ENTREPRENEURSHIP AND SME DEVELOPMENT - THE NEED FOR BUSINESS SUPPORT IN EASTERN EUROPE: POLICY ISSUES AND RECOMMENDATIONS

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Abstract

In the newly liberalised smaller economies of south-eastern Europe and elsewhere, large companies have caught the attention for foreign investors as well as becoming a target for service providers from abroad. Very small firms are struggling to maintain their existence. In the absence of a mature legal and commercial infrastructure, they are doing so with the minimum of formality. Between the two extremes of size lies a swathe of enterprise that is neither so small that it can be managed entirely by its proprietor(s) nor large enough to support in-house specialist services. These circumstances define the very large group of businesses that, in developed countries, form the clientèle for business support services.

In advanced market economies, business enterprises are bathed in a plentiful supply of all the support services they need. This fact is frequently neglected when considering the position of individual companies in the liberalising economies. They can be technically advanced but experience enormous practical difficulty in a new and complex commercial environment: for example in obtaining payment from foreign as well as domestic customers. Better credit rating and market intelligence services, not to mention invoice factoring and other means of turning sales into cash flow as quickly as possible, would help to alleviate the situation, but such services are in their infancy.

We have undertaken a research project in six countries of the region, designed to expose these and other areas of the greatest need for business support services and to assess the quality of those that are already available. The results aim to draw the most urgent requirements to the attention of government and business policy makers and indicate how they may be met.

Introduction

The influx of foreign capital into the countries of the former Eastern Bloc over the past five years or so has been spectacular to say the least. However, there are always two sides to every story, and this is no exception. It is certainly true that this influx and the accompanying transfer of technological and managerial know-how has created a great number of opportunities for both enterprises and entrepreneurs alike. It is also true however that the degree to which Small and Medium Sized Enterprises (SMEs) have been able to take advantage of the opportunities resulting from foreign investment has been limited.

In practice, the vast majority of foreign capital invested is concentrated in a small number of hands. These would include the high profile large scale investments by such companies as Siemens, Ford and Uniliver which are widely reported in the press. The poor state of the infrastructure in the countries concerned, the lack of accounting standards and the general standards of doing business have been a shock to many market hardened businesses. The net result has been a tendency on the part of the foreign companies to use their traditional lines of supply rather than to make use of the indigenous enterprises of the countries of the region. Thus the stimulation created by foreign investment has failed to reach the small and medium sized enterprises and thus the benefits of this foreign investment has failed to percolated down through the economy.

One of the consequences of this is the particular distribution of productive assets throughout the region. That is, the majority of productive assets remain with the small number of large scale, foreign currency oriented organisations. The majority of these organisations will have foreign partners, and those who do not will derive most of their turnover from foreign trade. The remainder of the assets rest with the myriad small scale operations which derive their turnover from the local marketplace, dealing exclusively in the local currency. Such enterprises will prefer to operate outside the mainstream business community due to the lack of trust in government administration and to avoid taxes and social security payments.

This situation ensures that there is little contact between these two forms of business organisation who could be said to be operating in different worlds. This state of affairs is exacerbated by the inability or unwillingness of the banks to lend to small enterprises together with the inability of the current governmental institutions to create a climate of confidence which may entice the small scale entrepreneur into the mainstream business community.

The chief difficulty therefore is the lack of an effective medium sized business sector. Small scale operations are likely to be the breeding ground of many aspiring entrepreneurs, however in order to sustain and grow these enterprises there must be effective interaction with larger scale operations. That is, interaction effected through the interface provided by the medium sized enterprises.

In the light of the above factors, we have undertaken a research programme which aims to investigate the areas of the greatest need for business support services to help sustain and grow SMEs within the region, and to assess the quality of those that are already available. This research programme has examined the role of external support services to business in six countries of central and south-eastern Europe. Factors examined have been the availability, quality and cost of provision, the influence of support service provision on major business problems and relationships between users and providers. A detailed rationale for the project, the objectives and scope of the research as well as definitions governing the choice of services, users and providers to be studied is to be found in the main body of the paper.

For the purposes of this summary, support services may be thought of as know-how and activities customarily regarded as best provided to small and medium-sized enterprise (SME) firms by external specialists. The smaller the firm, the likelier it is that external provision will be economically efficient. Further up the firm size scale, more and more services are subject to choice of self-provision. For that reason the research has concentrated on the SME sector, although larger firms, as clients for a rather different palette of services, have had to be considered.

Five groups of support activity are defined, namely legal; technical; financial; marketing and distribution; management and technical consultancy and training services. A total of 42 individual services has been considered in the context of 34 potential provider agencies, and all against a background of 46 known major business problems. The lists have been designed as a fixed benchmark, allowing progress to be measured in another survey later. The findings for each country are essentially independent, as are the results from each country. This fact, related also to the detailed study of individual business problems and provider agencies, gives rise to a matrix of individual conclusions for decision makers and opinion formers in each country and policy area rather than simple headline results.

The research has been conducted by a team based in each of the six named countries and co-ordinated from the United Kingdom. The important role of the Phare-Ace 1994 programme is warmly acknowledged by the research team. It is important to emphasise the collaborative nature of the project since it is this which has determined that results emanate from study conducted within each country by its nationals, rather than from external observation. The large amount of work done to ensure standardisation and compatibility of observations and results between countries is documented in the main body of the paper.

The research, in summary, consisted of administering a detailed five-page questionnaire to entrepreneurs, directors and senior managers of co-operating firms in the course of a personal interview. Firms were selected for size, activity and location within each country under a previously agreed schema which also included key definitions of all the selection and measurement variables used during the course of the seeking-out and interviewing process. For the larger countries 100 companies were surveyed. In Slovenia 60 companies co-operated, and in Greece, the other participating EU country, 40 firms were studied, mainly to provide relevant comparisons with more recently liberalised economies. A separate, subsidiary survey was conducted among 20 service providers in each country to provide evidence from the supply side of the support service equation.

Background to the Research

Business support services in all countries are delivered by a wide variety of agencies ranging from government ministries through independent but officially supported bodies such as Chambers of Commerce to independent professional service providers like actuaries and auditors, plus the professional bodies governing their activities, as well as a range of commercial firms and non-profit agencies. This infrastructure is arguably essential to survival in competition with the developed world but is either still lacking or being put into place piecemeal under the pressure of rapid political and economic change.

The sheer variety of organisations providing business support can appear to be a problem for any company seeking assistance. It is probably an advantage to have providers compete with each other at the outset however. The best organisational arrangements are allowed to emerge and companies in the end receive the best and cheapest services possible. Where official or professional bodies cannot deliver what is required, private operators will appear in the market. If commercial organisations charge too much or do not provide an adequately professional service there is an opportunity to set up membership organisations such as trade associations offering free or moderately priced services for their members. If the market shows no sign of supplying what is required, there is still a case for government agencies, but, it may be argued, preferably only after independent private initiatives have failed to emerge.

In this research we have therefore sought to establish the state of play, to draw useful inferences for policy in the Small and Medium Size Enterprise (SME) sector and set down a benchmark by which progress can be measured in future. Markets and policymakers react more quickly when there is plenty of information about the opportunities and problems they face. Our research findings will therefore, it is hoped, speed the development of the best range of business support services in the region. Companies and service providers who respond to our enquiries have been interviewed by a team of researchers drawn from academic and research institutions. The questions asked have aimed to produce a consistent picture of present and future needs, to highlight gaps and to reveal tensions between the suppliers and users of business services, indicating the need for different arrangements.

In the following sections we discuss the objectives and scope of the research project, the benefits expected to flow from publication of results and the detailed methodology employed.

Objectives and Scope of the Research

The objective of the research project has been to measure the extent to which the business support infrastructure exists or is emerging, and how much it is able to contribute to the commercial development of a group of countries lying in a sensitive region of south-eastern Europe. The countries chosen for empirical work are closely related and territorially contiguous, namely Hungary, the Czech Republic, Slovenia, Rumania and Bulgaria. Slovenia already lies at the heart `western' Europe. Greece formed part of the survey as a country which has long been an

EU member but continues to resemble the newly-liberalised economies of the region in many particulars.

The research has also been exclusively focused on smaller countries, the size of the domestic economy being an important determinant of the scale of resources able to be deployed in the business support infrastructure. Hungary and the Czech Republic have been the prime focus of the research since they are following different development paths but offer a number of relevant comparisons. The geographical location of the selected countries is also significant. The opening of the Rhine-Main-Danube canal in 1992 has created a continuous commercial pathway between north-west Europe and the Black Sea. Small economies are open economies and, even allowing for the distortions of the Balkan conflict, all the countries chosen will be obliged to trade within the international supply chain, particularly in the addition of value to agricultural production and the exploitation of modern manufacturing technologies, if they are to enjoy future economic growth. That implies the necessity of acquiring and adopting the standards of the outside world as soon as possible. Rumania and Bulgaria are included as examples of countries affected by all of the developments mentioned but significantly differently placed to Hungary and the Czech Republic as regards starting point and prospects.

Who Will Benefit?

The chief beneficiaries of the programme will be the enterprises co-operating in the research programme and the service organisations being developed to support them. Our results are expected to motivate companies and service providers alike to cooperate in creating and developing business support organisations and to work together to influence public policymakers in the same direction. Policy formulators in turn may be persuaded directly by the evidence to provide better legislative frameworks and real resources for the development of a modern business support infrastructure. This powerful nexus of knowledge-disseminating organisms is possibly the biggest single factor, after finance and market power, differentiating the countries studied, many of whom possess rich productive resources, from their western customers, suppliers and competitors. The regional emphasis to the research programme also highlights opportunities for co-operation between neighbouring countries in the shared development of mutually useful business support mechanisms and institutions.

The appended tables I and II indicate the size and type of business organisation targeted by the research in each country, as well as the specific business support services and providers examined.

The Nature of the Research Programme

We discuss here the definitions of business support services themselves, the research questions asked, the design of the questionnaire and the balancing of the multi-country, multi-culture mix among the researchers, respondents and the research topic itself, together with some implications for data analysis.

Definitions

Support services arise where operations forming a regular part of the activity of a person or organisation are carried out on behalf of business firms, as clients: for firms the activities in question may be more difficult or costly to sustain themselves, but their motivation for demanding a specific service at any given time is not assumed to be a simple commercial matter.

The suppliers of support services are not necessarily, or indeed in the majority, profit-oriented business entities. Their motive for offering services is complex. Certain services of commercial and non-commercial suppliers alike may be supplied free, paid for indirectly of exchanged for non-monetary or non-economic benefits. Other services partake of the nature of public goods, supplied by public agencies, whether or not they are demanded by individual users. Most business support services exist at both national and regional level within sovereign countries and as such they have been examined on a country-by-country basis in this research.

The way in which service providers are funded or otherwise induced to commence supply has also been examined sperately. Funding is an important consideration in determining both the real cost of business support services and the manner in which resources are allocated to them. An attempt has been made to measure the extent to which supply is motivated by commercial, broadly economic or other, non-economic, considerations.

Support service users are, in general, normal commercial entities, motivated by the desire to survive and flourish in a competitive environment and seeking to meet their resource needs, including those for specialised services, at the lowest cost consistent with acceptable standards. A question arises in larger businesses: namely what causes business support to be demanded externally, rather than being self-supplied by deploying the appropriate resources within the user organisation? Scale differences make this question inappropriate for smaller organisations.

Business support services, then, are defined as the set of operations that result from the deployment, by one person or organisation on behalf of another in defined circumstances, of material, nonmateial, human or intellectual assets of any kind. Such assets include information and information processing; special knowledge or skills embodied in persons or systems; privileged access to third parties, technical procedures or means of communication; or transferable previous experience of any kind. This capacious definition is, however, too open-ended. We have therefore sought to avoid the numerous grey areas which open up in deciding what is or is not a business support service by two devices:

(i) a definition that attempts to stake out the ground, and

(ii) a definitive list of what constitutes the services studied.

By this means grey has been overpainted black or white according to taste. The technique may give rise to debate outside the context of the present survey - but with the need to corral the background and empirical environment of many researchers within the confines of one project, we have felt it better to adopt a prescriptive approach after the fullest consultation with colleagues on the project. Definitions follow.

1. Business support services EXCLUDE routine services that are an integral part of a firm's normal operations. (example: product distribution). They do however encompass the process of advising upon, designing, setting up and accepting initial responsibility for the provision of a basic service (example: setting up a product distribution system).

2. Business support services INCLUDE the provision of services which, although they are integral to the firm's activity,

- require resources or expertise larger in scale or more technically specialised than firms in the industry typically possess (example: materials testing), and/or
- are used only at intervals or for specific projects (example: factory design and layout).

Business support services are, in other words services which would normally be uneconomic or infeasible for typical individual firms in a given industry to supply for themselves. Competitive disadvantage would thus be expected to follow from any or all of:

- non-availability of an external service
- excessive resource cost of self-provision
- efficiency loss due to inadequate self-provision

Borderline cases are still not difficult to find. Thus the supervision or monitoring of an activity at a remote location such as monitoring foreign retail sites serviced by agents could be regarded equally as a business support service or a business service per se. Borderline cases have been avoided and consistency maintained by the further device, referred to above, of nominating a closed set of services for the purposes of the present research, based on the definitions so far developed.

There exists a class of services which fall within the definition of business support services given above, but which are quite normally resourced both externally and internally. Smaller companies within the normal range of firm sizes found in a particular industry will tend to procure externally what their larger brethren provide for themselves. In other cases it may be a matter of taste or convenience: as when a manager displays strong preferences or an employee happens to possess relevant skills. In general this research has been exclusively concerned with the provision of business support services from external sources.

Research Questions

We ask accordingly:

1. What operations constitute business support services?

2. What is the level of provision of business support services in the countries studied and how is it organised and funded?

3. What are the mechanisms of supply and demand for services and what relationships exist between and among providers and users?

4. What are the present and prospective levels of efficiency of provision?

5. What identifiable models are evolving, being adopted from elsewhere or renewed from an existing tradition, to shape the overall infrastructure of business support service provision

6. What is the economics of business support service provision in the group of countries studied, in smaller economies in general, and overall?

Questionnaire Design

Two problems needed to be addressed in designing the questionnaire: its potential complexity and the maintenance of integrity in the resulting data set. These two questions can be addressed together but found separate solutions in practice..

Complexity arises from the fact that over 100 business support services can be identified and that up to 20 or so questions needed to be asked in respect of each, from users and/or providers separately. Maintaining integrity is largely a question of language, culture and general understanding, with some consideration for differences of basic business practice and the present state of commercial legislation in the countries involved.

A two-page questionnaire with tick-box responses could have been designed to avoid most of the pitfalls of a multi-country, multi-culture population of respondents. The unavoidable complexity of the questionnaire needed dictated the use of associate researchers to interpret and simplify (as well as rendering acceptable) the contents to respondents. This reintroduced the problem of obtaining a homogenous response as a result of the interposition of professionals in a wide variety of disciplines and academic or administrative or business environments, not to mention language problems.

The solution to the problem of complexity has been dealt with by a variety of strategems discussed in the next section. In brief, the researcher first identifies the support services a particular company is interested in or knows about and then restricts questions to those services. A similar filtering is performed by the amount of use of a service, its availability and so on. It is, for example, pointless to ask questions about the level of satisfaction a company has experienced with a newly established service for which their is no competing alternative or standard of comparison.

Qualitative and quantitative aspests of the empirical research

The worth of the primary translation of qualitative responses into quantitative results rests upon closeness of definition. One set of difficulties arises in the area of definitions and another as regards the questions asked of respondents. We treat the latter issue first. In large-scale survey work, well-defined answers to well-defined questions have merely to be counted and the frequencies of the various responses analysed appropriately. Two problems arise however. First: in order to define questions closely, there have to be many of them in order to allow varied experience to be gathered and classified. Second: the number of answers falling into each response category has to be maintained high enough to retain large-sample characteristics. That implies 20-30 responses in open distributions but upwards of 100 for most percentage-slicing analysis with reasonable confidence bounds.

'Too many questions' is a well known cause of death for postal questionnaires. In the present case the interposition of an interviewer allows both the visual complexity of the questionnaire to be concealed from the interviewee and for specific lines of questioning to be followed at will, or rather algorithmically, leaving out questions that are logically excluded by previous responses. This proved most useful in specifying precisely what was meant by a business support service. Definitions were developed and documented, but the method of listing them exhaustively on the questionnaire was finally adopted as a means of ensuring that benchmark categories were maintained.

A company typically uses only two, three or four of the fifty or so services listed. Interviewers use their skills to establish and confirm what those services are: to ensure adequate in-depth examination a limit of five services is in any case set for anything other than basic questions such as 'what is the availability of....?', 'do you use...?' and so on. Our results show that there is heavy concentration on a few basic services such as accounting and legal support, but that a wide fringe of further possibilities then arises. A deliberate strategy was adopted of analysing the basic services in depth rather than surveying the wider environment at more than an elementary level, in order to ensure that the responses in respect of basic services were statistically acceptable and likely to remain so for a future survey.

The categorisation of organisations, individuals and activities posed other difficulties. One hundred interviews conducted among service users in each country allowed only limited divisions into size of firm, type of commercial activity and so on. The following strategies were adopted:

1. Some categories were adopted purely for the purpose of ensuring representation rather than to permit statistical analysis. One example is the category 'large firms'. There are not many of them, but as a class they may engage certain support service providers extensively or exclusively and need to be incorporated to ensure the relevant bias is at least identified, even if it cannot be confirmed statistically. So as not to waste the respondent count from this category, many of the results are combined with those from medium-sized firms. A similar strategem is followed in combining another category, 'micro-size' firms, which occur in large numbers in certain countries, with small firms where appropriate.

2. .The absolute definitions of categories by counting or measurement variables proved particularly problematic but easy of resolution once a principle had been adopted. How many people in employment or how much turnover defines a 'micro', small, medium or large firm? Country differences proved to be the stumbling block. In the end each associate researcher was asked to define on a master questionnaire the absolute definitions employed in each country for

small, medium, large and so on. The qualitative description remains common and results can be pooled on either the qualitative or the quantitative value for each firm in each country. Similar definitions were used for such parameters as whether a business should be considered as a start-up, as privatised, as a survivor from socialism or as returned to a former owner. The absolutes proved difficult, turning on such factors as date of formation with respect to date of political liberalisation in each country and similar issues.

3. A further instance of a necessarily complex cross-classification having the effect of threatening to reduce the number of respondent firms falling into any one 'box' arose in the case of activity classifications. Whether a firm is importing, exporting, purely domestic, manufacturing, trading or providing services, in any combination, is obviously a critical determinant of the kind of support services it demands. So is its position in the supply chain, in particular whether (a) its customers are consumers (including distributors) or industrial clients, or (b) whether it is an intermediate relying on supply from primary or other secondary producers or is a primary producer itself, exploiting an agricultural, mineral or other primary resource. The solution in this case was to restrict the table of possibilities to three by three (readers who examine the above list carefully will see how). Additional qualifying questions within the questionnaire, used to establish the exact nature of the business, are then employed to define to what extent representation in each category is mutually exclusive or overlapping. Certain categories such as trading in services, while not impossible, should have a vanishing small representation: others such as importing, exporting and manufacturing should be heavily represented together.

Quantifying the qualifications

It is always difficult to know what to do with all those annotations made by respondents to postal questionnaires when they find it impossible to answer the question directly. When the questionnaire is administered by an interviewer the problem can be resolved, either by not having any annotations and 'forcing' the response into categories, or by organising the qualifications in some way. The latter course was adopted in this case. Interviewers were given space to write in code numbers alongside the response boxes. The numbers referred to either (a) their own, numbered comments in space provided further below on the questionnaire, (b) pre-numbered prespecified comments supplied on a menu, (c) customised versions of prespecified comments as modified by the interviewer, or, (d) interviewers' own prespecified comments on their own menu.

The code numbers are input as data, but not the comments themselves. Codes from prespecified menus and customised menus can be directly identified. Other comments can be counted rather than analysed, permitting the volume of comment generated by particular questions to be estimated. Other devices we have not yet thought of will be deployed to extract further meaning from written comment as patterns of response emerge.

The comments discussed above also fall into two general categories: those made by the respondents and those made by the associate researchers as an evaluation of what is being said to them (as opposed to mere interpretation of the meaning of what the interviewee said). Associate researchers are all well qualified, experienced academics and natives of the countries researched. Their evaluation of the interview response is itself data. The principle of incorporating interviewers' evaluations has also been extended to some basic questionnaire responses, particularly as regards such questions as numbers employed. Executives in the countries surveyed are well-experienced in filling in questionnaires but they tend to give formal rather than factual replies. The associate researchers are often in a good position to detect the difference and are given the opportunity to append (discreetly) their own version of the given response as a separate item.

Qualifying the quantifications

The raw data set for the project consists of approximately 80 spreadsheet rows, arranged therefore as 100 column vectors per country. The use of an extremely restricted set of values and symbols in the questionnaire allows the data to be recoded into all-numeric form by simple character transformations and then passed to a variety of other software packages or custom-written programs, either in secondary spreadsheet format or as ASCII tables, for expansion and organisation into frequency distributions and other arrays for analysis. A primary aim of questionnaire design, (occasioning heated discussion among the research team at the preliminary workshop sessions) was to ensure that as much data as possible was able to be processed automatically. The aim was in fact to permit as much cross-classification, dissection and pooling as possible. Our results show that the time spent on this aspect of design has been worthwhile, from two pints of view. First, the amount of detailed discussion required went well beyond what was needed to generate a tidy, practical questionnaire. In the process a number of logical linkages (and impossibilities) were flagged and the number of queries generated by the final questionnaire in the field has been small. Second, associate researchers have identified a number of detailed areas on which follow-up work can be devised, using a combination of the extremely detailed and tightly organised data set, together with new work of their own, to be undertaken at the end of the project. Finally, of course, attention to structure and `analysability' has, we hope, created a questionnaire and dataset that will be robust enough to function again unchanged in a repeat survey at a later date, when the provision of business support services in central and south-eastern Europe has moved on to its next generation.

Summary of Findings

We find that the supply of business support services is surprisingly rich but patchily resourced and organised in the countries surveyed. There are large disparities between countries which, as expected, reflect different degrees of progress towards the development of completely open market economies in the region. There are equally large differences between capital cities and provincial centres within countries. Provincial centres in outlying regions are particularly disadvantaged. Nevertheless availability is more a question of high cost and low convenience than outright scarcity. Conflicting opinion among survey respondents about availability, quality, cost and the usefulness of services convinced us that information about services, their scope, cost and whereabouts, is seriously lacking. This problem is capable of being remedied in a relatively short time at low cost.

Providers of business service are hetrogenously organised and can originate from almost any pre-existing professional group or individual, with or without a relevant background. There is, as yet, a poor infrastructure of specialised agencies. The speed with which these agencies mature and find niche positions, rather than trying to cover a wide range of basic services, will depend primarily upon increasing the supply of skilled human resources and financing the usually modest capital requirements for further development among both profit and non-profit agencies. Market forces should be relied on only at a later stage to refine quality and contain prices. In the meantime high prices restrain demand which cannot be met and promote ingenuity and self-sufficiency among entrepreneurs as well as, of course, attracting new entrants to a wide variety of service supply opportunities. In this sense the market already works, but should not be relied upon too much.

The formalities of business with developed economies demand rapid development of the services to support them. Informal methods can become institutionalised and cause long term damage to the reputation of a whole country. The greatest risk is of a mutual acceptance of inferior standards among the countries of the region, since all are similarly placed, leading to difficulties in trading with established market economies.

A countervailing influence, not addressed by this study but important to mention, is association with and prospective membership of, the European Union. Most recent candidates for membership began the process of adaptation to European norms well before the formalities of membership application and it is of course in the interests of all prospective candidates to do so.

Finally two caveats must be entered. They are, first, that where the infrastructure of business itself is deficient, the support service infrastructure should not be expected to be satisfactory, or even to exist. This must be taken into account when assessing the detailed results from each country. The independent work of the associate researchers in the form of their brief findings included in the main body of the paper, as well as in the future, may prove extremely helpful.

Our second caveat concerns the wide range and disparate nature of the business support service infrastructure within and between countries. These disparities among independent entities oblige each to be considered separately on its merits. No headline conclusion, general paradigm or prescription can be offered beyond the short digest offered in this summary and reflected in our recommendations. The research has generated a vary large mass of data, and indeed our findings, if not preliminary, are certainly not the final answer. The data set will support a great deal of further analysis in detail to reach more specific conclusions and recommendations in its many possible subdivisions. For this reason the whole data set has been made available for further study, on diskette, in a partially pre-analysed form using a popular and widely available spreadsheet format.

Recommendations

We recommend that policy attention be directed to the following priority areas by public authorities and major agencies in the field:

1. Education, training and the development of professional infrastructure among the providers of business support services in order to assure the future supply of skilled manpower, the underpinning of standards through professional bodies and regulatory agencies and self-restraint in market likely to be characterised by shortage, and hence supply-side advantage, for some years to come.

2. The strengthening of a regional and local as well as national professional infrastructure of service providers in each specialism, to counterbalance the attraction of capital cities and diminish the disadvantage, in terms of cost and effort to reach sources of supply, suffered by regionally based firms.

3. That one or more major agencies, such as Chambers of Commerce, should be designated and assigned a central co-ordinating role in acquiring and disseminating information to firms, particularly provincial firms, about the necessity for, availability of and ways to evaluate all business support services.

4. That research be conducted in each country, or jointly, to examine the basic models of service provision available in developed economies. In this way countries of the region can avoid the triple hazard of (a) adopting unsuitable offerings from foreign agencies, (b) reverting to a traditional model of comportment rendered obsolete by the lapse of time since it was last used or, (c) risking ad-hoc, experimental or vested-interest-favouring approaches.

Further conclusions and general recommendations

The twin observations resulting from the research, that (a) service providers offer a wide, general palette of services with inadequate specialisation and (b) that users are still poorly informed about the nature of the services they need as well as their availability, lead to one important conclusion. This is that providers have not yet developed the tools used by professional service providers in mature economies to direct potential clients in the right direction. The `right direction' is of course, for each individual supplier, their own brand of service. More important, and in general, the professional organisation and promotional efforts of entire provider categories creates the flow of information required to raise awareness levels among users and cause them to perceive and evaluate their own requirements in the context of what is offered. The principal tool used in developed economies for promoting professional and technical service is a formal analysis of user needs, usually carried out free or on a consultancy basis by suppliers.

We conclude that one important activity which would contribute to solving all these problems - lack of provider expertise, low user awareness and poor uptake of essential but `choosable' services - would be to promote the techniques of needs analysis among service providers. Many consultants of course prefer needs analyses of all kinds on client firms in order to sell their own product, consultancy. We are suggesting that other service providers themselves, as well as management consultants, should be encouraged to use the techniques involved. There is of course an opportunity for consultants and trainers to do this, but the small size of service providers probably renders this unattractive as a priority market. Needs analysis techniques should therefore be made more prominent in the basic education and training of service providers. The consultancy element involved in the application of user needs analysis would also thus be transferred to domestic rather than foreign consultants.

Many services are still corralled within the structure of state-owned or recently privatised enterprises. It may be expected that the structure of market supply and demand for services may alter as internal services are broken up to release resources in the form of skilled individuals and teams able to be recruited by specialised firms or offer their expertise as new entrepreneurs. Financial and competitive pressure is likely to induce such break-up and hiving-off. The model for this process is what has already occurred at times of economic stress in developed economies, first in the 1970s (mainly computer services) and again in the early 1990s (a whole range of so-called `non-core' activities). In the present context the shortage of engineering, architectural and other services reported in several countries, notably Romania and Bulgaria, may well be partly met in future from this source. Special attention by policy makers to supporting the hiving-off process may well assist in releasing resources, especially as the individuals concerned may well be seriously under-employed, and in some cases merely clinging on to their jobs in large concerns, while a real shortage persists in the outside market.

The process of releasing tied resources from corporate bondage is unfortunately complicated and, on under-developed country experience, usually involves two distinct stages. First, companies under budgetary constraint usually `invite' their service departments to seek outside business to justify their continued existence. This is often a failure, due to entrenched resistance or lack of marketing or promotional skills and contacts. The next stage is often closure or sell-off of service departments, justified by their apparent failure. This process takes some time, producing either a stream of job market entrants, often led by the least capable, or in the emergence of new firms whose start in life has already been blighted by previous lack of success. It is therefore recommended that underperforming service departments within large corporations should be hived-off at the outset, not after toying with the market possibilities. As well as keeping teams together and avoiding the stigma of failure, such new firms are also able to start life with a large, stable client and contact, namely their former employer.

Reference has already been made to the major risk of undue informality in trading relations between companies, sectors and whole countries in the region because of shared deficiencies in professional techniques and services. A whole range of measures would seem to be called for in order to ensure that performance is raised to the level where compliance with international standards is automatic. Rather than address the issues with complex and inevitably costly recommendations, we offer a single policy principle, which also has the merit of being applicable far outside the scope of the topics addressed by this research programme, namely - enforcement of compliance with standards. What is suggested is that the legislation and propagation of standards of all kinds - from shipping documentation, patent filings and technical standards to commercial valuation, advertising standards and contract conditions - is actually an invitation to informal dealings in order to avoid the inconvenience involved. The not inconsiderable cost of creating standards can be a deadweight cost and an engine for retrograde progress. Voting the means necessary for enforcement is cheaper in the long run than not doing so. We recommend that cost-effective methods of policing and enforcing compliance with standards of all kinds be considered en bloc and given a high priority. Since scarce resources are involved it should be pointed out that most compliance enforcement in the area of commercial standards promotes the more efficient collection of taxes and duties through creation of records and documentary evidence, rendering enforcement programmes profitable in easily understandable cashflow terms.

As an additional recommendation, we suggest that standards enforcement should be embodied in non-governmental organisations such as, for example, Chambers of Commerce. Against the commercial interest represented by such organisations must be placed two countervailing considerations. First, trade organisations are experts in their fields and can themselves be regulated and held to account by governments. Second, the character of the government-industry nexus in some countries of the region studied is such that, in some cases, public officials are themselves close to industrial interests and might prefer informality and the lack of transparency it implies.

Finally, rather than regional acquiescence in informality of business process, we recommend regional co-operation in the generation and enforcement of standards. The obvious benefit is greater general transparency and reduction in trading friction through reducing national variations to an unavoidable minimum.

Appendicies

I Characteristices of Enterprises

	LARGE	MEDIUM (TARGET GROUP)	SMALL
SIZE	250+ EMPLOYEES	25-250 EMPLOYEES	< 25 EMPLOYEES
MARKETS	Home and abroad, able to enter developed markets	Largely internal markets, poorly developed	Largely local markets, poorly developed
WESTERN SUPPORT	High level of attraction and attention form the west	Little attraction or involvement on part of western companies	Virtually no western involvement
CURRENCY	Access to hard currency	Limited access to hard currency	Restricted to local currency
STATUS	Access to centres of power and resources	Weak, dependent on support but inefficient and little access to resources needed	Isolated and weak but with access to informal resources
PRODUCTS/ SERVICES	Capable of development and high margins	Low margins, especially agriculturally based products and poorly developed	Low margins and narrow niches or commodity products
FINANCE	Good access and adequate balance sheet structure	Poor access, weak asset, credit and financing position	No accounts, little access to finance or credit
SUPPORT MECHANISMS	Access to foreign supporters and advisers plus few local specialists	Dependent on common support mechanisms mostly still under development, rudimentary or not legislated for	Dependent on locally available support and traditional cooperative mechanisms
COMPETITIVE CAPABILITY	Aware of requirements and able to respond	Not aware of many opportunities and market requirements particularly in neighbour countries and further abroad	Competing with locally based rivals with poorly differentiated products
TYPICAL PRODUCTS/ SERVICES	Consumer and industrial goods, speciality regional food/drink and confectionery; retail	Haulage, distribution, construction, light engineering and other manufacturing, argi-business	Agricultural produce, crafts, retail, tourist services

II Typical Business Support Services and their Providers

SERVICE	EXPECTED PROVIDERS FOR LARGE COMPANIES	EXPECTED PROVIDERS FOR MEDIUM COMPANIES	PROBLEM FOR RESEARCH AND POLICY
Export documentation and advisory services	Internal agency or Chamber of Commerce	Agency or Chamber of Commerce	Locate expertise and identify company needs
Product labelling certification of origin and compliance with foreign standards	Internal advice from foreign partner or advisers or `capital city' advisers	Existing internal know-how, trial and error, buyer, Chamber of Commerce or agency	Level of in-company expertise and availability of advice and services
Patent search and registration, design protection and copyright, outward licensing	Internal service or national level agencies	State of legislation and provision not know or unclear	Identify need and provision at local and international level
Legal, Actuarial, Accountancy and Tax including contract drafting and negotiation	Internal service, foreign partners or agencies	Government, local advisers and agencies, newly developing official bodies and own resources	Identify needs, provision, structural weaknesses and local problems of development
Management consultancy and training services	Foreign partners and agencies	Foreign and local agencies, public and private educational institutions	Identify local needs, existing provision and risk of poor and/or expensive advice/training
Property valuation, survey and planning advice	Own services and foreign and local agencies	Local agencies, present stage of development unclear	Identify legal position and need for advice as legislation evolves
Employer and Trade Association services, joint information and co-operative arrangements	National bodies and trade associations	Present development of local organisations and networks unclear	Measure state of provision and needs and identify optimal policies for targeted firms
Lobbying and negotiation with supranational, national and local authorities	National bodies, trade associations and national Chambers of Commerce	National and local Chambers of Commerce, employers and trade associations	Measure and assess need for aims, policies, organisations and initiatives
Commercial and technical library and information services	Government services and national resources	Present provision and awareness unclear	Research provision and identity level of resource need