Evaluating SME Performance and State Support

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Summary

This research illustrates a pragmatic approach to evaluating the small and medium sized enterprise (SME) policy support in small sample research situations. A public interest perspective is taken. This approach will deliver findings on the contribution of the multiple factors influencing a result and will show whether the implicit theory of change for the policy under evaluation makes the expected contribution to the observed result and in what way. The Contribution Analysis finds that the theory of change for the policy under analysis was not verified in the study period. The outputs and outcomes of the analysis broadly support this conclusion. Moreover, the study finds that the primary limiting factor on profitable small and medium sized enterprise growth was the 'limited endowments of managerial resources' (Penrose, 1959) to manage the value-adding growth process and the lack of 'well thought out, well managed projects' (Walsh, 1985) and not lack of access to equity finance as surmised by policymakers. Whilst Ireland is used as the case example in the study, there are significant lessons for policy evaluators in other late-developing states and in regions with policy autonomy in the enterprise domain.

Research Study Overview and Findings

The chain of evidence gathered here suggests that the proposed ToC for the public venture capital policy is not confirmed by the evidence gathered in this analysis. Indeed, the result of the six-stage Contribution Analysis is that the state's public venture capital policy is not reaching the primary objective envisaged for it – to close the perceived 'equity gap' for growth-oriented indigenous firms.

The public venture capital was expected in turn to help 'accelerate the growth of the development of world-class Irish companies to achieve strong positions in global markets resulting in increased national and regional prosperity' (Enterprise Ireland annual report, 2008) thereby contributing towards the national objective of 'job creation' (Breznitz, 2012). Murray et al. (2012) note that:

A clear lesson from the experience of advanced Western economies is that supply-side measures alone cannot create a viable VC industry. In addition there has to be *major changes to the environmental ecosystem that also allow for significant improvements in the quality and prospects of the firms seeking VC finance.* (Murray et al., 2012: 17)

Thus cognisance must be taken from the outset of the drivers and constraints on firm performance other than external financial resources. The case studies in this article identified and highlighted the deficient diagnostic capabilities and implementation skills of the leadership team in indigenous growth-oriented firms as the primary factor in the sub-optimal firm performance. The owner-manager-related barriers which retard the development of sustainable competitive advantage can be addressed by increasing the absorptive capacity of the leadership team and/or by facilitating the provision of resources to overcome growth constraints (Arnold et al., 2004; Bessant et al., 2005; O'Gorman, 2012). The actual provision of these resources – particularly financial resources – is best mediated by the marketplace (Leleux and Surlemont, 2003). However, Bannock (2005), Davidsson (2008) and Bridge and O'Neill (2013) all broadly agree with Bill et al. (2009) when they note that:

Numerous research studies have failed to find any positive correlation between support measures and development programmes on the one hand and firm growth and development on the other. (Bill et al., 2009: 1136)

Storey and Greene (2010) further note the dearth of rigorous evaluation methodologies applied to micro-level policies. Indeed, they note that most evaluations only report the views of recipients, which is monitoring and not evaluation. This occurs despite the fact that the OECD (2004) recommends a robust six stage evaluation process developed by Storey (2000).

It is suggested that states, in future, adopt the logic of the BCG (2015) 'hierarchy of intervention' approach in deciding on the appropriateness of interventions and that all interventions should be implemented using the COTE framework with rigorous evaluation as an integral part of the enterprise policy-making process.

Implications for future research

Stern et al. (2012) note in conclusion that most interventions are contributory causes to change. They work as part of a 'causal package' in conjunction with other 'helping factors'.

Evaluation designs and methodologies in future will need to be able to 'unpick' these causal packages. The enterprise policy area, with its under-developed evaluation culture and weak empirical base, is a domain which can provide rich research and practice opportunities for the policy evaluation community.

Further Information:

Buckley, AP (2013). Indigenous Firm Performance in a Small Late Developing State: A Case Study of the Role & Contribution of Public Venture Capital in Ireland, Unpublished PhD Thesis. Lancaster University, UK.

Buckley, AP European Evaluation Society (EES) Biennial Conference. Evaluating the role and contribution of Public Venture Capital to indigenous firm growth in the smaller state – A Contribution Analysis. Evaluation for an Equitable Society. Convention Centre, Dublin, Ireland 1-3 October, 2014. **Best Paper Award (Ist Prize)**.

Buckley, A. P. (2016). Using Contribution Analysis to evaluate small & medium enterprise support policy. Evaluation, 22(2), 129-148.

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Skillnets is funded from the National Training Fund through the Department of Education and Skills.