

In the second installment of their small business development series, Victor Krahn and Mark Cabaj continue to take a hard look at the performance of community-based programs to determine if and how they can be improved. The first installment (see Making Waves, Vol. 8, No. 4, Winter 1997) focused on small business training programs. This time they turn their attention to the proliferating number of small business consultants, one of three pillars in small business development programming (the other two being capital and training). How can these organizations improve their work so that participating businesses prosper after their launch?

ADDING VALUE IN MICROENTERPRISE BUSINESS CONSULTING

VICTOR KRAHN & MARK CABAJ

It's Friday night and we are sitting around after supper. All of a sudden the phone rings. It's a call from one of Victor's clients, whose business is selling manufacturing equipment to medium-sized plants. He has been working with him for the last two years.

The client is upset. His one and only supplier has just renegeed on a promise to provide a full distributorship which would provide him 20-40% margins on his sales. He is certain that he is going to lose his business. As a business advisor, what can one do to help him get out of this mess, get on his feet, and grow the business again?

AN IMPORTANT QUESTION

The field of business consultancy has grown rapidly over the last few years. There was an estimated 20,000 management consultants in Canada in 1995 who generated anywhere from \$2.3 billion to \$3 billion in revenues a year.¹ The field is expected to grow approximately 10% annually until it reaches an estimated \$5 billion in the year 2001. It is - and will continue to be - the fastest growing segment of the country's service sector.

Small business consultancy represents a big chunk of this pie. There are an

estimated 2.5 million self-employed individuals in Canada and this number grows every year (the number jumped another 12% from 1996-1997 in fact).² And since the majority of all businesses fail because of poor management, many of them could do with some good old business expertise.

Unfortunately, this is the area where our small business development programs receive by far the weakest grades. Less than two-thirds of 1,000 surveyed participants of the federally-sponsored Self-Employment Assistance program (probably the country's largest self-em-

ployment program) were pleased or satisfied with their business assistance.³

The strong demand for such assistance coupled with our less-than-satisfactory response requires that we answer a simple question: How do we "add value," if at all, to our clients' small businesses?

THIS AIN'T KANSAS, DOROTHY ...

This is a good question to ask at the beginning of any seminar with staff of small business development organizations. It forces business advisors around the table to think hard about their job and suitability for it.

And while the answers tend to vary widely, a large percentage respond with the following: "We'll help them with a few tips, you know, go through ownership options, how to make cold calls, things like that."

A few tips, however, is not what a business owner needs. S/he can get that from friends sitting around the coffee table or reading a book. In fact more than half of all entrepreneurs in the Ontario study turned first to publications for business information and tips. Less than 6% ap-

proached consultants.⁴ By the time a small business owner picks up the phone to call an advisor, s/he wants something more substantial.

Where this perspective on small business consulting comes from is unclear. We suspect, however, that is rooted in a belief that small business consulting is a lot like big business consulting, with the advantage that perhaps the client (the fledgling entrepreneur) is far less discerning and demanding.

This thinking is, of course, mistaken. Consulting to small business is in some ways far more challenging than consulting to medium-sized and large enterprises.

Here's why. The majority of large enterprises tend to use consultants either as a cost-saving measure⁵ or to deal with a well-defined technical problem.⁶ In any case, while there is usually a clear need for consultants' expertise, the immediate survival of the large enterprise rarely depends on it.

Small business owners, on the other hand, tend to call with significant issues that need quick resolution. Poor sales or financial management mean paying the mortgage this month will be difficult. The bank is calling in a loan, will not extend a letter of credit, or refuses an expansion loan. A major buyer goes out of business or leaves town. All threaten the venture's immediate growth prospects, and in some cases the very survival of the business.

Perhaps as important is that once advice is given, small business owners are far more likely to act on it. Decisions in medium to large enterprises are often dragged through endless meetings and often simply get lost in the shuffle. The phenomenon of the consultants' report gathering dust on the shelf is well known.

Not so for small enterprise-owners. By the time it takes to complete a phone call, meet for breakfast or slug it out over a table until 11 pm, they are already thinking about implementation. And if the deliberations get on paper at all, it's likely on the back of an envelope or table napkin.

Finally - and this cannot be stressed enough - the relationship between consultants and small business owners is unavoidably up close and personal. No large and faceless organization here. When the client succeeds, the advisor feels good; when they don't, s/he loses sleep.

These differences, which are admittedly overstated to make a point, highlight a simple fact - small business consulting is anything but sitting in a chair with one's feet up, dispensing wis-

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dom to novice entrepreneurs. It is about rolling up your sleeves to work with people whose business and ultimately family livelihood depends on resolving concrete business and personal issues.

Not everyone is suited for this type of work (particularly one of the authors). In response to the good-natured ribbing of several colleagues who consult for large or medium companies, for instance, Victor offered to pay them to work with the aforementioned client who had lost his supplier and an additional four other clients. They would also be held responsible for the results. No one took up the offer.

IMPROVING PERFORMANCE

How then can we build on this better understanding of small business consulting and identify the true "value-added" of our work to our clients? Here's a couple of thoughts for would-be advisors and program designers.

The most obvious one first: we must bring real practical business experience to the table. The critique of the MBA school approach to business is now quite old (all theory and analysis, no action). While this is most certainly exaggerated, it does underscore the need to have walked the talk before we start dictating "dos" and "don'ts" to clients. They won't (and shouldn't) take advisors seriously unless they have.

Having advisors who work on their own business while assisting clients is also a good idea. Not only does it mean that they have a feel for the day-to-day realities of the local economy, it also provides them with a list of working contacts to draw upon as the need arises. (Our previous article on self-employment training, for example, cites the instance of a craft business which was able to expand thanks to an advisor who linked him up with a personal colleague, a large distributor in the field.)

And contrary perhaps to popular belief, an advisor's business history need not be flawless. (Whose is?) One of Canada's leading small business organizations, for example,⁷ actively seeks advisors that have at least one business failure in their past, an experience which, in the organization's estimation, gives the advisor added sensitivity to the clients' need to succeed. The results of that organization's assisted businesses and feedback speak for themselves.

Experience, however, is not enough. It is absolutely necessary that an advisor be the type of person that gets a kick out of helping someone else to succeed. It is this desire that drives him/her to stick with a

client during tough times and goes miles to instill in the client the confidence that he/she can count on you in the long run, a priceless commitment in the sometimes lonely world of small business.

Finally, an advisor can add tremendous value to their clients by acting as a personal coach. As noted in the last article, it is the “entrepreneur” behind the enterprise - the person who sees the opportunities and has the drive, stamina, and patience to pursue them - that ultimately determines whether a business succeeds.

While some argue (Peter Drucker for instance) that the somewhat mechanical exercise of identifying opportunities can be “taught,” the desire to succeed and to continually push oneself cannot. This must come from within and can be at best “cultivated” and “encouraged” from those around the person.

This is particularly true in the field of CED where many clients have just been laid off or have been out of work for some time. Their spirits are low and confidence is often a bit shaky. Helping them set realistic business objectives, arguing vehemently when they are not pushing hard enough, laughing when times get grim - all that can go a long way.

Hands-on experience, a drive to help, and a willingness to act as a personal coach: these appear to be the pre-conditions to successful small business consulting.

YEAH, BUT ...

These observations are unlikely to escape some sharp criticism from those in the field.

Program administrators will argue that the majority of programs operating in the nonprofit sector are unable to recruit and keep such people. The payscale in the CED sector is modest at best. And many organizations feel very uncomfortable allowing advisors to operate their own ventures while working with clients.

Business advisors that already exhibit these traits will demand more specific

strategies and techniques to help their clients. “We already are qualified general contractors”, they will say, “tell us how to build a better house!”

Both criticisms are valid. These observations and recommendations may not enable many advisors to assist their clients better. Yet they still present a serious challenge to the capacity of many organizations.

We have come across this frustrating dichotomy - the need for advice on “best practice” and the limited capacity of community-based organizations to support it in many of the small business programs we have seen. We plan to look at this more closely in the last article in this series for the simple reason that. In the meantime, there is work to do.

CONCLUSIONS

This year, thousands of self-employed Canadians will go out of business and thousands more will register a new one. This means work for even more business consultants.

A good number of those new business owners will call these new consultants on a Friday night and will get one of two responses: a few tips, or an offer to get together for a coffee with one of the advi-

sor’s old friends who had a similar problem a few years early.

Now those tips could well be valuable, and that conversation over coffee could be a waste of time. But if you had to (and our clients do), where would you put your money?⁶

REFERENCES

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- ²*Small Business Quarterly*. Industry Canada. Fall 1997.
- ³Frank Graves and Benoit Gauthier. *Evaluation of the Self-Employment Assistance Program*. Human Resources Development Canada, 1995.
- ⁴*Small Business Report*. Government of Ontario, 1989.
- ⁵85% of large enterprises surveyed in a recent Industry Canada study expected to out-source at least one business function within the next year; 95% projected by late 1998. *Consultant News*, Industry Canada, October 1996.
- ⁶*Ibid*. 60% of all consulting, for example, is in the field of information technology.
- ⁷the Community Opportunities Development Association (CODA).

VICTOR KRAHN and MARK CABAJ base their thoughts on their own first-hand experiences as well as other North American CED initiatives they have learned about through evaluations, articles, and conversations. They make no claim to be authorities on the subject. They are merely interested practitioners who are keen on making the field of small business development as effective and as efficient as possible.

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The next article in the series will look at the North American experience in providing credit and equity for small businesses. The fourth and final installment will make some recommendations on the basis of what has learned over the last decade about building better, more sustainable programs for the growing number of people who are turning to self-employment for their livelihood