

## THE ROLE OF CONSULTING SERVICES IN THE ECONOMIC DEVELOPMENT OF SMALL AND MEDIUM-SIZED COMPANIES

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**Abstract:** *The development of information and communication technologies that have linked the whole world together; have led to a global change of all aspects of life, of people's way of life and not just of material production. The correlation and the contrast between work and leisure have changed the types of economic activity also. The speed of all economic processes has increased, owing to the unprecedented increase in the speed of information transfer and the technological development of production, management and exchange processes. There is an opportunity to introduce instantly organizational changes based on technical novelties (implementation of project management systems, workplace training, etc.). In these circumstances, the economic entity faces a growing competition, making faster decisions and introduce organizational changes. As a result, there is a need for specialists to help make changes. This raises intellectual entrepreneurship through specialized advice.*

*As a result, consultancy becomes a benchmark in the development of companies' competitiveness and sustainability in the market. For the success of its business, the enterprise must react to the emergence of "weak signals" in the external environment.*

*For this purpose, it is necessary, first, to monitor the evolution of events in the external environment in order to identify these weak signals. However, a small business cannot hold such observer - specialists within the company. However, some and the same information on outside events has different meanings for different companies, they can be positive for some and negative for others. The role of consultants is to monitor changes in the external environment and solve problems related to a particular firm, assessing the role and importance of market signals for this.*

*Although the use of consultancy as a resource for growth and adaptation of new market demands is spread among corporations due to high costs, it plays an important role in the economic development of small and medium-sized enterprises. They do not have the ability to monitor all the changes that appear, just as large companies can have marketing or strategic analysis staff. To have specialists in various fields such as strategic management, staff management, marketing, and more so for narrower areas such as information technology, financial analysis, etc., in a small business is expensive. Thus, the use of advisory services on certain issues could provide timely vital information for the company by enhancing its information system.*

*The work analyzes the impact of using consultancy services in small and medium-sized businesses on their economic development and sustainability.*

**Keywords:** *consultancy services, development, small and medium-sized enterprises*

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## 1. EVOLUTION OF CONSULTING ACTIVITY

**S**eparation of consulting as an independent type of economic activity is related to the transition to a post-industrial economy. Consulting appears as a result of the development of the social division of labor. This product becomes a type of an independent activity in the post-industrial society, in connection with the formation of the "new economy" or the "knowledge economy". The material basis of this process is to transform knowledge into an independent economic resource and a key property object. This emerges from the continuous search for new ways of increasing the efficiency of production by entrepreneurs. Experienced management's attempts to find a commercial application for their skills that determine the desire to transfer the accumulated experience, to attach it to the development of appropriate recommendations. One of the first professional consultants in this field was the founder of the company's scientific management theory, F. Taylor. The first management consultancy - Business Research Services was established in Chicago in 1914. In the 1920s and 1940s, such firms spread across Europe, and in the following decades in other regions of the world - in Asia, Africa, Latin America.

At the early stage, management consulting was identified as a type of business consultancy, accelerating scientific and technological progress, internationalization of industry, trade and finance. Currently, consultancy companies are becoming more popular, with consulting types and sub-sectors being developed. This becomes one of the most important spheres of intellectual entrepreneurship. Effective consultation is a transforming element in the new economy, because its essence is the application of a consultant's knowledge in a specific situation, a particular firm, or a process and aimed at changing this situation [1].

## 2. THE CHARACTERISTICS OF THE CONSULTING ACTIVITY

The consultancy can be defined as "a certain type of common intellectual activity of the consultant and the client, in the process of delivering the services to optimize the ways of achieving the client's interests in the areas set by the objectives, the efforts to achieve the objectives as well as the monitoring quality and efficiency of these activities. "

The following signs of the consultancy activity are noted: professional assistance, consultative character, independence, analysis, rationalization and optimization, joint activity, primarily intellectual, of consultant and client.

1. Professional assistance means that any advice should be performed by specialists with professional experience and highly qualified in this area. Theoretical knowledge must necessarily be supported by practical experience in analyzing different managerial situations. In particular, A.P. Posad and S.V. Haynish defines consulting as the "professional assistance of company management specialists, management and administrative staff of various organizations in resolving their operational and development issues, in the form of advice, recommendations and solutions developed with the customer."

2. The advisory nature assumes that a consultant is responsible for the quality and validity of the advice he provides, and the client is responsible for implementing the decision taken based on the advice.

3. Independence of consultancy. Counseling is "highly qualified help for managers, aimed at improving the work of organizations by independent (outside the organization) experts specializing in a particular field." [2] The independence of the consulting service implies:  
financial independence (the objectivity of the recommendations should not be affected by the consultant's willingness to continue with the client);  
administrative independence (the consultant is not subordinated to the client and all administrative decisions do not apply to him / her);  
political independence (the consultant should not be influenced by people who use political ties, membership in a political party, etc.);  
emotional independence (the consultant keeps the distance during the realization of the task).

Independence offers consultants a number of advantages over managers [3]:

Specialization offers the possibility of better information. - The consultant has an impartial view from the outside. Managers at any level can be influenced by personal ties, traditions and values that have developed within the enterprise, which prevents clear view of the problem and effective decision-making.

The consultant instructs the client in the counseling process. Many organizations are addressing not only to find solutions to a particular problem, but also to acquire the knowledge and experience of a consultant.

The consultant can justify the decision taken by the management, confirm his authority, confirm his decisions, using his / her personal experience.

The consultant provides temporary assistance, practically extending the staff of the organization.

Some types of independently developed activities can cost the company much more than the services of specialized firms (marketing research, development and implementation of advertising companies).

4. Rational character. O.K. Elmashev considers consultation as an effective form of rationalization of production management based on the use of science and best practices.

5. Ensuring the client with additional resources. This aspect is present in the definition of V.I. Aleshnikov, which introduces the term business consultancy, defining "securing the client with experience, methodology, behavior techniques, professional skills or other resources that help him to optimize the financial and economic situation of the enterprise within the current regulatory framework". This definition is very important to us because, unlike others, it indicates not only an auxiliary, "helpful" or consultation analysis function. Here the role of the consultant is highlighted as an additional resource bearer, which the client receives as a result of the application of the consultancy.

As additional resources the client receives from consulting, there are: experience, behavioral technique, professional skills. However, in our opinion, this does not explain the spread of advice, which differs from consultations by narrow field specialists - medical or pedagogical consultations. In our opinion, in the consultancy activity, there is an increase of the intellectual capital of the organization in the common activity of the client and the consultant.

Currently, consultation is an institution with increasing importance for market economy. Therefore, it can be represented as follows:

- as an institution in which the current level of habits and standards of consulting perception are concentrated;
- as a business sector, a separate type of entrepreneurship on the market;

- as a professional sphere with its own standards, criteria and qualification levels;
- as a scientific-applicative field of activity, with its methodology and approaches;
- the type of occupation or specialized activity that requires certain skills, abilities and qualities of the individual.

In modern market conditions, the economic environment is continuously changing under the influence of evolution of information and information technologies. For economic agents whose main task is the production of goods and services, searching for information is one of the important functions. In these circumstances consulting position itself as a specialist in identifying customers problems, finding and providing a result of impact for exact solving his problem. The result of the consultancy is to increase the competitiveness of economic agents as a result of the introduction of efficient economic and managerial approaches and the professional development of managers and specialists from companies. On the services market, consulting is one of the types of business services. It represents different types of infrastructure activities, namely activities that provide conditions for the functioning of the material and non-material spheres of the national economy. These services ensure the formation and interaction of all elements of the infrastructure complex. Consulting service can refer to both the secondary activities of the economic agents and the main activity [4].

The range of issues that lead to the need for consultancy is diverse, such as business crises, organizational and management restructuring, strengthening a competitive market position, or preventing or counteracting opportunistic behavior of employees and managers. The opportunistic behavior of employees or management staff can lead to loss or even the risk of loss of ownership. Cases of critical situation that occur when the owner or management cannot solve themselves because of lack of experience or internal resources are the reasons to use the services of a consultant.

Reasons for consulting business management in E. Beych's vision are as follows:

- The need for expertise.
- Lack of time.
- Lack of experience.
- Objective opinion from outside.
- New ideas.
- Speed and efficiency.
- Assessment of the situation.
- Independence. [5].

Consultancy can provide the skills and knowledge needed to ensure economic growth or to cope with any major changes in company activities in limited time. It is able to provide qualified services, through fresh knowledge and impartial vision of how to solve problems, with the involvement of new knowledge and successful solution models.

### **3. THE IMPACT OF CONSULTANCY ON THE DEVELOPMENT OF THE SME SECTOR**

For large businesses, issues such as: M & A, enterprise restructuring, ICT issues, and many other issues that are not included in day-to-day business activities are typically resolved with consultancy firms. For small and medium-sized businesses, the practice of recruiting external consultants is not yet widely spread.

Analyzing consulting as an institution for the development of small and medium-sized enterprises, especially small businesses, it is necessary to understand the tasks they are doing in a company. The first task is to create a middle class, that is, a class of self-confident people who see the prospect of their own development in their own country. This advisory task should increase the confidence of entrepreneurs in their decisions, in the prestige of entrepreneurship itself.

The second task solves problems related to job creation as well as training and survival in the competition. This is a social task, and in this case, consultations should benefit from additional resources, learn to identify and transform various factors into business resources.

The third task is to use the potential of small businesses as an economic tool to stimulate initiative, entrepreneurship and innovation. In the innovative economy that Drucker described, the leading role in the economy is played by millions of small and medium-sized businesses [6]. We are talking not only about the production of high technology products through the use of high technology, but also about innovations related to marketing, logistics, interaction and other aspects of ensuring the competitiveness of goods and services in terms of price and quality.

The importance of small and medium-sized businesses in the economy has been confirmed by world practice. The state and role of small and medium enterprises in the country's economy is characterized by the following indicators:

- the number of small enterprises and individual entrepreneurs in the total number of market economy subjects;
- the contribution of small and medium-sized enterprises to the creation of a gross domestic product, to the production of goods (works, services);
- the contribution of small and medium-sized enterprises to the formation of federal and regional budgets;
- the dynamics of the number of working-age population employed in small and medium-sized enterprises, the contribution to reducing the number of unemployed;
- saturation of the market with consumer goods (works, services), the best satisfaction of the needs of the population;
- the skills of citizens able to create their own business, the accumulation of experience in business management, etc.

In fact, consulting service is more relevant to SMEs, even more than for large business enterprises. This can be justified by using the approaches of the institutional economy and the concept of cognitive capitalism, as follows:

1. The consulting intensifies the dependence of the company's internal environment on the sudden change of external factors. If a small or medium enterprise does not capture environmental signals in time and does not take appropriate adaptation measures, it will die. Entrepreneurial responses to changes in the external environment should be a response to obvious and specific events, the importance of which should be evaluated in a timely manner. However, often, making decisions based only on obvious information can be dangerous: the enterprise has big losses due to the fact that time has been lost and the change comes late.

For the success of its business, the enterprise must react to the emergence of "weak signals" in the external environment. For this purpose, it is necessary, first of all, to monitor the evolution of events in the external environment in order to identify these weak signals. However, a small

business cannot hold such observer - specialists within the company. But some and the same information on outside events have different meanings for different companies, they can be positive for some and negative for others. The role of consultants is to monitor changes in the external environment and to solve business-related problems by assessing the role and importance of market signals for this. As Alliance-Media specialists write: "Obviously, the stronger the signal, the less time the company has to respond to. In order to ensure that a small company's response to signal strength is consistent, management consultancy can, with the enterprise-client, implement an alternative response strategy: for a weak signal, an awareness strategy; for average signal power - a flexibility strategy; for a high signal strength - an immediate reaction strategy. "

SME specialists do not have the capacity and often the ability to monitor all the changes that are occurring, just as large companies can do with marketing or strategic analysis. To have specialists in various areas such as strategic management, staff management, marketing, and even more so for narrower areas such as information technology, financial analysis, etc., in a small business is expensive. It is better to check the course regularly, in consultation with professionals.

2. Consultancy develops the objective process of specialization, as well as an increase in interconnection and interdependence in the economic system; networks of interconnected enterprises, including SMEs, are being developed; in networks, there are specialized representatives of the IT infrastructure, representing different consulting and training structures, their services become more branched and accessible both spatially, especially through the development of various software and at the price.

3. Consultancy helps create competitive advantages for assisted firms. This is important for firms of different sizes, but it is particularly important for SMEs, as large businesses have the opportunity to rely on strategies associated with ensuring a market monopoly and the benefits of mass production. Competitiveness in SMEs can be achieved through the ability to adapt to a niche, the uniqueness of goods and services, speed, building partnerships with other firms, and customer orientation. All these advantages are based on the introduction of innovations related to the most diverse aspects of the company's activities - marketing, design, personnel management, customer base, social networking, Internet promotion etc. These innovations are based on the use of the latest knowledge and technologies. The main problem is to have this modern knowledge.

Within the institutional approach, knowledge is seen as a commodity that can be bought and sold. At the same time, the company can create it alone. According to transaction cost theory, the firm prefers to create knowledge in itself if the value of knowledge created inside is less than the market price of this knowledge, plus transaction costs for acquiring it. The very existence of the company, according to Demsetz, is associated with the fact that the company minimizes the expenses for communication and coordination of knowledge [7]. Knowledge market transactions are often complex, expensive or impossible because of the specific nature of knowledge. Creating knowledge is initially an activity of high uncertainty: which one will bring success is an unknown one. Knowledge is therefore difficult to buy from the market. In addition, knowledge is difficult to acquire on the market because of the high percentage of "implicit" knowledge. It is difficult to determine the presence of implicit knowledge and to transfer it without moving the key personnel, so the more implicit knowledge in the know-how of a company, the more likely it is to increase its competitiveness with other firms. Consequently, large firms, where knowledge processes are of major importance, prefer to have

their own specialists, their laboratories, to solve their problems, including those problems solved by consultants. Thus, acquiring this knowledge within the firm for large firms will be less expensive than buying them on the market.

For small and medium businesses, on the contrary, transaction costs to create their own knowledge are greater because there is no effect of economies of scale on production, mastery and dissemination of knowledge, and knowledge acquisition transactions are more appropriate.

Using new knowledge from the consultant leads to business transformation and the introduction of new management technologies, the use of which can lead to significant results for SMEs, including increased competitiveness. The question of applying the advice in this case is finding a competent consultant, which should be assured first by developing the consulting institute in general and the mechanisms that ensure the quality of the consultancy.

4. The consultancy promotes the efficient use of the company's intellectual capital. Developing globalization and knowledge sharing leads to an avalanche of information, new knowledge, and therefore new business practices and models. All this requires the use of a wide range of versatile professional knowledge and reliable information in the business. If in large companies this can be done through the systematic management of knowledge, as it is today in large companies and corporations, it is almost impossible for SMEs. Consequently, the SME business consulting system becomes an indispensable component of market economy infrastructure that contributes to their survival and competitiveness.

5. Increasing the innovation of small and medium-sized enterprises. The emergence of the Internet has made it possible to extend the possibilities of obtaining professional advice as well as access to information. There exist and are used the opportunities of copyright infringement and the illegal use of new knowledge. As a result, small firms that can generate innovations and use new knowledge can compete on an equal footing with large corporations.

6. Expanding knowledge about forms of support for small businesses. It is also important that at present there are different programs and funds to support small businesses; many small businesses do not even know or take advantage of these opportunities. Consultancy can help you take advantage of these opportunities.

Thus, modern consulting helps SMEs not only survive, but also increase their competitiveness to develop in a complex and modern external environment.

## CONCLUSIONS

The current system of economic relations does not respect the principles of efficiency, and the entrepreneurial self-regulation type does not develop the existing potential.

Therefore, the problem of organizing entrepreneurial activity cannot be determined without taking into account the concrete forms of product scrolling across the entire production chain - from primary forms (manufacture of the product) to subsequent distribution between separate structures.

Such a mechanism is a complex form, which does not have a unilateral correlation with the market regulation and the economic relations systems, and even less with the technical targeting of some companies.

The principles of organizing economic relations do not change, regardless of whether the entrepreneurial system is considered as a whole or in structural sectors. In the general theory of systems, it is established that the properties of some parts of a system are embedded with the properties of the system as a whole.

It should be mentioned that the prerequisites for increasing the efficiency of the entrepreneurial activity include respecting the principle of functional prediction and rational organization - obtaining the maximum results with minimal efforts. Under these circumstances, the consultancy services, especially on the informational aspect, represent the necessary support for the development and maintenance of the market competitiveness of the economic agents.

Thus, the role of consulting in maintaining and developing companies' competitiveness is substantial.

Increased use of consulting services also leads to changes in the structure and behavior of companies on the market, closely linking the business and consulting activity. In this way, by increasing the performance of economic agents, the scope of consulting services is expanding.

Consultancy services are generally in growth. And although advice is widespread among large companies, small and medium-sized businesses are at an early stage of development. This division is due to the different importance of consulting for large companies on the one hand and small and medium on the other.

Enhancing the effectiveness of SME consultation is based on the study of particular SME issues and the creation of specialized products for this consultancy sector.

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