitude towards the overall satisfaction that consultants affect organizational service innovation.

Table 1: percentage summary of results

	Strongly Disagree	Disagree	Moderate	Agree	Strongly Agree
<i>Knowledge management</i>	1.14%	12.00%	7.43%	67.43%	12.00%
<i>Strategy development</i>	6.86%	17.14%	7.43%	61.71%	6.86%
<i>Overall satisfaction</i>	5.71%	20.00%	8.57%	54.86%	10.86%
TOTAL	4.57%	16.38%	7.81%	61.33%	9.90%

3.2 The underlying factors that affect the results of business consultation

8 interviewees from different SMEs expressed their opinions based on their real experiences in innovation consulting projects. Some of their companies have innovated successfully after receiving consulting diagnoses, and some innovation projects in which they have been involved failed after business consulting. Regarding this research question, their response is summarized as follows:

First, a few respondents thought that the nature of consultancies is to offer advice and assistance on particular fields that they are subject matter experts on. Therefore, they agreed that consultants' knowledge and capabilities play an important role in the effectiveness of innovation consulting projects. For example, an interviewee mentioned that the main factors that can influence the effectiveness of a consultancy project are: how specialized the consultancy is in the business problem, how experienced the consultant is and the solutions they can bring to the table. Second, the client-consultant relationship was also mentioned by some respondents in increasing the success chances of innovation. Third, some interviewees stand from an organizational perspective; they argued that organizational knowledge and abilities are also important for a successful innovation consultation project.

3.3 The barriers to service innovation after business consulting

A series of barriers for service innovation after consultation were recognized by these interviewees based on their real experiences. For

instance, one of the interviewees said that the interest of consultants could be a barrier to the planned service innovation. Additionally, most respondents felt that the obstacles were mainly from organizational internal, including internal expertise, organizational structure and culture, change management, and other competences. For example, one of respondents summarized the barriers in their company include financial budgets, internal conflicts of interest (board members), client resource/specialized employees (e.g., marketing directors, IT directors, web developers, etc.) and of course readiness to implement solutions.

3.4 Potential solutions for maximizing the positive impact

Given the underlying factors that affect consultancy results and the barriers for service innovation after consultation, this interview also asked for some suggestions from interviewees to increase the positive impact on future innovation consulting projects. The results of this question are presented from three aspects, such as consulting firms, client SMEs, and their communication and corporation efficiency.

For consulting firms and consultants, their professional knowledge and skills are essential and extremely significant for a successful consulting project. Thus, most respondents suggested improving consultancy quality and service level. Such as Consultancies must be transparent with potential clients; The consulting firm should completely understand what the business is, how it operates, and potential issues. They should set goals for both parties so that there is an expectation level on both parties. That way, the client can monitor the success of implement consulting service changes and track the value that adds to the company; Consultants should take more responsibilities of encouraging and motivating people to change; they should have more solutions for overcoming resistance and reluctance.

SMEs as the receivers of consulting services and the main implementer of advice, their knowledge and competences are also decisive in change management associated with innovation. Therefore, some interviewees provided a few recommendations from enterprises internal perspective: The client needs to be realistic when requesting a solution from the consultancy. They need to be clear about what kind of change they are looking for and what resources they need. During consulting projects, the HR department should pay close attention on the change of companies (e.g., employees' behaviour, emotions, expectations, etc.). Regularly organizing training to improve employees' awareness and enhance their abilities.

Finally, respondents also offered a few solutions for improving the communication and collaboration efficiency between consulting firms and client SMEs. Following a combination of both formal and informal modes of communication. Formal modes are scheduled meetings, calls, and presentations. We also encourage informal modes like WhatsApp groups. Open communication is key for an effective relationship. All parties must be transparent in the work they are producing or the research they are conducting to stay on the focus of the client agenda. The client must clearly communicate the needs of the business and make any changes or deviations known to the consultancy.

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