

**EMERGENT GOOD PRACTICE APPROACHES TO BUSINESS
SUPPORT: IMPLICATIONS FOR LOCAL GOVERNMENT**



**Thesis presented in partial fulfilment of the requirements for the degree of Master
of Arts in Public and Development Management, University of Stellenbosch**

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**SCHOOL OF PUBLIC MANAGEMENT AND PLANNING
UNIVERSITY OF STELLENBOSCH**

**EMERGENT GOOD PRACTICE APPROACHES TO BUSINESS
SUPPORT**

Implications for Local Government



DECLARATION

I, the undersigned **Johan Closs Ackron**, hereby declare that the work contained in this thesis is my own original work and that I have not previously, in its entirety or in part submitted it at any university for a degree.

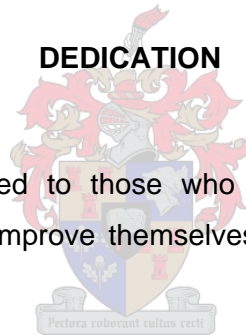


J.C. Ackron

Date

DEDICATION

This work is dedicated to those who labour toward better opportunity for all to improve themselves by dint of their own efforts and capacities.



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In submitting this thesis I wish to acknowledge the support of my research supervisor Prof. Erwin Schwella of the School of Public Management and Planning of the University of Stellenbosch. Without his constant encouragement and motivation this work would, in an otherwise full professional programme and in the manner of these things, in all probability not have materialised.

My thanks are also due to the Linnaeus-Palme International Exchange Programme that enabled me to visit the University of Umeå, Sweden in the early European spring of 2004 and to dedicate the necessary time there to completing this project.

Lastly I wish to acknowledge the support of my family who have encouraged me to carry to a logical conclusion an attenuated academic career interrupted by long periods at the coal face, so to speak, of development and change in South Africa. This thesis represents the penultimate step in a journey begun long ago. Surely nowhere can the words of Sir Francis Drake before the Battle of Sagres (1587) be more apposite:



"There must be a beginning to any great matter. But continuing unto the end, until it be truly finished, yields the true glory"

I trust that the lessons learned in the University of Practice have coloured my approach to this project and have given it a bent that may be of value to other practitioners engaged in the important business of development.

**Langebaan
South Africa
December 2004**

OPSOMMING

Beleidmakers en praktisyns in ontwikkelende lande staar uitdagings in die gesig wat betref die handhawing van volgehoue ontwikkeling en die verbetering van lewensstandaarde by wyse van werkgeleentheidskepping en produktiewe betrokkenheid van die bevolking by die ekonomie eerder as deur sosiale welvaarts oordragte. Sake bedrywe en 'n dinamiese sakesektor het die potensiaal om aansienlik by te dra tot volhoubare ontwikkeling. Maar die meeste ontwikkelende lande ondervind ontoereikende vlakke van sake aktiwiteit en van groei in die omvang van die sakesektor. Benaderings tot die stimulering van uitbreiding van die sakesektor as grondslag vir volgehoue werkskepping is in die verlede grootliks koste ondoeltreffend en die resultate was ontoereikend. Die hipotese dat daar 'n fundamentele aanpassing van die paradigma onderliggend aan benaderings tot stimulering van die sakesektor as deel van algehele ontwikkelingsstrategie plaasvind word in die tesis getoets. Kern eienskappe van 'n nuwe benadering word geïdentifiseer en omskryf. Institusionele implikasies van die benadering in die samehang van ontwikkelingsteorie en huidige benaderings tot plaaslike ekonomiese ontwikkeling op plaaslike gemeenskapvlak word ook bespreek, asook kern implikasies van die nuwe paradigma vir plaaslike regering.

ABSTRACT

Policy makers and development practitioners particularly in developing countries face daunting challenges in formulating strategies to achieve sustained growth and improved standards of living through productive engagement of the population in the economy rather than through welfare transfers. Business activities are self-sustaining and therefore have the potential to contribute greatly through the economic system to the creation of sustainable employment and prosperity. Yet many developing countries are faced with inadequate levels of business activity and business growth. Historical approaches to stimulating and supporting business development have proved largely cost ineffective and unequal to the challenge. The hypothesis that fundamental paradigm shifts in the approach to business support are taking place internationally is tested in this thesis. Key features of an evolving entrepreneurial approach to business support are identified and described representing the defining elements of the new business development support paradigm. Institutional implications of the approach in the context of institutional development theory and current approaches to the stimulation of local economic development at local community level are also discussed, as are key implications of the new paradigm for local government.

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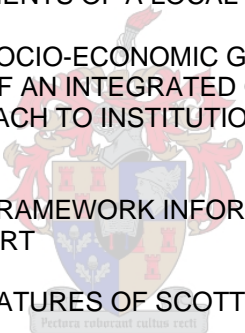
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CHAPTER 1

INTRODUCTION

1. Motivation and Rationale

Policy makers particularly in developing countries face daunting challenges in formulating focused and effective policies to attain sustained growth and improved standards of living. As developing communities grapple with the challenge of effective and efficient means of creating optimal circumstances conducive to business growth across the spectrum of business sophistication, and particularly with the issue of the provision, or otherwise, of support to business the growing body of international experience in the field assumes increasing importance. In particular it serves to benchmark policy for countries and communities that have as yet not accumulated a sufficient body of own contextual experience in the field, thereby in effect short-circuiting the start-up process.

In South Africa the powers and functions that most impact directly upon the development of business activity as the lynch-pin of local economic development (LED) are typically spread across a variety of governmental spheres and jurisdictions. But it is at local government level that the issue of public economic governance, encompassing the responses of government and the community together to the challenges of formulating appropriate interventions is most directly relevant to local economic development as currently promoted by central government.¹ South Africa's Constitution² specifically determines the objects of local government *inter alia* as the promotion of social and economic development. Nationally the view of local government as the "hands and feet"³ of reconstruction and development in South Africa has been confirmed by conferring extensive powers upon the local sphere. Emergent developmental local government in South Africa needs to develop the capacity to meet the associated new challenges. All governmental spheres, but particularly so the local sphere need to develop policy frameworks for achieving the objects of local economic development and promoting in a sustainable way the growth of vibrant commercial business as the main engine for powering job creation and increasing prosperity within local communities. In developing such policy frameworks the government sector and local communities need to be informed by relevant experience accumulated in other circumstances and distilled into practicable emerging good practice guidelines. The current study in this sense has current relevance and applicability.

¹ Department of Provincial and Local Government Local Economic Development Manual Series (2000)

² Constitution of the Republic of South Africa, 1996 (Act 108 of 1996) Sections 152 and 153

³ Department of Constitutional Development Local Government and Economic Development: A Guide for Municipalities in South Africa (1997)

2. Research Hypothesis

Where the preoccupation in serving underdeveloped communities has hitherto been with various instruments of welfare aid and donor- or state subsidy, self-sustaining commercial business activity has begun to assume increasing importance as an engine of sustainable economic growth, development and the creation of jobs.

The working hypothesis at the base of the study is that a paradigm shift has occurred in the approach to the systematic business development support involving a realignment particularly of associated institutional arrangements. The good practice role of government *vis-à-vis* other role players in development processes has undergone particular changes.

3. Research Problem and Design

Policy benchmarking provides an important aid for developing countries in setting policy in regard to the promotion of development in general but specifically in regard to the promotion of business activity and through it, self-sustaining economic growth and development. Much literature has emerged on the subject of business development service (BDS) provision particularly in the past five years providing an emerging basis for good practice policy benchmarking. There is a practical need to encapsulate its main elements and to collate and distil critical emergent institutional- and policy themes in order to test the working hypothesis.

The study has undertaken a comprehensive literature survey of the field of business development support with particular emphasis on the identification of the nature and scope of emerging good practice paradigm shifts in the approach both to policy formulation and institutional mechanisms and arrangements for providing sustainable, effective and efficient support of business growth in developing countries and communities.

4. Research Methodology

4.1 Focus

The focus of the study is upon emerging good practice in the provision of non-financial business support. Since the practice of financial business support has influenced its non-financial counterpart, relevant parallels and connections are drawn where appropriate.

4.2 Conceptualisation, Measurement and Research

The study:

- a. Provides a “desk-top” literature review of the relevant subject matter conducted by means of standard literature research techniques including Worldwide Web topic searches;

- b. Makes use of secondary information consistent with (a) above.

The focus is upon more recent literature except insofar as seminal contributions to the field may be required to be reflected in order to maintain the academic integrity of the work.

4.3 Analysis

The study is not intended to constitute a critical review of material but rather to analyse and distil material to a practical framework capable of guiding application. The analysis comprises the drawing of the necessary informed conclusions from the available material necessary for this purpose.

5. Relevant Concepts in Policy Benchmarking

5.1 Introduction

Policy makers in developing economies face daunting challenges in coming up with focused and effective policies to attain sustained growth and improved standards of living. Recent experience throughout the developing world suggests that unilateral liberalisation programmes in developing countries and -regional economies in transition need to be coupled with policies that enable economic structures to cope with unprecedented levels of exposure to international competition.⁴ The determination of such policies has, in the new era of globalisation, resulted in unprecedented interest in various application areas namely:

- Policy harmonisation involving the adherence to, or compliance with, international, inter- and intra-regional covenants and -codes on a bilateral or multilateral basis;
- Policy co-ordination involving the joint determination of policy by countries, regions or local jurisdictions to advance the common good; and
- Competitiveness policy benchmarking.

The latter is a relatively new approach to the monitoring of policy and process against evolving international best practice. Through its primary focus on the underlying factors that determine competitive performance, it goes beyond more traditional approaches to the analysis of competitiveness. It is thus an important addition to the battery of instruments available to those striving for

improved local-, regional-, national- and international competitiveness. The application of the broad methodology of competitiveness policy benchmarking to the field of business development support is a natural extension of the view that for local business to be regionally, nationally and internationally competitive so too, in an important sense, must be the approaches and institutions that serve it.

A salient feature of policy harmonisation, policy co-ordination and competitiveness benchmarking as these approaches to competitiveness policy formulation have evolved in application has been the declining need for top-down policy intervention and -execution. However, by contrast with the former two approaches, experience with the application of policy benchmarking at the local- and regional levels where it offers particular promise is relatively scant.⁵ As yet case material is relatively limited and inferences need to be qualified accordingly. Although the approach has been used at the enterprise level for some time, its application by governments is still in its infancy. European governments have begun to adopt it comparatively recently and the European Commission has, with the endorsement of the private sector, applied the approach to the improvement of competitiveness in the manufacturing sector through productivity and innovation. Japan, a number of Southeast Asian countries such as Malaysia, as well as the United States have also followed the approach as a recognised tool of national policy.

In short-cutting the development of an initial framework that can be adapted to local circumstances and that can be revised and reassessed as local contextual best practice methods are assimilated, the methodology of benchmarking avoids the time lag associated with the accumulation of the necessary local experience as a prerequisite for action. By applying the approach developing countries, -regions and communities can mould the lessons of international experience to their own needs and priorities without waiting for their own benchmarking processes to fully mature. However, the cloning of the approaches in other countries or circumstances without the necessary adaptation is also not to be recommended. The idea of the policy benchmarking approach is to adopt by adapting, rather than by trying to duplicate the experiences of others outside of a relevant context.⁶

⁴ Sercovich F. Policy Benchmarking in the Developing Countries and Economies in Transition: Principles and Practice (UNIDO 1998)

⁵ Sercovich F. **op cit**

⁶ Sercovich F. **op cit** p 5

5.2 Approaches to Competitiveness Policy Benchmarking

There are essentially two main approaches to competitiveness policy benchmarking as it is currently applied in the public policy arena. These are respectively the normative approach and the positive approach. The distinction between the two is particularly significant in the case of the establishment of international best practice in the area of business development support.

a. The Normative Approach

The normative approach rests upon an assumption regarding the correctness or desirability of a point of departure for policy and defines best practice as those measures most applicable to supporting that approach. The approach is deficient in key respects in that it is coloured by the underlying assumptions that are often based in ideological preconception and may not be correct or appropriate. Clearly the more comprehensive and the less accurate the basic underlying policy assumptions, the less valuable is the approach as a tool for fostering competitiveness. In the light of the lack as yet of case material in many critical areas of public policy the normative approach nevertheless represents the only practicable course. Where it is applied, however, it remains imperative to recognise its inherent deficiencies and to thoroughly test the basic assumptions on which its application is based. This applies particularly to the area of business development support where the normative approach, based on the assumption particularly of the efficacy of the market as a mechanism for the delivery of business development support predominates in the determination of best practice.

b. The Positive Approach

The positive approach makes no fundamental assumptions as to the correctness or desirability of any particular policy approach. Rather it seeks objectively to determine which particular policy approaches work best to achieve defined policy outcomes under specified conditions and circumstances. The positive approach to competitiveness policy benchmarking is generally more likely to serve as a tool for achieving consensus than is the normative approach since it is not founded on an ideological base but rests on more widely shared criteria on what constitutes public policy success.

Such criteria typically include sustainable gains in welfare, economic growth, equity, improved incomes and -quality of life.⁷

5.3 The Need for Competitiveness Policy Benchmarking

The application of the methodology of competitiveness policy benchmarking provides a potentially important tool for the sculpting of approaches to local economic- and development policy that go somewhat beyond the broad remit of traditional business development support. Ideally therefore its application should go far beyond the traditional limits of business development support service provision. It is important to recognise that the achievement of the objective of accelerated growth of local business activity and of the development of a vibrant business sector requires an inclusive approach that goes beyond the provision merely of support services to business. Equally important are such "soft" issues as the creation of a climate that is conducive to investment, innovation and the nurturing of entrepreneurial spirit and that actively promotes and encourages it, and "hard" issues such as the provision of the requisite economic resource infrastructure.

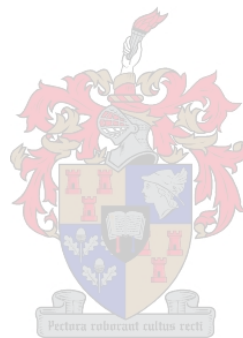
The use of benchmarking or "best practice" approaches as policy tools is, if anything, much harder than most other interventions. The skills and conditions required to formulate and implement policies designed to level the playing field in a competitive environment require insight, discernment, mastery of information and analytical methods, consensus-building, focus, explicit and transparent standards of attainment, and accountability. These are generally more stringent than those involved in discretionary allocation and redistribution of resources from the top, as in traditional approaches to development policy formulation and - management. It is much easier to appropriate the resources needed to subsidise a given activity or to concede to it a set of privileges and then simply to await the results, than it is to work pro-actively with enterprises in identifying their weaknesses and strengths in a competitive environment, devising incentive systems and playing an effective role as matchmaker, catalyser, enabler, and sponsor.⁸

Any system driving economic development will in the evolving international development dialectic need to recognise the need for comprehensive policy benchmarking and performance management.

⁷ Sercovich F. *op cit* p 7
⁸ Sercovich F. *op cit* p 7

6. Good Practice in Business Support

With shifting policy emphasis particularly in regard to developing countries insufficient case material as yet exists in many critical areas to support positive "best practice" conclusions. To this extent therefore there is to all intent and purpose no definitive positive international "best practice" in critical areas of business support policy and -approach for developing countries.^{9,10} What is emerging, however, is a growing normative policy consensus around an accumulation of broadly consistent approaches both to policy and institution building that can be classified as emergent (normative) "good" practice. This body of material is however based as yet upon largely untested fundamental policy assumptions. Central to this emerging consensus is the perceived necessity for a more "businesslike" approach to the support and promotion of business and for a greater reliance upon market mechanisms for the delivery of business support particularly in developing communities. If there is a broad positive consensus it is that the resource-intensive approaches of many developed countries and -communities in the Northern Hemisphere that remain based upon significant subsidy regimes to underpin business support are simply not sustainable in developing countries and -communities.



⁹ Gibson A. Putting Principles into Practice in BDS: Where we are, where we are going and how to get there (Springfield Centre for Business in Development 2001)

¹⁰ McVay M. *et al* Emergent Good Practices in Business Development Services (ILO 2000)

CHAPTER 2

ENTREPRENEURSHIP AND BUSINESS DEVELOPMENT

1. Introduction

Fundamental to the discourse on business development and indeed to the emerging good practice approaches to business support is the phenomenon of entrepreneurship. Entrepreneurship has come to be recognised as a key requisite of vibrant and sustainable economic growth in private enterprise market economies. The present chapter seeks to explore the phenomenon of entrepreneurship and to establish emerging shifts in good practice approaches to the definition of the essence of entrepreneurship and its promotion as a lever for business development.

The conclusion reached is that capacity to innovate lies at the heart of sustainable business sector growth and development. Yet the preoccupation in the promotion of business through the application in developing communities of various instruments of business support has long been with the symptom of inadequate business growth, rather than with the basic malady namely the incapacity toward entrepreneurial behaviour. It is increasingly recognised that the capacity of businesses to derive benefit from the competitive opportunities provided by globalisation and the liberalisation of markets and trade will be a function of their capacity to behave entrepreneurially - that is, of their capacity to innovate. Without specific targeted interventions the large majority of businesses, including most emergent formal and informal businesses that behave largely non-innovatively, will find themselves consigned to the periphery with limited benefits of globalisation "trickling down" to them. Business development support has hitherto involved essentially *ad hoc* interventions to address skill deficiencies and has largely neglected to adopt a life-cycle approach to entrepreneurial development. But increasingly entrepreneurship has come to be seen as a learned behaviour, the development and nurturing of which throughout the lifetime of the individual or organisation is critical to self-sustaining business sector growth and development. Business development is thus not exclusively about the development of businesses or the provision of services to business *per se*. It should also be concerned over the medium- to longer term with the nurturing and development of entrepreneurial behaviour as the only real basis for sustained innovation, improved quality of competitiveness and self-sustaining business- and economic growth.

2. The Significance of Entrepreneurship to Business Development

2.1 General

Many factors impact upon the success of business, not least the business climate and the quality of infrastructure and services. However, given favourable circumstances the success of any business enterprise in terms of its growth and competitiveness is the result *ceteris paribus* of specific collective characteristics of its governance and management. In the case of small business enterprises it is the attributes of the owner(s)/operator(s) that are critical determinants of success or failure. In the case of larger enterprises it is the collective behavioural attributes of governance structures that to a large extent determine posture and behaviour. The capacity to take calculated and reasonable risks, a constant striving to acquire the knowledge and skills required for a more effective business operation, keeping abreast of new developments, being responsive to client needs and wishes, and a concern with the quality of goods and services produced, all characterise successful business enterprises. Most importantly, the capacity to innovate, to solve problems, and to overcome many of the constraints and difficulties that would deter others, are critical determinants of the success or failure of business ventures.

These characteristics, collectively associated with the behavioural phenomenon of "entrepreneurship" are not shared equally by all individuals. Some may be what are commonly albeit simplistically referred to as "born" entrepreneurs. Some may acquire some or all of the attributes of entrepreneurship. Others may never succeed in business, whatever their efforts. This has important implications for those responsible for the conduct of business enterprise development programmes and for the delivery of support services to businesses. To achieve the greatest effectiveness and impact it has been suggested that business enterprise support programmes should focus on the provision of support to those who can make best use of business development services for the benefit of their own enterprises and for the benefit of society as a whole.¹ This approach posits entrepreneurial business as the strategic centre of gravity and main preoccupation of sustainable business economic development activity. The limited financial- and other resources available, particularly in developing countries, for business enterprise development should, following this reasoning, first target those individuals and businesses demonstrating the required entrepreneurial characteristics.

¹ Allal M. Business development services for Micro- and Small Enterprises (MSE's) in Thailand (ILO 1999) p 6

2.2 Classification of Business as a Focus for Business Support Programming

The emerging focus upon entrepreneurship requires a distinction to be made in the delivery of business support services between so-called "entrepreneurial" businesses displaying potential for growth, and essentially non-entrepreneurial business activities – the so-called "income-generating" activities - that do not.² This in turn points up tensions between the approaches to business support respectively as public- or private goods and as between the subsidisation of business support either for purposes of "enterprise development" or "social welfare".³ The former are generally considered to be commercially sustainable. The latter, representing the pursuit of social equity objectives are traditionally regarded as the province of government and of social responsibility programmes and therefore legitimately the object of various forms of subsidy.

The emerging recognition of the centrality of entrepreneurial character to the prospects of individual business activity is increasingly carried through into the classification of business activity for the purpose of business development and business support programmes. Importantly, whilst the preoccupation for the purposes of classification has hitherto been with the size of businesses, there is an increasing recognition that the determining characteristics of success in business or indeed of entrepreneurial character are not size-dependent. Whilst business size may be an indicator in the sense that businesses generally start small and larger businesses have thus demonstrated a capacity for survival and growth, it remains the essential character of the business approach, and not the size of the business, that is its most important characteristic defining its capacity to grow and to innovate. This goes to the very heart of the conventional classifications of business for the purposes of development programming in many countries including South Africa.⁴ Such classifications reflect a preoccupation with business size, and by implication with variants of small-, medium- and micro-enterprise activity (variously collectively referred to as the SMME sector, the MSE sector or the SME sector) as the focus of business development effort. This approach has largely been predicated on the observation that self-employment and small- and micro-enterprise in particular are often pathways to the formation of growing- and more vibrant businesses. In developing countries it indeed is the micro-enterprise sector that is the receptacle of subsistence business activities. Operators of such subsistence businesses are frequently loosely and often erroneously referred to as "necessity entrepreneurs". Many such subsistence activities are the result of the operator's inability to find wage employment, necessitating the creation of own employment with little if any prospect

² Allal M. *op cit* p 51

³ Allal M. *op cit* p 51

of self-sustaining growth. Nevertheless the skills learned in subsistence business are significant and do in many instances provide a platform for formal business activity. To this extent subsistence business activity generally, and the small- and micro-enterprise sector in particular, remain important entry-level incubators of business development. But although small- and micro-enterprises for example as a category share similar technical- and economic characteristics, and have their own operational- and structural mechanisms, operate within similar contexts, and respond similarly to market trends and forces, even this sector is significantly diverse representing in fact a number of distinct classes namely:⁵

- a. Subsistence enterprises or those with occupational strategies for survival. These are generally self-employed producers or traders;
- b. Enterprises with a capacity for simple capital accumulation and exhibiting entrepreneurial tendencies; and
- c. Established enterprises with extensive capital accumulation on their way to becoming larger growth enterprises.

The very small- and particularly the micro-business sector (designated internationally as the MSE sector as opposed to the small- and medium business sector known as the SME sector) has often tended to be considered in many countries within a welfare framework as an instrument for poverty alleviation. However, whilst there are essentially non-entrepreneurial subsistence elements within this sector that would classify as welfare-related, nevertheless the real benefits of adopting an "entrepreneurial" approach to MSE's in particular that recognises the potential significance of this category of business enterprise as the genesis of business entrepreneurial behaviour has been recognised.⁶

The preoccupation with the size classification of businesses designated as small-medium- and micro-enterprise (SMME's) as a focus for attention in the delivery of business development services thus does have some rationale since it is from the ranks of micro- and small business in particular that larger businesses grow. The balance of present evidence also suggests that new and small firms typically have tended to outperform old- and larger firms in creating jobs.⁷ This is certainly true of smaller firms engaged in low- and intermediate technology activities and generally inclining toward more labour-based methods of production. However, it is also evident that it is entrepreneurial business across the board that contributes most significantly

⁴ National Small Business Act, 1996 (Act 102 of 1996)

⁵ Arroyo J. SI-MICRO: Using the Web to Support Business development Services in Central America (ILO 2000) p 4

⁶ White S. Creating an Enabling Environment for Micro- and Small Enterprise (MSE) Development in Thailand (ILO/UNDP 1999) p 23

to aggregate self-sustaining organic employment growth.⁸ That is to say, whilst SMME's indeed contribute to self-sustaining aggregate employment growth they do not have the monopoly but share this important role with larger entrepreneurial businesses as well. The operative focus of effort therefore increasingly emerges as one that, at the conceptual level, accords precedence to entrepreneurial business across the board, whether large or small in size. However, in the absence of objective measures of entrepreneurial capacity, business size according to the various classification regimes throughout the world as yet continues to present the more practicable yardstick for classification. Small- and micro-business as the ultimate genesis of all business faces particular challenges and throughout the world remains the central focus of attention in the delivery of business development services. However, the diverse nature of all business enterprise, and particularly so of the so-called SMME sector itself, calls for highly differentiated and sharply targeted strategies for business support in order to be cost-effective.

3. The Essence of Entrepreneurship

An understanding of the essence of entrepreneurship is central to the understanding of its role in economic growth and development processes.

3.1 Entrepreneurship, Economic Growth and Economic Development

It is the very social development agenda driven by the need for both growth and development within a predominantly market economy that has served to focus attention more especially on a particular variant of business, namely the entrepreneurial firm, as a lever for achieving a range of developmental objectives. The distinction implied is that between business and the business owner/governance structure on the one hand and entrepreneurial business and the entrepreneur on the other.⁹ This distinction is better understood after due consideration of the definition and characterisation of entrepreneurship and the entrepreneur. Suffice it to observe that to the extent that the phenomenon of economic development is viewed according to a dynamic and evolutionary model in which innovations are seen to emanate from within the economic system and not merely from an externally-induced random response, it is seen to be most closely consonant with entrepreneurship and entrepreneurial business.¹⁰ Development “.....is entirely foreign to what may be observed in the circular flow or in the tendency towards (economic) equilibrium. It is spontaneous and discontinuous change....., disturbance of equilibrium, which forever

⁷ Hull C.J et al Helping Small Firms Grow: An Implementation Approach (1987) p 1

⁸ Global Entrepreneurship monitor (GEM: 2001)

⁹ Marsden K. Creating the Right Environment for Small Firms: Small Enterprise Development Policies and Programmes (Editors: P. Neck & R Nelson) ILO (1987)

¹⁰ Schumpeter J.A. Capitalism, Socialism and Democracy Harper & Row, New York (1942)

alters and displaces the equilibrium state previously existing..."¹¹ This dynamic model of economic development is best exemplified by the entrepreneur as the agent in a process of "creative destruction"¹² leading to change, development and growth. From the viewpoint of social and economic development the attraction of entrepreneurial business as a business form distinct from (small) business in general derives from its internal dynamism. If not self-starting, entrepreneurial business frequently requires only an initial pulse or limited strategic facilitative interventions to launch and sustain it.¹³ Its activities are in their very nature self-generative and self-sustaining. It is for this reason that small business enterprise and entrepreneurship have become if not synonymous then closely associated concepts. The essence of entrepreneurial business has engendered new approaches to the analysis of entrepreneurship occasioned by the inadequacy of conventionally ordered and systematic approaches.¹⁴ Both the American and Colombian experiences in the 1970's and 1980's where economic growth and –development were predominantly entrepreneurially driven have contributed to the genesis of the association. At the root of these new approaches has been extensive re-engagement with the definition of the essence of what constitutes entrepreneurship.

3.2 Defining the Essence of Entrepreneurship

The need to draw a conceptual distinction between *entrepreneurship* and *proprietorship* for the purpose of the formulation of policy to encouraging business start-ups as well as to stimulate the growth of existing businesses has been identified.¹⁵ Yet it has been observed that ".....at a time when so much attention is given to innovation and entrepreneurship, it is rather pathetic that a deep understanding of the (entrepreneurial) process is lacking. It is no wonder that firms and governments have difficulty trying to stimulate entrepreneurship and innovation when the factors propelling it are so poorly understood."¹⁶

An entrepreneur has variously been described as:

- a. "...someone who endows resources with wealth-producing capacity.....The true arena for entrepreneurship is beyond invention, it is innovation..... (Entrepreneurship) isn't a thing, but an action - what the entrepreneur does is

¹¹ Schumpeter J.A. As quoted in: The State of the Art of Entrepreneurship (Editors: Sexton D. & Kasarda J.) Coleman Foundation, Kent, Boston (1992)

¹² Schumpeter J.A. The State of the Art of Entrepreneurship *op cit*

¹³ Cortez M. *et al* Success in Small- and Medium Scale Enterprises: Evidence from Colombia World Bank OUP (1987)

¹⁴ Nelson R *et al* Training for Entrepreneurship Small Enterprise Development: Policies and Programmes (Editors: P.Neck & R.Nelson) ILO (1987)

¹⁵ Scase R. Working Papers No. 193: Entrepreneurship and Proprietorship in Transition: Policy Implications for the Small- and Medium-Size Enterprise Sector (WIDER 2000) p 5

to impart value to a new resource..... Oil was something that made soil unsuitable for growing crops until entrepreneurs realised its potential as a fuel."¹⁷ ;

- b. "...a person who can identify needs within the environment, gather resources to meet those needs and implement action to satisfy those needs."¹⁸; and
- c. "(an) individual who establish(es) and manage(s) businesses for the principal purpose of growth and whose actions are characterised specifically by innovative behaviour and the application of strategic management principles in business..."¹⁹ by contrast with the "operator" or "proprietor" of a business on the other hand that is characterised as an individual/group of individuals who establish and operate a business for the principal purpose of furthering personal goals – as a vehicle for the achievement of essentially social objectives.

The archetypal entrepreneur of the conventional theory of the firm popularised by Schumpeter is the risk-taking innovator who organises the various factors of production in "new combinations"²⁰ on a heroic scale in pursuit of profits. The later prominence of a more comprehensive concept of innovative behaviour in relation to entrepreneurship is largely the contribution of Drucker. The classical view of Schumpeter was open to simplistic interpretation that ascribed to grander scale business activity *per se* the character of entrepreneurial behaviour and generally missed the essence of entrepreneurship as something palpably different from the more mundane matter of management. However whereas classical approaches to entrepreneurship have tended to classify as entrepreneurs only those capable of making fundamental or "heroic" innovations or technological breakthroughs there is now a preponderance of evidence to suggest that the number of practising entrepreneurs is much larger than a model that casts them in such heroic roles would indicate. In addition, they typically operate throughout all sectors of the economy rather than being confined to high-technology sectors where changes seem most dramatic. Further, most of their efforts are incremental rather than large-scale and dramatic.²¹ Entrepreneurship is therefore not the exclusive preserve of a few large-scale innovators, but also of the many that are able to find innovative ways of engaging in the economy and in society generally.

¹⁶ Teece D.J. The Competitive Challenge (Cambridge 1987)

¹⁷ Drucker P. The Enterprise Mystique (Interview with Inc Magazine 1985)

¹⁸ Nelson R. *et al* Training for Entrepreneurship as reflected in Neck P. *et al* Small Enterprise Development Policies and Programmes (ILO 1987)

¹⁹ Carland *et al* Cited in Sexton D. Entrepreneurship Education at the Crossroads: A Plan for Increasing Effectiveness (Journal of Small Business Management 1984)

²⁰ Cortez M. *et al* Success in Small- and Medium Scale Enterprises: Evidence from Colombia World Bank OUP (1987)

²¹ Kent C. (ed) Entrepreneurship Education: Current Developments, Future Directions (1990) p 45

It was the difference of the quintessential character of entrepreneurship that prompted Marshall to observe that the skills required for an entrepreneur are different yet complementary to those required for a manager and to dismiss the importance of the management function in relation to the entrepreneurial function thus:

“.....the superintendent of labour is but one side, and often not the most important side of business work..... (The critical elements of business success areoriginality and versatility and power of initiative...perseverance...tact...and....judgement as to what are likely to be the coming relations of demand and supply.”²²

These essential distinctions are also made by others who distinguish between the entrepreneur/entrepreneur-manager or –proprietor and “...heads of firms or managers or industrialists who merely may operate an established business.” In a more modern idiom management has been defined as “.....the organ of society specifically charged with making resources productive, that is, with the responsibility for organised economic advance...”²³ Using the conceptual framework of Dror²⁴ the management function may be characterised as having to do with incremental or “equilibrium” growth or –change and entrepreneurship as having to do with “momentous choices”; with “trans-incremental” rather than with incremental change; with “breakthrough orientation” and “progressing by leaps”; with “chaotic growth” rather than orderly growth.

The essential defining character of entrepreneurial small business lies most especially in the contrasting psychologies of founder-owners, their attitudes towards trading and their orientation to the accumulation of capital. The essential character of larger enterprises is determined by the collective mind of their governance structures in regard to these key elements. The entrepreneurial business, whatever its size, perceives the commercial potential of an idea, marshals the resources and provides the impetus to set in motion the commercial exploitation of that idea.²⁵ In essence therefore entrepreneurs and entrepreneurial businesses are problem solvers. Whilst entrepreneurs frequently operate businesses, not all businesspersons are entrepreneurs.²⁶ In many developing countries and -communities it is business

²² Marshall A. Principles of Economics Reprinted 8th Edition Macmillan (1966)

²³ Kast F. & Rosenzweig J. Organisation and Management: A Systems Approach McGraw Hill (1970)

²⁴ Dror Y. Facing Momentous Choices IRAS (1984)

²⁵ Loucke L. Training Entrepreneurs for Small Business Creation (ILO 1988) as quoted in Shabalala S. Identification and Provision of Appropriate knowledge, Skills, behaviour and Attitude for Successful Future Entrepreneurial Development Programmes in South Africa (Sowetan/DBSA Business- and Entrepreneurship Conference 1992)

²⁶ Patel V. The Entrepreneurship Development Programme in India and its Relevance for Developing Countries (EDI 1985)

proprietorship rather than entrepreneurship that best typifies the prevailing business environment.²⁷

Emerging modern views of entrepreneurship have proven to be fundamental to new approaches to entrepreneurship promotion in the general context of business development. The seminal contribution of Drucker to modern entrepreneurship theory has been that the capacity toward "systematic innovation" at the root of the modern view of entrepreneurship, far from being an innate characteristic of the entrepreneur, is based on hard work rather than genius; on careful implementation of systematic management discipline rather than on flashes of insight; on diligence, persistence and commitment coupled with talent, ingenuity and knowledge. Entrepreneurship is thus neither mysterious nor genetic. It is a learned ability requiring personal discipline.²⁸ This has fundamental strategic implications for strategies and techniques of business promotion.

Increasingly consensus has developed on the operational definition of the entrepreneurial process in essence as encompassing the development and exploitation of opportunities to create value through innovation. By parity of reasoning the entrepreneur or entrepreneurial enterprise is at the originator of this process.

The application of the theory of entrepreneurship to the formulation of development policy and approach requires a thorough understanding of the nature and origin of entrepreneurial behaviour.

4. Perspectives on Entrepreneurial Behaviour

4.1 The Characteristics of Entrepreneurs

In the 1970's and 1980's when this element of entrepreneurship was the focus of much attention, the characteristics of entrepreneurs were studied from many perspectives. Key dimensions of study included motivation, risk management behaviour, and locus of control. Research was driven by a plethora of anecdote and case studies. However, conflicting findings suggest that the phenomenon of entrepreneurship is inherently complex and difficult to capture within systematic and structured analytical models. There however remains a pervasive sense that certain characteristics or core competencies are generally associated with successful entrepreneurship.²⁹ (Table2.1) The

²⁷ Scase R. Working Papers No. 193: Entrepreneurship and Proprietorship in Transition: Policy Implications for the Small- and Medium-Size Enterprise Sector (WIDER 2000) p 6

²⁸ Vosloo W.B Entrepreneurship and Economic Growth: The Nature of Business Entrepreneurship (HSRC 1994) Chapter 9

²⁹ USAID Manual for Selection and Impact Measure (1985)

operative preoccupation in the application of entrepreneurship theory to business development has been to identify the competencies with which to equip potential entrepreneurs. These attempts to encapsulate the essence of entrepreneurial capacity have been criticised as being too simplistic.³⁰ Rather than focussing upon the requisite personal competencies, alternative approaches have tended to describe entrepreneurship, whether individual or collective, as comprising the following behavioural "propensities":³¹ (Table 2.2)

- a. The propensity to enterprise;
- b. The propensity to survive; and
- c. The propensity to grow.

Typically entrepreneurs test business hypotheses by acting as if they have a state of knowledge that is superior to that of others and act accordingly. Their capacity to venture in the face of what appears to others to be uncertainty frequently derives from thorough preparation, although self-confidence appears to be an important attribute for entrepreneurship.³²

TABLE 2.1: CORE COMPETENCIES OF ENTREPRENEURS

Recognisable Core Competency	Entrepreneurial Manifestation
Initiative	Does things before being asked or forced by events. Acts innovatively to extend the business into new areas, products or services.
Positive Opportunism	Sees and acts on new business opportunities. Seizes unusual opportunities to obtain financing, equipment, land, work space or other assistance.
Persistence	Takes repeated or different actions to overcome obstacles. Is not daunted even by significant obstacles.
Information Seeking	Does personal research on how to provide a product or service. Consults experts for business and technical advice. Seeks information or asks questions to clarify a client's or a supplier's needs. Personally undertakes market research, analysis or investigation. Uses contacts or information networks to obtain useful information.
Quality Consciousness	States desire to produce or sell a better quality of product or service. Persistently critically compares own work and products with those of others.
Concern for Image of Own Products and Services	Expresses concern about how others see the firm's products and services and the image of the firm itself. Expresses awareness that word-of-mouth of satisfied clients is an important marketing tool.
Commitment	Makes personal sacrifices or expends extraordinary energy to complete a job. Accepts full responsibility for problems in completing a job. Pitches in with workers or works in their place to get a job done Expresses a concern for satisfying the customer.
Efficiency Orientation	Looks for or finds ways to do things faster or better and at lower cost. Uses information or business tools to improve efficiency. Expresses concern about benefit- cost of improvements or courses of action.
Systematic Approach	Plans systematically by breaking larger tasks down into manageable sub-tasks. Develops plans that anticipate obstacles and develops contingency actions. Evaluates alternatives. Takes a logical and systematic approach to activities.
Problem Solving Orientation	Tries to solve own problems. Does not expect others to take the initiative. Switches to alternative

³⁰ Chell E. The Entrepreneurial Personality: A review and Some Theoretical developments: The Survival of the Small Firm Vol 1 - Economics of Survival & Entrepreneurship (Edited by Curran J. et al 1986)

³¹ Namaki E.L. Encouraging Entrepreneurs in Developing Countries Long Rang planning Vol 21 No 4 (1988)

³² Shabalala S. Identification and Provision of Appropriate knowledge, Skills, behaviour and Attitude for Successful Future Entrepreneurial Development Programmes in South Africa (Sowetan/DBSA Business- and Entrepreneurship Conference 1992)

Recognisable Core Competency	Entrepreneurial Manifestation
	strategies to reach goals where confronted by problems. Generates new ideas and innovative responses.
Self Confidence	Expresses confidence in own ability to complete a task or meet a challenge. Follows own judgement and conviction in the face of opposition or early lack of success. Does things that others may regard as “risky”
Expertise and Skill	Has had experience in the same or a similar line of business. Possesses strong technical expertise in the area of business. Has had experience or skills development training in finance, accounting, production, marketing/selling and other relevant business skills.
Realistic Recognition of Limitations	Explicitly states personal limitations and takes specific steps to address them. Learns from past mistakes.
Persuasiveness	Able to convince others to buy a product or service, to provide financing or take other actions that advance the interests of the entrepreneur’s business. Asserts own competence, reliability or other personal- or business qualities. Strongly communicates confidence in own company’s products or services.
Use of Influencing Strategies	Acts to develop contacts and networks. Uses influential people to accomplish objectives. Selectively limits information communicated to others. Uses strategies to influence or persuade others.
Assertiveness	Confronts problems with others directly. Tells others what they have to do and takes control. Censures those not performing as they should.
Monitors Execution of Instruction	Develops or uses procedure to ensure that work is completed or that work meets standards of quality. Personally supervises if not all then all key aspects of an undertaking.
Credibility, Integrity and Sincerity	Emphasises own honesty. Acts to ensure honesty or fairness in dealing with others as a sound long-term business approach. Follows through on rewards and sanctions. Is honest with clients about capacity to perform even if it means loss of business in the short term.
Concern for Employee Welfare	Expresses concern and takes action to improve the welfare of employees. Takes positive action in response to employees’ personal concerns.
Recognition of the Importance of Business Networking	Sees interpersonal relationships as a fundamental business resource. Places higher priority on long-term goodwill than on short-term gain. Emphasises the importance of maintaining cordiality with customers at all times. Acts to build friendly rapport with customers.
Accumulation of Capital	Saves money in order to invest in business and reinvests profits. Defers current personal consumption expenditure in favour of productive business investment.

TABLE 2.2: ENTREPRENEURIAL PROPENSITIES

Propensity to:	Manifestation
Enterprise	<ul style="list-style-type: none"> The propensity to “start up” – to develop and market ideas (The quintessential entrepreneur typically is a “self-starter”); Unafraid to make decisions on “gut feel” in the face of minimum information; Exhilarated by challenge of self-initiated work or –business; Exhilarated by ownership of business and the responsibility of control.
Survival	<ul style="list-style-type: none"> Management- and business resilience; Ability to weather threatening internal and external factors; Adaptive and innovative copying and learning from, and improving upon the work of others; Ongoing environmental scanning and seeking after information.
Growth	<ul style="list-style-type: none"> Propensity to recognise the real optimum economic size of markets and organisations to service them; Resource management for growth; Correct(“right”) choices between consumption and investment; Flexibility of thought and in respect of structural/environmental changes, systems and ways of doing things, processes, skills application, management styles in order to meet new growth challenges and new product/service development; Capacity to manage effectively business environment interfaces.

The general perception that entrepreneurial success requires the assumption of exceptional risk is not necessarily true. Entrepreneurs control risk by acquiring superior knowledge and having access to information that others do not have.³³ They thrive on formal and informal networking. Entrepreneurs thrive on the prospect of change which others find discomforting. Entrepreneurship in its purest form is a lifestyle choice that is made not

³³ Kent C. (ed) Entrepreneurship Education: Current Developments, Future Directions (1990)

principally because it offers high income. It has been estimated that many entrepreneurs could make more money by working for someone else.³⁴ What entrepreneurs really do is buy independence and the freedom to innovate. Such innovation extends well beyond the development of engineering- or technical knowledge to include institutional and social arrangements and the capacity innovatively to take advantage of the skills and preferences of others. The benefit to society of promoting entrepreneurship is thus a continuous stream of innovation that, over a period of time, reshapes technology, the market and the economy. In Third World countries and communities markets for relatively unsophisticated goods and services are frequently saturated and little if any product diversification exists at the micro- and small enterprise levels. In such circumstances innovation associated with entrepreneurship at the micro- and small business levels in particular can raise competitive business from a "low-road" scenario characterised by declining margins and business incomes, increasing levels of business failure and declining numbers of new entrants to a "high-road" scenario based on increased depth of competitiveness, improved capacity for growth and improved levels of business prosperity.

It is in the pursuit of capital accumulation and longer-term growth that the entrepreneur foregoes personal consumption and regularly seeks out market opportunities in which the dynamic of capital accumulation can be implemented. This inevitably entails taking some risk and "calculative decision making".³⁵ In one way or another the motive of entrepreneurship is rational decision making in relation to changing market opportunities.³⁶ A major factor distinguishing entrepreneurial business activity from "other" (non-entrepreneurial) business large and small lies in the capacity to deal innovatively with the market.³⁷

In the case of business proprietorship, however, motives generally are quite different. Discretionary economic surpluses generated are more likely to be consumed than re-invested. Business capital accumulation is thus neither by design nor by circumstance a key objective.

³⁴ Kent C. (ed) Entrepreneurship Education: Current Developments, Future Directions (1990) p 5

³⁵ Scase R. Working Papers No. 193: Entrepreneurship and Proprietorship in Transition: Policy Implications for the Small- and Medium-Size Enterprise Sector (WIDER 2000) p 5

³⁶ Scase R. et al The Entrepreneurial Middle Class (1982)

³⁷ Scase R. *et al* The Real World of the Small Business Owner Croome Helm (1987)

4.2 The Origins of Entrepreneurship

Of key significance to the nurturing of entrepreneurial behaviour have been attempts at defining the circumstances necessary for the incubation of entrepreneurs. If this can be done successfully, so the reasoning goes, these circumstances can then be replicated as a business promotion strategy with positive results for the flow of entrepreneurs into the business economy. The psychology of entrepreneurship is a complex area of study that has been systematised according to the following three main models:

a. The Psychodynamic Model³⁸

This model views the entrepreneurial personality as constantly under stress, with driving ambition deriving from the need to counteract strong feelings of inadequacy and of “.....images of endured hardships”. Within this framework the quintessential entrepreneur therefore cannot operate within an imposed and structured environment. The formative years of the entrepreneur are important in a negative sense. The typical personality of the entrepreneur is deviant to an extent where these elements in the entrepreneurial makeup may even in the longer term jeopardise the business venture in which the entrepreneur is engaged. Within the same broad conceptual framework it has been suggested that the need to escape from a comfortable rut, or indeed displacement of circumstances due to loss of employment or some similar occurrence; an apparent disposition to act typified by the desire for independence or autonomy; the need for peer approval and the availability of resources are driving imperatives for entrepreneurial behaviour.³⁹

b. The Social Development Model⁴⁰

This approach suggests that entrepreneurship and the successful initiation particularly of small business ventures can be wholly understood in terms of the context and the social groups to which individuals relate. The model recognises the formative nature of early life experience in forming traits and drives but also recognises the way that adulthood may shape new ideas and ambitions. It suggests key features of the individual business person in the course of his or her life cycle. Thus the “improvisers” typify the small business owner at the early stages of life and career; “revisionists” are slightly older and near to mid-career; “superceders” are into the second half of their life and a new career; and

³⁸ Kets de Vries M. The Entrepreneurial Personality: A Person at the Crossroads Journal of Management Studies (February 1977)

³⁹ Shapero A. An Action Programme for Entrepreneurship Multi-Disciplinary Research Press (1971)

“reverters” are older and generally engaged in post-career activity. The intuitively appealing implications of this model are that depending upon the stage of life of the individual he or she will bring varying amounts of experience to bear and typically be constrained as a result of extraneous commitments and responsibilities in propensity to take risk.

c. The Trait Model

The trait approach has concentrated on the identification of a single trait or constellation of traits that characterise the capacity for business initiation and management. The approach provides the conceptual underpinnings of much of the work founded on the notion of entrepreneurial competencies as reflected in Table 2.1. Though the approach has leavened over time, the trait approach typically has inclined sharply toward a view of entrepreneurial behaviour as an “inborn trait”. In the face of more recent theoretical approaches that recognise the importance of learned behaviour the trait approach has lost credibility. Even such aspects as locus of control⁴¹ or the “self-starter” capacity of the individual have come to be regarded as learned behaviour. An internal locus of control belief “.....may.... be associated with a more active effort to affect the outcome of events”.⁴²

d. The Situation-Act Approach

The basis of an integrative approach that has provided a more comprehensive picture of the origins of entrepreneurship and successful business initiative is provided by Mischel who has suggested a set of cognitive learning variables that determine behaviour patterns in given situations as follows:⁴³

- i. Competencies reflecting the skills abilities of the person;
- ii. Encoding strategies and personal constructs reflecting the different ways individuals represent, symbolise and think about environmental stimuli, incoming information or particular aspects of the situation they occur in;
- iii. Expectancies reflecting the suggestion that how an individual performs in a given situation depends in part on what he or she expects might happen. Different behavioural possibilities will occasion the person to weigh up the alternatives in the light of such expectancies;

⁴⁰ Gibb A & Ritchie J. Influences on Entrepreneurship: A Study Over Time Small Business Policy and Research Conference London (1981)

⁴¹ Rotter J. Generalised Expectancies for Internal vs. External Control of Reinforcement Psychological Monographs 80, No 609 (1966)

⁴² Brockhaus R. The Psychology of the Entrepreneur Encyclopaedia of Entrepreneurship Prentice Hall(1982)

⁴³ Mischel W. Toward a Cognitive Social Learning Re-conceptualisation of Personality Psychological Review 80 (1973)

- iv. Subjective values reflecting the suggestion that people may choose different courses of action because the outcomes of such actions may have different outcomes for them; and
- v. Self regulatory systems and –plans reflecting different goals and standards that people wish to maintain or achieve. Contingency plans to reach goals specify sequencing and organisation of behaviour to overcome adversity and the “power of situations”.

The situation-act approach^{44,45} consistent with the basis established by Mischel suggests that the individual learns how to handle or manage situations by learning the rules that govern them. “Thus for example the entrepreneur initiating a venture and bringing his or her own set of personal- or social learning variables to bear on a situation may or may not have the appropriate repertoire of behaviours to deal with the situations encountered. Indeed it is common knowledge that the entrepreneur often has to play multiple roles – chief executive, production manager, sales executive, general “dogsbody” and so on..... . In the early stages of the start-up process, the entrepreneur is unlikely to have all the role behaviours and skills necessary to cope.....”⁴⁶

4.3 Cultural Determinants

Much of the international research data on entrepreneurial behaviour emanates from essentially mono-cultural market economic environments in which market economic and free enterprise values are deeply rooted. This does not invalidate the material as a pointer for other environments but does suggest the need for appropriate contextualisation. “.....Inasmuch as “culture” refers to a complex of characteristics and phenomena (which includes knowledge, belief, art, morals, laws, customs, capabilities, habits and other ways of doing things) acquired by man as a member of society, it is simply a matter of observation that cultural factors do have some impact on economic behaviour.....Socio-cultural determinants cannot easily be quantified and validated by rigorous empirical research methods...”⁴⁷

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- ⁴⁴ Harré R. Social Being Blackwell (1979)
 - ⁴⁵ Branthwaite A. Situations and Social Actions: Applications for Marketing of Recent Theories in Social Psychology Journal of the Market Research Society 25, 1 (1983)
 - ⁴⁶ Chell E. The Entrepreneurial Personality: A Review and Some Theoretical Developments The Survival of the Small Firm: Vol. 1-Economics of Survival & Entrepreneurship (Editors: Curran J., Stanworth J. & Watkins D.) Gower (1986)
 - ⁴⁷ Vosloo W.B. Entrepreneurship and Economic Growth- Chapter 7: The African Experience (Editor: W.B. Vosloo) HSRC (1994)

There are many misunderstandings about the operation of market forces and the profit motive in African contexts.⁴⁸ Such aspects as attitude towards authority; attitude towards time, leisure and labour; attitude towards decision making; traditional incentives and behaviour patterns; land use culture and patterns; ethnic and group loyalty frameworks; familial obligations; interpersonal relationships; the role of women and the aged; the accumulation of wealth; contractual bonds;..... are potential determinants of deviation of micro-economic behaviour from aggregate international norms. A theme of argument has held that typically in African contexts:⁴⁹

- a. Self-reliance and self-interest tend to take a back seat to group loyalty and ethnicity;
- b. The maintenance of social balance and equity within groups is often accorded higher priority than individual achievement;
- c. The frontiers between individual- and collective preference are blurred;
- d. Higher value is frequently placed upon interpersonal relations and spiritual values and observations than on individual achievement;
- e. The ritual governing economic transactions is often considered more important than the business principles governing those transactions;
- f. Economic success is often back-ranked to political and other achievement and does not necessarily lead to upward social mobility;
- g. Patronage tends to take precedence over contract as the mechanism for regulating relationships;
- h. Traditional African society is hierarchical tending toward egalitarianism within age cohorts. These values differ in fundamental respects from the fierce individualism and individual accountability typifying leading Western capitalist societies; and
- i. African society places a high premium upon the pursuit of unanimity ("consensus") and group solidarity giving rise to socialisation and social activity to reinforce social bonds even if the marginal returns to these activities are less economic than social.

The argument is consistent with the view that African economic behaviour is often more inspired by the pursuit of prestige than by the quest for profit. The prestige motive in such behaviour has a negative side to the extent that it encourages ostentatious consumption. Whilst the profit motive as the maximisation of returns was supposed in classical economic theory to lean

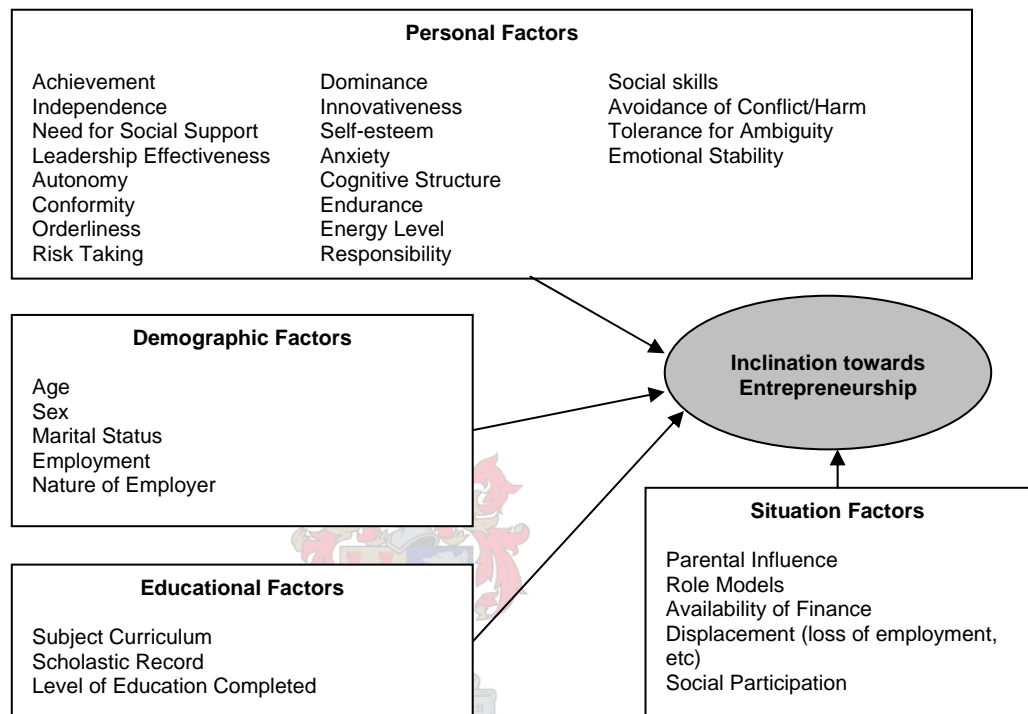
⁴⁸ Mazrui A. The Liberal Revival, Privatisation and the Market: Africa's Cultural Contradictions Arusha Conference Friedrich Neumann Foundation (1992)

⁴⁹ Dia M. Development and Cultural Values in Sub-Saharan Africa Finance and Development (December 1991)

towards production, the prestige motive in contemporary African economic behaviour leans towards greater conspicuous consumption.⁵⁰

The elements variously associated with entrepreneurial behaviour are summarised in Figure 2-1.⁵¹

FIGURE 2-1: A SUMMARY OF FACTORS ASSOCIATING WITH THE INCLINATION TOWARD ENTREPRENEURSHIP



4.4 Identification of Entrepreneurs

To the extent that promoting and nurturing entrepreneurship as the key to stimulating sustainable and innovative business activity is a concern of business development programmes, the question arises as to whether entrepreneurship potential can in advance be identified. Experience however suggests that the great variety amongst types of entrepreneurs and the methods they employ to achieve their successes defies any notion of a single psychological profile of entrepreneurship that can predict future success. Whilst many elements have been associated with entrepreneurship and entrepreneurial intentions the emerging consensus, however, is that the modern entrepreneur cannot be characterised by a set of psychological traits or single-minded beliefs.⁵² This has

⁵⁰ Mazrui A. The Liberal Revival, Privatisation and the Market: Africa's Cultural Contradictions Arusha Conference Friedrich Neumann Foundation (1992)

⁵¹ Kuratko D.F. *et al* Entrepreneurial Strategy: Text and Cases (1994) p 431

⁵² Osborne A.E. Understanding Entrepreneurs (Business Forum 1987) p 12

significant implications for the structure of business support programmes since it means that:

- a. Entrepreneurs cannot with certitude be identified in advance but at best on the basis of their (present and past) performance. This clearly impacts the possibility for identifying entrepreneurship at first-time start-up of a business where there is no prior performance record available. In turn the inability to determine entrepreneurial potential at this stage strongly suggests an inclusive rather than an exclusive approach to the support of business start-ups in which wide outreach rather than narrow focus is most likely to produce results; and
- b. No single community or circumstance, whether affluent or disadvantaged, can be excluded as a possible source of entrepreneurial talent and therefore as a focus for the promotion and nurturing of entrepreneurship.

5. VEHICLES FOR ENTREPRENEURSHIP

The small firm has been described as the natural home of entrepreneurship.⁵³ In fact the world-wide interest in the small firm since the 1980's derives in significant measure from its established role as a vehicle for business entrepreneurship. The effect of the preoccupation with entrepreneurship has therefore been closely associated with an increasing focus upon so-called "entrepreneurial small business" with the capacity toward growth particularly through innovation. Interest in small business *per se* has also been fuelled by the generally increasing viability of smaller enterprise business activity. Whereas through most of the 20th century industrial technology favoured mass production, more recently technology has revolutionised small-scale production, specialisation and capital flexibility with attendant increased efficiency and the relative reduction of costs associated with small-scale enterprises. The new breed of "flexible" capital equipment is especially well suited to supporting typical small-firm strategy favouring small-scale batch-customised production. With developments in the field of information and communications technology and the increased capacity of small firms to network and "cluster" into viable value-chain and value-matrix collectives they are able to overcome many of their traditional historical disadvantages relative to larger-scale businesses. This has reaffirmed their role as viable vehicles for entrepreneurial innovation, and particularly so in a globalising environment.⁵⁴ Flexible specialisation typical of entrepreneurial small business requires both an institutional structure and an ethos within firms that are radically

⁵³ Vosloo W. Entrepreneurship and Economic Growth: The Small Firm as a Vehicle for Entrepreneurship (HSRC 1994) Chapter 10

⁵⁴ Callan B. et al Enhancing the Competitiveness of SME's Through Innovation (OECD 2000)

different from that associated with mass production. The most important characteristics of such flexible specialisation, symbiotically relating to entrepreneurial behaviour are:⁵⁵

- Technological dynamism;
- The combination of extensive co-operation and vigorous competition; and
- Integration within a local community- or social structure.

Yet entrepreneurship is not the sole preserve of small business although entrepreneurs in the majority of cases start small- and micro-businesses and grow them.⁵⁶ Such behaviour manifests in all business classes:

5.1 Externally by way of the **de facto** behaviour of firms in their external environments. Not all small business exhibits entrepreneurial characteristics. By the same token not all entrepreneurial business is small business; and

5.2 Internally in relation particularly to the behaviour of individuals and groups functioning within larger businesses and organisations and “innovating from within”, Innovative behaviour on the part of individuals and groups operating within business- and other organisations rather than as independent agents but that reflects key characteristics most frequently associated with entrepreneurship, is loosely classified as “intrapreneurship”.

In an environment characterised by globalisation and the need to innovate to remain domestically and internationally competitive the promotion of business goes beyond the mere delivery of business development "services" to "businesses". To the extent that entrepreneurship and intrapreneurship at all levels across the business spectrum engender and support innovation and competition, business support programmes must include as a major preoccupation the promotion and nurturing of entrepreneurship and intrapreneurship as business behaviours both for individuals and for collective governance structures across the spectrum of business.

The distinction between entrepreneurship on the one hand and technical skill on the other as business attributes suggests a broad classification of businesses according to the scheme reflected in Table 2-3.⁵⁷ Intuitively non-entrepreneurial businesses with low levels of business- and professional/technical skill are potentially the most vulnerable particularly in problematic and changing economic environments. Such

⁵⁵ Sexton D. *et al* The State of the Art of Entrepreneurship (1992)

⁵⁶ Shabalala S. Identification and Provision of Appropriate knowledge, Skills, behaviour and Attitude for Successful Future Entrepreneurial Development Programmes in South Africa (Sowetan/DBSA Business- and Entrepreneurship Conference 1992)

⁵⁷ Pro-Aktiv Northern Province CMIP: Provincial Capacity Building Programme for SMME's (1998)

businesses tend to make up the majority certainly of very small- and micro- enterprises in many developing countries and disadvantaged communities.

TABLE 2-3: A GENERALISED CLASSIFICATION OF BUSINESS TYPES ACCORDING TO EXTERNAL BUSINESS BEHAVIOUR

Behavioural Character	Professional-/Technical Skills Level		Business Skills Level	
	Highly Skilled	Lesser Skills	Highly Skilled	Lesser Skills
Entrepreneurial	<ul style="list-style-type: none"> • Excellent prospects if accompanied by business skills; • Characteristic of "high-tech" businesses, technology developers and lead technology users; • Are well-placed to respond to market opportunities in their specialist fields; • If support is required it will be in the area of enhancement of business skills 	<ul style="list-style-type: none"> • Good prospects if accompanied by solid business skills; • Increasing focus on opportunism in the absence of professional- / technical specialisation; • Professional-/technical support is indicated in areas such as technical innovation and product development. 	<ul style="list-style-type: none"> • Excellent prospects if accompanied by professional skills s; • Sophisticated, innovative business approach; • Are well-placed to respond opportunistically to market opportunities; • If support is required it will be in the area of enhancement of professional/technical skills. 	<ul style="list-style-type: none"> • Good prospects if accompanied by solid professional-/technical skills; • Enhancement of business skills is indicated
Non-entrepreneurial	<ul style="list-style-type: none"> • Conditional survivability if accompanied by business skills; • Less adaptive in changing market conditions; • Characteristic of "technology followers"; • If support is required it will be in the area of innovation and (possible) ongoing entrepreneurial development 	<ul style="list-style-type: none"> • Conditional survivability if accompanied by solid business skills; • Typical of large numbers of businesses in developing countries where professional-/technical skills are deficient; • Professional-/technical support is indicated in addition to innovation and (possible) ongoing entrepreneurial development and innovation. 	<ul style="list-style-type: none"> • Conditional survivability if accompanied by professional-/technical skills; • Solid but staid business approach; • Less well-placed to respond opportunistically to market opportunities; • If support is required it will be in the area of innovation and (possible) ongoing entrepreneurial development 	<ul style="list-style-type: none"> • Survivability problematic even if accompanied by professional-/technical skills; • Poor business approach. Typical of large numbers of businesses in developing countries where business skills are deficient; • Business support is indicated in addition to innovation and (possible) ongoing entrepreneurial development.

6. ENTREPRENEURSHIP EDUCATION

The essentially innovative nature of entrepreneurship has been seen to distinguish it from professional- or technical skill or proficiency in established bodies of knowledge or even the capacity to invent or enlarge upon established skills and knowledge.⁵⁸ This suggests that the acquisition of professional- and conventional business- and management skills is insufficient in itself for the purpose of entrepreneurship development. Yet the imparting of professional- and business skills has long been the major, if not the sole preoccupation of education- and training agencies throughout the world. The development of entrepreneurship has, until comparatively recently, not received much attention particularly in disadvantaged communities and in developing societies. Even now entrepreneurship development programmes in many countries including South Africa remain largely the preserve of donor-funded NGO's operating

⁵⁸ Kent C. (ed) Entrepreneurship Education: Current Developments, Future Directions (1990) p 46

on a generally inadequate scale in relatively narrow enclaves of focus. To the extent that entrepreneurship is a key factor contributing toward self-sustaining business-led growth in the economy, entrepreneurship education and training are crucial components of any comprehensive medium- to long-term business enterprise promotion- and support strategy. These elements are, however, most frequently neglected as a result of a preoccupation with the more immediate and mundane technical support services imputed to be required by businesses.

It has increasingly come to be accepted that because entrepreneurial behaviour derives from a complex of factors including attitude and skill, the development and enhancement of entrepreneurial behaviours is an ongoing and dynamic lifelong process. The encouragement of creativity and initiative from the earliest stage of individual development has come to be accepted as an important contributor to the incidence of entrepreneurial activity. Business- and management education with an entrepreneurial bias should therefore not be an event occurring only at tertiary level but rather a process having its inception at the primary schooling level.⁵⁹ Successful entrepreneurship promotion will therefore require that the population at large should be exposed to appropriate ongoing "lifelong" entrepreneurship education.⁶⁰ The following stages of lifelong entrepreneurial development have been identified: (Figure 2-3)⁶¹

6.1 Stage 1: Basics

The basics stage begins in the formal educational system as early as the primary grades. Entrepreneurs come from all backgrounds and educational levels. The basics level aims to create the awareness that anyone can be an entrepreneur, but that without basic education and life-skills it is harder to succeed as an entrepreneur;

6.2 Stage 2: Competency Awareness

This stage may begin anywhere in the educational system. The special outcomes of this stage deal with speaking the language of business and appreciating business from the business perspective. Such programmes in the United States as the Entrepreneurship/Economics/Education (E³)⁶² programme and others aimed at disadvantaged students in more senior years are instances of competency awareness programmes laying the basis for

⁵⁹ University of Cape Town Graduate School of Business Global Entrepreneurship Monitor(GEM)
South African Executive Report (2001)

⁶⁰ Ashmore M. New Directions for Vocational Education (National Centre for Research in
Vocational Education 1986)

⁶¹ Adapted from: Ashmore M. New Directions for Vocational Education (National Center for
Research in Vocational Education 1986)

sound understanding of the workings of the economy and of business as a foundation for business-entrepreneurial behaviour;

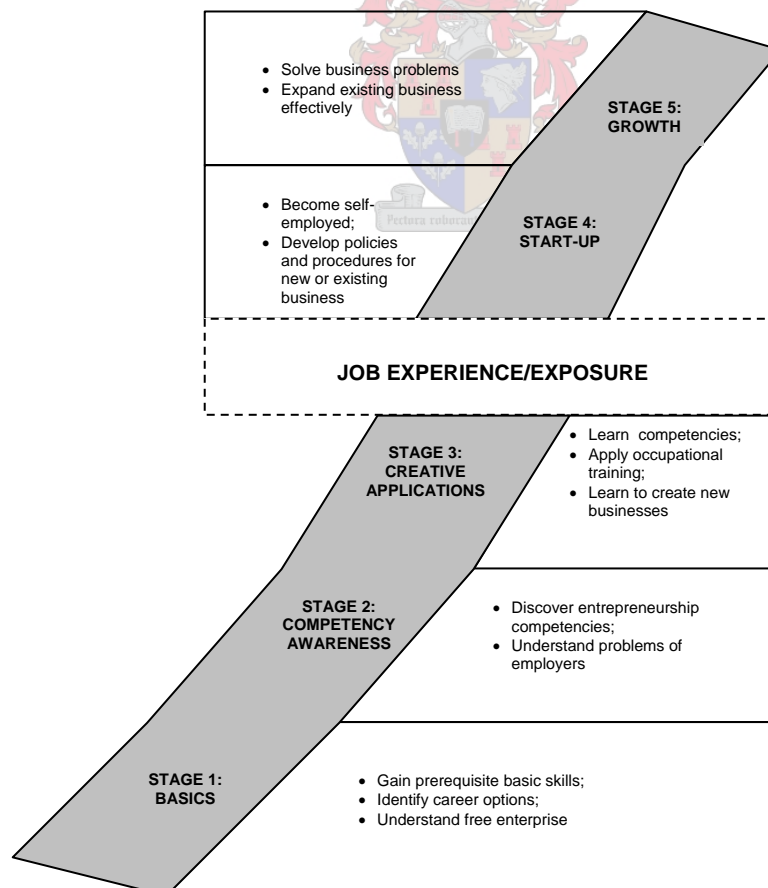
6.3 Stage 3: Creative Applications

The idea of learning to start businesses whilst still at school is novel in most countries. Unfortunately adults do not take the time to learn about businesses before starting their own and many of the failures of small- and micro-business derive from this fact. This stage can take place at advanced school level or at the level of vocational training. The outcome sought with this stage of entrepreneurship development is greater creativity in finding business opportunities and simulated reality in putting together business plans before the prospective entrepreneur is ready to enter the real world of entrepreneurship;

6.4 Stage 4: Employment Experience/Exposure

This represents the watershed between the educational phase of individual development and the vocational phase.

FIGURE 2-2: A MODEL FOR LIFELONG ENTREPRENEURIAL DEVELOPMENT



⁶² As referred to in: Ashmore M. New Directions for Vocational Education (National Center for Research in Vocational Education 1986)

6.5 Stage 5: Business Start-up

Stage 5 ushers in the adult education phase of entrepreneurship development. Various programmes typically are presented world wide through a variety of business centres, enterprise development centres and other institutions, all seeking to assist the inexperienced make business decisions. Where these programmes are *ad hoc* in nature and where the foundations of entrepreneurship have not been laid in earlier formative years these programmes are likely to be less effective.⁶³ Typical outcomes sought in this stage are:

- a. That business start-ups should be better planned thus enhancing the probability of success; and
- b. That investment of time and money in business ventures is rewarded through improved business performance.

6.6 Stage 6: Business Growth

This stage comprises ongoing "lifelong" training and retraining to keep up with the requirements for innovative growth and changing circumstances through the business life cycle. Typically programmes in support of this stage can be and are provided through business- and enterprise development centres and by a variety of private training establishments, including colleges and universities. However, business owners typically value the opportunity cost of their time highly and it is difficult to attract them to such programmes. Frequently business owners do not seek help until their problems are serious and by then it is often too late to turn these problems around. Practitioners typically find that continuous support groups or seminars and workshops following on Stage 4 can keep entrepreneurs in touch with an adviser who knows their business and in whom they can trust.⁶⁴

The economic- and management sciences have been identified as one of eight learning areas in the South African national curriculum, specifically applying to the Grade 8 and 9 levels.⁶⁵ Development of "entrepreneurial" capacities is one of five overall defined outcomes pursued through the curriculum. However the inclusion of this material in the curriculum provides no guarantee that it will be effectively taught at classroom level given the typical problems in South Africa of under-equipped schools

⁶³ Ashmore M. New Directions for Vocational Education (National Center for Research in Vocational Education 1986)

⁶⁴ Kent C. (ed) Entrepreneurship Education: Current Developments, Future Directions (1990) p 217

⁶⁵ Department of Education (Draft) Revised National Curriculum Statement (July 2001)

and under-qualified teachers.⁶⁶ It is also unlikely that the essence of entrepreneurship will be able effectively to be communicated by teachers who themselves do not understand or exhibit its quintessential innovative character.

7. IMPLICATIONS FOR BUSINESS DEVELOPMENT SUPPORT

An entrepreneurial approach to business development has implications both for the nature of business support services and for the system by which they are delivered. The implications of current views of entrepreneurship suggest the following requirements in shaping policy and institutional arrangements for the delivery of business support:

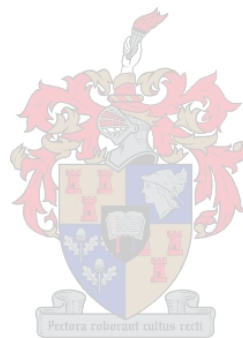
- 7.1 Business support systems must support the nurturing of entrepreneurial behaviour as a basis for innovative, sustainable and competitive business activity;
- 7.2 Business support systems must reach out into all communities since no specific community or interest group has a proprietary right or claim to the capacity to entrepreneurship. The focus should thus be on providing general localised access to appropriate- and structured entrepreneurship development and other business support across all communities;
- 7.3 The imperative in business development should go beyond the support of businesses *per se* to include the support and nurturing of the behaviours that provide the platform for innovative business and improved competitiveness. Delivery systems for business support must be able to underpin such an approach; and
- 7.4 An entrepreneurial approach to business cannot be achieved without an innovative “entrepreneurial” approach to business support itself. In the final analysis the delivery of innovative and appropriate services to business is the province of business service providers that themselves exhibit entrepreneurial behaviour.

Whilst it is but one of a number of factors traditionally accepted as determinants of business success, the importance in a highly competitive business environment of entrepreneurship manifesting in the form of innovative and competitive business behaviour is critical. Without innovation business will of necessity follow a "low-road" competitive scenario characterised by lack of diversity, over-competition and declining profitability, and the increasing incidence of business failure. Without innovation business will typically not be in a position to provide the requisite sustainable employment opportunities and income to support an improved quality of

⁶⁶ University of Cape Town Graduate School of Business

Global Entrepreneurship Monitor(GEM)
South African Executive Report (2001)

life in developing communities. Yet the nurturing of innovative behaviour *per se*, so necessary to set business on a competitive "high road" scenario, typically has not received much attention in most environments. The preoccupation in business development support has hitherto been with addressing the "problems" of business by way of the delivery of essentially technical and managerial business support services rather than with an entrepreneurial approach that addresses the capacitation of the community innovatively to recognise and to take advantage of its opportunities. Clearly many of the actions required by an entrepreneurial approach lie outside of the traditional province of business development support services as conventionally defined (Chapter 3). Nevertheless the perception has rapidly gained currency that agencies bearing the responsibility for business support must play a role in procuring a comprehensive approach to the promotion and development of entrepreneurship as a fundamental and hitherto largely neglected underpinning of business development programmes.



CHAPTER 3

GOOD PRACTICE APPROACHES TO BUSINESS SUPPORT

1. Introduction

The matter of how best to promote self-sustaining business activity as the basis of economic development in private free enterprise economic systems has occasioned much debate and a considerable body of literature. The discourse on business support has also been impacted by the emerging views on business as a vehicle for entrepreneurship and also by the evolution of thinking in the area of public management, and particularly so by the approaches collated under the classification of “new public management” or NPM.

Chapter 3 provides an interpretive survey of key themes in the discourse on non-financial business support as a component of economic development policy and programming. It is concluded that whilst experiences throughout the globe have been varied, nevertheless there is evidence of emerging good practice to guide the approaches of governments and other agencies to business support. This is particularly important for countries and communities where, as discussed in Chapter 1, a sufficient body of local contextual case material supporting distillation to a good practice framework as yet does not exist.

In particular an emerging new “market development” paradigm places increasing emphasis upon the provision of business support by way of multi-channel delivery systems comprising multiple independent and competing business support service providers rather than by way of single channel delivery systems. The emergence of this paradigm has been significantly influenced by developments in approach to micro-financing of development in some developing countries. The emerging paradigm has significant implications for the design of business support delivery systems to be discussed in Chapter 4.

2. Approaches to Macro-economic Development

In most developing countries throughout the world rapid industrial growth has been recognised as the principal means of achieving increased employment, living standards and incomes necessary for socio-economic transformation and modernisation. Approaches to achieving industrial growth have, however, varied greatly.¹ In several countries the emphasis has been on the promotion of private-sector development, particularly through the medium of trans-national corporations

¹ UNIDO Global Forum on Industry: Perspectives for 2000 and Beyond New Delhi (October 1995) p 1

(TNC's). In other countries in Asia, Africa and Latin America state-owned enterprises (SOE's) have played an important role as vehicles for the engagement of the state in industrial- and other development activities, in most instances coupled with policies of protectionism, import restriction and import substitution. Yet further variants of approach have manifested in such countries as Chile and Korea where export orientation has featured strongly as a pivot of policy and in Singapore and Thailand where relatively unrestricted foreign direct investment (FDI) has at various stages been promoted.

The generally deficient performance of state-owned production enterprises against industrial- and general economic development objectives, and the rising debt of many countries in the developing world in the mid 1980's led to major structural adjustment initiatives led by such international agencies as the World Bank. The so-called "new wave" approaches that ensued placed greater emphasis on market orientation and the recognition of the private sector as the pre-eminent driver of sustainable industrial- and other commercial development.

Globalisation in the 1990's in the wake of extensive technological developments in such fields as information- and communications technology (ICT) provided momentum to the shift from a preoccupation with the state as the main role player in industrial development to an increasing preoccupation with improving competitiveness not only between nations but at the level of individual business enterprises in an increasingly liberalising and reforming policy environment. The principal considerations of this transforming policy environment have involved the mobilisation of new investment; the absorption and adaptation of new technologies; optimum levels of privatisation of SOE's and increased competitiveness and export orientation.²

Inherent in the new approach has been the acceptance of the fact that in a world characterised by greater connectivity, and linkages between individuals and businesses across borders and continents, the role of governments in regard to industrial- and other commercial development could need to undergo significant change.³ At the centre of the debate has been the issue of whether, how, and to what extent governments at all levels, and indeed other non-governmental and donor agencies as well, should engage in the promotion and development of local enterprise and of local entrepreneurial capacity. This has naturally focussed attention upon the means and mechanisms for achieving local enterprise growth and thus has

² Marton K. Recent Industrial Policies in Developing Countries and Economies in Transition (UNIDO ID/WG.542/22(Spec)) as quoted in (1)

³ UNIDO Global Forum on Industry: Perspectives for 2000 and Beyond New Delhi (October 1995) p 2

constituted the genesis of the international debate on business development support systems. Specifically it has focussed attention on the business support deficiencies particularly of developing countries and on the accumulation of a record of good practice methods for dealing with them. In sub-Saharan Africa where economic policy has largely been dominated by trade in, and export of primary commodities, liberalisation of investment policy has brought little in the form of benefit in terms of foreign direct investment and technology inflows. There has also been a significant lack of broadly-based industrialisation and declining productivity has been in the order of the day.⁴ The advent of the knowledge economy in which competitiveness is increasingly influenced by the capacity to innovate and to use technology to add value rather than simply by natural resource endowment and control over the economic factors of production has placed a new complexion on the rules of the game for economic development, and particularly so for business development.

With the new reality has come the perception that:⁵

- 2.1 Promotional policies need to play a key role in stimulating the growth of investment, the application of appropriate technology, and in bringing about major changes in industrial structure;
- 2.2 This can be achieved largely through a combination of foreign direct investment by TNC's and other agencies and small-, medium- and micro-enterprise (SMME) promotion programmes that are at least initially trade-neutral but ultimately that aim toward the development of competitive export capability in specific markets and niche areas; and
- 2.3 That the indicated new policy imperative is the creation of a new class of entrepreneurs and a skilled labour force alongside the development of technological capabilities for the manufacture of non-traditional products in new areas in which local enterprises can achieve a comparative advantage both in local and international markets.

Whilst small- and medium enterprises (SME's) employing less than 100 persons already constitute a major force in developed economies, their role in the service sectors has been growing strongly, as has their role as generators of employment in these sectors. The strong growth particularly of the SME sector in developed countries typically is driven by rationalisation of large firms in pursuit of improved

⁴ Nziamasanga M. Formulating Industrial Policy in Africa: 2000 and Beyond (UNIDO ID/WG.542/24(Spec)) as quoted in (1)

⁵ UNIDO Global Forum on Industry: Perspectives for 2000 and Beyond New Delhi (October 1995) p 18

productivity; outsourcing by larger firms; and the emergence of SME's in the rendering of business services to other businesses.⁶

Small- and micro-business has been described in Chapter 2 as the natural home of entrepreneurship. It also in a fundamental sense has been held as constituting the genesis of all business. Growing preoccupation with the nurturing of entrepreneurship and of private business as a main driver of economic development has thus naturally translated into a preoccupation with emergent micro- and small businesses. Such businesses in all environments typically are less stable and thus more risky than larger businesses. Whilst they traditionally have been less well placed to undertake fundamental ground-breaking research and development than larger businesses, they tend also to be potentially more flexible and stronger on the incremental applied innovation required by the knowledge economy than their larger counterparts. The advent in the new age of information and communications technology (ICT) has however provided them with the potential for linkages, connectivity and networking that can enable them to overcome disadvantages of scale they may hitherto have experienced relative to larger enterprises.

The key issue in developing countries and communities revolves around the optimal means of achieving sustained economic growth and the creation of jobs. Increasingly private business activity in general, and the small-, medium- and micro-enterprise sector in particular are seen as important vehicles for the achievement of broader socio-economic objectives. This is embodied in fresh economic development imperatives to achieve "local economic development" (LED) as a sustainable outcome based increasingly on local initiative, driven by local stakeholders and involving the identification and employment of local resources, ideas and skills to stimulate economic growth and development within communities.⁷ At the root of the concept of local economic development is the notion of the local development coalition or -alliance as the vehicle for:

- a. The formulation and implementation of development strategy on the basis of consensus;
- b. The focusing of resources and co-ordinated action toward shared strategic objectives and the achievement of critical mass along critical paths to achieve desired socio-economic change; and
- c. The establishment of flexible institutional arrangements to generate and underpin change and to adapt and respond to evolving circumstances.

⁶ Andersson T. Public Policies for SME's in Europe: Policy Design, Implementation and Evaluation - Rationale Efficiency and Systemic Concerns (DSTI/OECD 2000) p 2

⁷ Department of Provincial and Local Government LED Manual Series 1/5 (2000)

According to this local economic development approach that has emerged *pari passu* with participative democracy, local business development promotion is not the province of government alone, but of local development coalitions and –alliances involving key stakeholders across the community. Government is merely one of a number of stakeholders in such coalitions and alliances, albeit an important one.

The emerging issues then are how to create the optimal circumstances for sustained development and growth of a competitive business sector so as to promote broader socio-economic development objectives; what the optimal roles of the various role players need to be and what institutional arrangements are necessary to enable the development of the necessary synergies to that end. These elements serve broadly to delineate the current debate on business support.

3. Definition and Focus of Business Development Support

3.1 Definitions

Business support services may generally be taken to refer to the totality of external services utilised by businesses to operate and to grow.

Traditionally a distinction is made within the broad category of business support services between financial services and “other” (non-financial) services formally and informally accessed by businesses in their operation and growth. The two major categories of services constituting business support are thus:

- Business development services (BDS); and
- Financial services.

This distinction had its origins in the sharp and essentially exclusive focus in earlier development approaches upon finance as the primary constraint to the development of small- and micro-business, and therefore as the major imperative in business support programming. It currently owes its persistence to a view that business development services and financial services may for a variety of reasons not ideally be provided through the same channels but should rather be separately provided by separate, distinct and appropriately specialised service providers.⁸ The distinction is relevant in the interpretation of the international literature on business support.

⁸ Barton C.

Micro-enterprise Best Practices: Defining Institutional Options and Indicators of Performance (Development Alternatives Inc. 1997) p 33

a. Business Development Services (BDS)

“Business development services” refer to any non-financial support services to business, formally or informally accessed by business.⁹ In terms of the Standard Industrial Classification (SIC) such services constitute intermediate services delivered to businesses by other businesses and –agencies. They also specifically include many crucial embedded or “hidden” services such as advice, training, introductions and market information involved in transactions (including financial transactions) between businesses in the normal course of their ongoing commercial activities.^{10,11} They conventionally include those services either sold or otherwise acquired between businesses and other agencies but specifically exclude buyer-seller relationships for goods and services between business and final consumers.

This definition, informed internationally by field experience that has shed light on the extent of services actually accessed by businesses, is much more comprehensive than earlier definitions that equated business development services only with training and counselling. These earlier definitions reflected a "supply side" conceptual model based on an imputation on the part of governments, donor organisations and service providers as to what services were needed by business. This approach was significantly insensitive to the support needs that businesses themselves deemed important.¹² Experience has shown that business support needs are far more complex and nuanced than had in simplistic earlier approaches been believed to be the case.

Within the category of business development support services the need of a further conceptual distinction is indicated by the necessity to distinguish between regular commercial business services and “developmental” business services. The latter may include services and other forms of assistance that private for-profit business service providers are unwilling or unable to offer.- These include for example front-end product- and market development innovations that spread rapidly and thus in effect constitute public goods for which commercial service

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- ⁹ Field M. *et al* Micro-enterprise Best Practices: Designing BDS Interventions as if Markets Matter (Development Alternatives Inc. 2000)
- ¹⁰ Anderson G. The Hidden MSE Service Sector: Research into Commercial BDS Provision to Micro- and Small Enterprise in Vietnam and Thailand Working Paper No.5 (ILO 2000)
- ¹¹ McVay M. & Miehlebradt O. Emergent Good Practices in Business Development Services (ILO 2000) p 8
- ¹² Gibson A. *et al* Micro-enterprise Best Practices: BDS Market Development - A Guide for Agencies on the Emerging Market Development Approach to Business Development Services (Development Alternatives Inc. 2001)

providers cannot recoup sufficient benefits to ensure private viability.¹³ The relevance of such “developmental” business support within the currently evolving commercial (“market development”) paradigm of business support has been challenged.¹⁴ (Refer paragraph 6) Nevertheless in real-world applications, and particularly where markets for business development services are as yet under- or undeveloped, the distinction remains relevant and “business development services” must be taken to include both the following elements:

- “Developmental business services” comprising those services that private for-profit business service providers are in any given circumstances unwilling or unable to offer but that are in demand by the emergent business community; and
- “Commercial business services” comprising those services traded between willing buyer and willing seller in the market.

Generally excluded from the definition of business development services but nevertheless clearly critical to the operation and development of businesses and therefore integral to the broader operational concept of “business support” are the following:

- The provision to business of, or access by business to physical intermediate products, manufactured goods or raw materials;
- Utilities including water and electricity, and other so-called “economic infrastructure” enabling businesses to function;
- Public services directed toward the community at large but providing the underpinnings of the business environment;
- Advocacy on behalf of the business community as a whole; and
- Purchasing and procurement arrangements in support of, or directed to benefit, target businesses or categories of business.

b. Financial Services

Traditionally “financial services” have been taken to refer exclusively to the provision of financing required by business. Such business financing typically takes the form of:

¹³ Barton C. Micro-enterprise Best Practices: Defining Institutional Options and Indicators of Performance (Development Alternatives Inc. 1997) p 32

¹⁴ Gibson A. *et al* Micro-enterprise Best Practices: BDS Market Development - A Guide for Agencies on the Emerging Market Development Approach to Business Development Services (Development Alternatives Inc. 2001) p 10

- Extension of credit through the banking system by means of loans and overdraft facilities;
- Supplier credits and advances from customers;
- Credit guarantee schemes that aim to share risks with (commercial) lending institutions so that the lender is compensated for all or part of the loss in the event of a loan default;
- Business leasing, hire-purchase and rental arrangements whereby premises, equipment, vehicles, and the like are made available for the use of a business and without transfer of ownership for a periodic fee and with the option to purchase at a reduced rate at some future time, thus obviating the need for capital outlay by businesses themselves; and
- Venture capital involving equity investments in businesses by outsiders who are not the main owners of those businesses. Commercial venture capital funders (VCF's) typically make equity investments in smaller businesses that are considered to have attractive potential for growth and that will yield satisfactory returns on investment over time relative to other available investment options open to the capital venturer in the marketplace.

Whilst the theoretical distinction between financial and non-financial business services has been universal, nevertheless at the operational level financial services have invariably been accompanied by some form of support and advice, albeit limited, on the part of banks and other lenders/financiers. Such “hidden” support and advice itself constitutes a (non-financial) business service. To this extent, and given the impracticality of carrying the distinction between BDS and financial support to business too far, there is a growing view that financial services should be deemed to include those ancillary services that are specifically and naturally related to financial management and –control and are natural extensions of it. Such ancillary services typically include training on such matters as:¹⁵

- How to apply for loans- and how to raise other types of funding and generally how to interact with financial institutions;
- Basic bookkeeping;
- Financial controls; and
- The management of loan- and other funding.

¹⁵ Barton C.

Micro-enterprise Best Practices: Defining Institutional Options and Indicators of Performance (Development Alternatives Inc. 1997) p 33

3.2 The Focus of Business Support

The fact that emergent small business faces unique problems is in itself insufficient reason for placing undue emphasis on small business development for its own sake and at the expense of other categories of business enterprise. The emerging view is that special interventionist policies or programmes in support of business, including focussed SMME programmes, should be adopted only to the extent that there are market-, governance- or systemic failures that impact selectively on particular categories of business, that compromise the resource-efficient achievement of socio-economic objectives and that cannot be corrected at source. Interventions should thus be focussed and limited to addressing those failures. Business support in the emerging new paradigm is thus less a matter of focussing upon supporting specific categories of business as exemplified for example by the traditional preoccupation with SMME's, than it is of addressing failures in the support systems upon which businesses generally rely. Above all, the new policy challenge is seen to involve the determination of how policies to stimulate business can work within existing markets and facilitate the formation of new markets in the interests of achieving viable self-sustainability of business support systems.¹⁶

a. Developmental Business Services

The focus of developmental business support in the emerging new paradigm is upon non-distortive interventions in response to the need of, and demand for, business services on the part of business and arising out of business support system imperfections. In accordance with the emergent minimalist approach to interventions in the market developmental business support interventions are viewed as essentially on an exceptional basis. According to the current paradigm the focus of developmental business services is predominantly on the range of businesses conventionally classified as SMME's, and particularly so on the micro- and small business (MSE) elements within this category. In general terms the social returns to supporting and servicing micro- and small business are higher than the anticipated private returns, resulting in under-investment by the market in servicing these elements on a commercial basis.¹⁷ On such grounds particularly the lower end of the SMME sector is a focus for developmental business support. Whereas the practice in some countries has come to incorporate the full range of enterprises from micro- to medium in a single catch-all small-, medium-, micro- enterprise (SMME) category for the purposes of focussing developmental business support, sharp distinctions are made for the

¹⁶ Andersson T.

Public Policies for SME's in Europe: Policy Design, Implementation and Evaluation - Rationale Efficiency and Systemic Concerns (DSTI/OECD 2000) p 4

purpose internationally between various subdivisions within this broad category, each of which has uniquely nuanced characteristics and needs.¹⁸

A reflection of the need particularly in developing countries and communities for the gearing of investment and resources expended on business services consistent with the imperative of promoting and nurturing entrepreneurship has been the emerging focus of attention of business support on “dynamic”¹⁹ or entrepreneurial enterprises – the so-called “gazelles” or “front-runners” rather than on those that are essentially income-generating with no prospect or potential for growth. The question has been posed as to whether the servicing of the business support needs of the latter should fall within the purview of business support at all or whether such services should be regarded essentially as a social welfare activity.²⁰ This has in turn raised the question as to whether, or to what degree, such services should be delivered via dedicated delivery channels separate from those servicing the needs of dynamic entrepreneurial enterprise, or indeed to what extent they should be publicly funded or subsidised. In practice, however, the distinction is blurred, with conventional business service delivery channels by force of circumstance addressing both categories of enterprise.

The question is not that income-generating (non-entrepreneurial) businesses should be denied developmental business support services because they do not have the propensity to grow and create new employment, but rather whether the methods, means and objectives involved in supporting such enterprises are sufficiently different or distinguishable from those applicable to entrepreneurial enterprises, and whether the distinction is at all practicable. To the extent that “business” connotes any activity involving the production and/or sale of goods and services at a profit, “income-generating” business falls squarely within the definition of business enterprise.²¹ If there is a conceptual distinction to be made in the area of developmental business support then it is between those businesses that have the real prospect of viable self-sustainability and competitiveness and those that do not. But even here the distinction is complicated by the fact that all business can in greater or lesser measure serve to incubate entrepreneurship.

¹⁷ Andersson T.

Op cit p 4

¹⁸ Finnegan G.

Working paper 3: Micro- and Small Enterprise Development and Poverty Alleviation in Thailand (THA/99/003) (ILO/UNDP 1999)

¹⁹ Lynch M. **et al**

Case study of the Enterprise Support Services for Africa Project (ESSA) (ILO 1998)

²⁰ Allal M.

Working Paper No 6: Business Development Support Services for Micro- and Small Enterprises in Thailand (ILO/EASMAT 1999) p 51

²¹ Allal M.

Working Paper No 6: Business Development Support Services for Micro- and Small Enterprises in Thailand (ILO/EASMAT 1999) Editor’s Note p 51

The distinction internationally is however clearly that the subsidisation of inherently non-viable business activities for the achievement of social objectives *per se* does not lie within the area of business support and does indeed fall rather within the purview of social welfare activity.

b. Commercial Business Services

Commercial business services focus on meeting market demand where and to the degree that it manifests. Commercial business services are therefore in their own right commercial products traded in the market by commercial business service providers.

4. Lessons Learned in Business Support

4.1 Business Development Services (BDS)

a. Historical Development

The so-called "Indian Model" typified the most prominent early international approaches to the promotion of small- and medium- enterprise development in the Third World.²² Whilst in developed countries small enterprise promotion was typically heavily subsidised by government, these countries had avoided the creation of public institutions for small enterprise promotion, preferring to leave the delivery of business support to the private sector, business associations, consultants and universities and research institutions. The model adopted in India, and destined to become a template for the Third World however provided for the extensive involvement of the public sector in small enterprise development in developing countries. The model was essentially characterised by:

- i. The creation of public institutions and programmes for small enterprise support;
- ii. Extensive government engagement in the direct provision of services to the small enterprise sector including:
 - The identification of business opportunities;
 - The provision of factory space and of industrial parks;
 - Direct financial assistance;
 - Procurement preference; and
 - Advice and training;

²² Levitsky J.

Support Systems for SME's in Developing Countries – A Review No 2
(UNIDO 1996) p 3

iii. The prevailing perception that the small enterprise sector generally was unable to pay for services with the consequence that:

- Business support services were offered on a subsidised basis - generally free-of-charge;
- Financing of the sector generally attracted concessionary and highly subsidised interest rates; and
- Public and larger private enterprises were required to extend procurement preference to the small enterprise sector, despite generally higher prices and lower quality products and services.

Whilst the small enterprise sector in India has become significant and highly diversified the global effectiveness and international portability of the approach has been questioned particularly since the emphasis on small business at the expense of other economic sectors reduced the competitiveness of industry in the country as a whole. It has been suggested that other more balanced approaches could have been more globally effective.²³ Significantly, the Indian model has undergone material modification and more recently has shifted focus toward the incorporation of the private sector in the provision of business support.

Literature deriving from the 1960's and 1970's reflects the dominant reliance internationally on public sector services and state-run programmes in the approach to training, technical assistance and market development support to small – and “cottage” industries, the conceptual forerunners of the present small- and micro-enterprises.²⁴ Even the role of NGO's was muted although some experimentation was evident in the use of quasi-autonomous non-governmental (parastatal) agencies (QUANGO's). Typically the prevailing institutional vehicle for the delivery of business services to small enterprises and based on the Small Industry Service Institutes of the Indian Model and applied in Egypt, Singapore Sri Lanka and Thailand by the International Labour Organisation (ILO) comprised amply-equipped and well-resourced public institutions staffed by government employees attempting to offer advisory and training services. However, qualified staff with a business orientation and the necessary exposure to fit them for the business advisory role found commercial consultancy more attractive and were generally not amenable to recruitment into government or quasi-government institutions. By the 1970's staffing problems and the insustainability of

²³ Levitsky J. Support Systems for SME's in Developing Countries – A Review No 2 (UNIDO 1996) p 4

²⁴ Barton C. Micro-enterprise Best Practices: Defining Institutional Options and Indicators of Performance (Development Alternatives Inc. 1997) p 17

government funding had resulted in the closure or refocusing of many of these institutions. Similarly based approaches were followed by the United Nations Industrial Development Organisation (UNIDO) also focussing on strengthening public institutions but with the emphasis on the establishment of industrial estates and Industrial Promotion Centres (IPC's). These programmes all failed to perform to expectation in terms of impact, outreach, effectiveness and sustainability.

All these approaches typically were predicated on the view that the capacity of public institutions should be developed to provide services to SME's – indeed that they should be the predominant if not the only vehicle for doing so. Such public institutions would, in terms of this rationale ultimately become self-sustaining after the withdrawal of external support and assistance. In reality what developed were bloated bureaucracies, generously core-funded and staffed by bureaucrats who had themselves never been subject to the disciplines of the market and did not understand it. Following their lack of success in mobilising funding in the open market for business development these institutions developed own internal funding capacity leading to an internal conflict of interests between their performance objectives of facilitating as many new businesses as possible and objectively appraising those projects for funding purposes. Over-optimistic forecasts and expectations in pursuit of performance targets thus translated into significant exposure of these organisations to loan recovery problems and delinquency on the part of their financial clients.²⁵ Virtually all these organisations, by virtue of the fact that they were controlled in one or other way by government, were exposed to political interference and became deviated from their main course as vehicles for the achievement of political objectives. Whilst they had an impact, their outreach and sustainability were severely comprised, as was their efficiency as vehicles for the delivery of development support.

By the 1980's disenchantment rose with the performance of public sector agencies in the rendering of technical support to small rural- and urban producers and the emphasis of international agencies such as the World Bank, USAID and others gradually shifted to trade- and investment promotion involving larger enterprises. Small enterprise focus therefore gradually waned and an hiatus of more than a decade followed, with little serious effort at addressing the substantive problems of non-financial technical assistance to small enterprises.²⁶

²⁵ Levitsky J. Support Systems for SME's in Developing Countries – A Review No 2 (UNIDO 1996) p 6

²⁶ Barton C. Micro-enterprise Best Practices: Defining Institutional Options and Indicators of Performance (Development Alternatives Inc. 1997) p 15

Most institutional failures in the grand design of business support systems have been adduced to have been the result of over-centralisation, over-elaboration and bureaucracy, with development agencies attempting to do too much in the area of service delivery. Rather, a smaller autonomous promotional-, advisory- or assistance presence within communities or serving specific sectors, within a referral network providing access to greater competence wherever it may be accessible within the community, the country, or internationally increasingly has achieved currency as holding the better prospects of success.²⁷ Technological advances in information and communications technology (ICT) have more recently considerably enhanced the practicability of such referral arrangements and of networking.

In the interim, over the period that small(er) business support issues had temporarily dropped off the international agenda, significant developments had occurred in the promotion of rural financial markets, informal financing and other financial services for small farmers that were relevant *mutatis mutandis* to other businesses. These developments would lead to the development of approaches to credit extension and micro-enterprise financing that were market oriented and sensitive to the expressed demand for financial services on a wider canvas and were destined to be centrally important in influencing the new wave approach to non-financial business support services although the unqualified applicability to non-financial business support of the experience gained in the micro-financing field has been questioned.^{28,29} It has been argued that non-financial business services typically are provided in a more challenging market than is the case with micro-finance and systems for the delivery of non-financial business services therefore require greater diversity of approach to become institutionally and financially sustainable.³⁰ However, much of the good practice in micro-financing is of indicative value in the debate on non-financial business services and significant qualified lessons may be learned from that experience as from the history of non-financial business support itself.

b. Lessons Learned

The new wave approach to the provision of business development support has been driven by significantly changed circumstances in many countries. Most

²⁷ Levitsky J. Support Systems for SME's in Developing Countries – A Review No 2 (UNIDO 1996) p 7

²⁸ McVay M. *et al* Emerging Good Practices in Business Development Services (ILO 2000) p 1

²⁹ Stanton D. *et al* Getting Realistic about Creating Financially Sustainable Business Development Institutions (ILO/DFID 2000) p 2

³⁰ Stanton D. *et al* Getting Realistic about Creating Financially Sustainable Business Development Institutions (ILO/DFID 2000) p 3

particularly the financial and capacity constraints upon governments and donors have limited the achievement of the necessary levels of impact, sustainability, efficiency and outreach. This in turn has occasioned the need for paradigm shifts in approaches to business support. In addition there also appear to be changes in the factors that drive economic growth with information- and communications technology (ICT) contributing increasingly to output and productivity growth in developed countries with competitive implications for less developed countries within the globalising economy.³¹ However, the case is made that it is not the technology *per se* that has led to these increases but rather the interplay of ICT with innovation processes, organisational change and the upgrading of human skills.³² This interplay constitutes what in essence has become known as the new “knowledge economy”. Business support must be equal to the task of underpinning business growth in the “new” economy. This has implications for the approach to, and structuring of systems for the delivery of business support.

4.2 Financial Services

a. Historical Development

The development of fresh approaches to business financing, particularly related to the financing of business start-ups, has been dominated by the so-called “micro-finance movement”. The idea of micro-financing - that is, the lending of small sums to those with micro-businesses – and as pioneered by such institutions as Grameen Bank (Bangladesh), the Unit Desa operations of Bank Rakyat (Indonesia) and BancoSol (Bolivia) - has fired the international imagination for the financing of business development amongst disadvantaged communities hitherto typically excluded from attention by the formal banking movement. Since the inception of the Grameen Bank in 1976, the so-called micro-finance institutions (MFI's) have reversed conventional banking practice by removing the need for collateral, frequently the most critical constraint faced by businesses at start-up, and creating a system based on mutual trust through personal knowledge of the borrowers; peer pressure through the formation of peer groups as vehicles for preventing the development of arrears and defaults; and incentives to access larger sums on the basis of good repayment records.³³ But the foundations upon which the concept of micro-financing are based are not new, and particularly not to Africa where a variety of informal savings- and credit schemes are widespread although known by different names in different

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- ³¹ Schreyer P. STI Working Paper No 2: The Contribution of Information and Communication Technology to Output Growth: A Study of the G7 Countries (OECD 2000)
- ³² Andersson T. Public Policies for SME's in Europe: Policy Design, Implementation and Evaluation - Rationale Efficiency and Systemic Concerns (DSTI/OECD 2000) p 2
- ³³ Grameen Bank (2001)

countries as “tontine”, “susu” or “stokvel”.³⁴ Even where formal institutions have not existed for the provision of micro-financing a vibrant and profitable (informal) private micro-financing sector has emerged bearing ample testimony to the business viability, at least of informal micro-financing activities.

Before the advent of the micro-financing movement business financing had been driven along traditional lines by commercial banks presenting financial products and services generally inappropriate to the needs of small- and micro- business. The recognition of the deficiencies of the formal banking sector in the delivery of finance to emergent business primarily through the extension of credit, seen for a time as the most critical developmental lever for the stimulation of business development, brought with it a number of financial programmes aimed specifically at emergent business. Most of these programmes had at their core the provision to emergent businesses of subsidised credit as the key to the stimulation of business development. This had the effect of institutionalising enclaves of financial dependency. Until the advent of the micro-financing revolution ushered in by the establishment of the Grameen Bank and other similar agencies based upon an entirely new paradigm, the outreach achieved by approaches to business financing along largely traditional lines was limited, particularly insofar as the impact upon the emergent micro- and small business sector was concerned.

b. Lessons Learned

Subsidised credit programmes that characterised earlier efforts to compensate for deficiencies in the capacity of traditional approaches to the financing of emergent businesses were all based on the misconception that emergent enterprises could not afford to pay the full cost of institutional lending and thus needed to be subsidised. Ironically, as later research has shown, very many if not most such enterprises were already (and indeed routinely still are) paying exorbitant interest rates to moneylenders for appropriate finance fitting their particular needs. The subsidies that became an established feature of the financing of emergent business have indeed been held to have been a cause of the subversion of the sustainability of many businesses that have been encouraged by subsidised interest rates and other indulgences to borrow more than they need and than they can reasonably sustain. Subsidised finance has also been used as a political tool to curry favour in intransigent communities at

³⁴ van Oyen L. *et al*

Working Paper No 4: Financing Private Enterprise Development in Africa
(UNIDO 1999) Chapter 2

the expense of sustainable business development and ultimately of economic health.³⁵

Realising the importance of micro-financing as part of a balanced support mix for promoting the development of emergent business, many NGO's internationally have begun to include micro-financing into their activities. Indeed, many have found over time that micro-credit extension has had a more immediate and direct effect upon poverty alleviation and the enhancement of living standards than the training and counselling activities in which they have traditionally been engaged. Some NGO's have been successful in providing appropriate financial services by virtue of their flexibility and relative informality. There is a danger that the assumption of these functions by formal banks will compromise the very informality that is so important to successful micro-financing, will push the industry towards the servicing of larger borrowers and divert attention once again away from emergent business. The question, however still remains as to how to leverage the formal financial institutions in an appropriate manner into micro-funding and greater engagement with emergent enterprise. Approaches to achieving this have included:

- i. Attempts at the reduction of transaction costs by engaging the assistance of NGO's to screen would-be borrowers;
- ii. Having NGO's monitor and supervise the repayment of loans; and
- iii. Having NGO's and government depositing their funds in commercial banks so that financing institutions will require less of their own deposits for lending to small borrowers.

Whilst the growing realisation that "the poor are bankable" has generally not penetrated to the commercial banking sector that has traditionally regarded such activities as inherently more risky the view founded on the successes demonstrated by entrepreneur micro-lenders strongly suggests that if suitable approaches, procedures, controls and institutional frameworks are introduced, micro-financing can be a profitable formal commercial financial activity.

5. Objectives and Norms

Clear objectives in the provision of business development services are crucial to the development of optimal business support programmes and -systems and their performance measurement and –management.

³⁵ van Oyen L. *et al*

Working Paper No 4: Financing Private Enterprise Development in Africa
(UNIDO 1999) Chapter 2 p7


These objectives manifest at the following levels:

- The programme level;
- The intermediate (facilitative- or meso-) service provider level;
- The service provider level; and
- The recipient business level.

Objectives also manifest in the form of:

- External (exogenous) development objectives to be achieved by the provision of business services; and
- Internal (endogenous) objectives relating to the objectives of the relevant institutions or organisations providing those services.

Common (external) objectives pursued by business development support programmes have been classified as follows:^{36,37}

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- | | | |
|----|--------------------------------|---|
| a. | Scale Objectives: | The extension of business support to the largest number of people; |
| b. | Outreach Objectives: | Reaching under-served areas and markets, and particularly the poor and disadvantaged; |
| c. | Impact Objectives: | Poverty alleviation through enterprise growth; |
| d. | Cost-effectiveness Objectives: | The most efficient use of resources; and |
| e. | Sustainability Objectives: | Ensuring that services and benefits endure to achieve their objects. |

Clearly each and every component of the business service delivery system has its own unique objectives. Table 3-1 represents a typical adapted objective structure based on current trends in the international literature.³⁸ What is important in successful business service networks and systems is that individual internal- and external component objectives should be consistent with system objectives and enhance the achievement of those objectives.

³⁶ McVay M. BDS Performance Management Framework (ILO 1999)

³⁷ McKee K.. Recent Experience of USAID in Promoting Business Development Services for Micro-enterprises (ILO 2000)

³⁸ Adapted from: McVay M. BDS Performance Management Framework (ILO 1999)

TABLE 3-1: A TYPICAL BUSINESS SERVICE OBJECTIVE STRUCTURE

LEVEL OBJECTIVE	Programme/ System Level	Service Facilitator Level		Direct Service Provider Level		Recipient Business Level
		Developmental Services	Commercial Services	Developmental Services	Commercial Services	
Scale	<p>External To provide access to business services by the maximum number of businesses requiring them</p> <p>Internal Expansion of the system</p>	<p>External To facilitate/ procure the provision of those services that commercial service providers are unable or unwilling to provide</p> <p>Internal Expansion of the scale of own activities.</p>	<p>External To facilitate the expansion of the market for commercial business services (supply and demand)</p> <p>Internal Expansion of the scale of own activities</p>	<p>External To provide those services that commercial service providers are unable or unwilling to provide.</p> <p>Internal Expansion of the scale of own activities</p>	<p>External To grow and penetrate the market for commercial business services;</p> <p>Internal Growth as a business</p>	To have access to business services where and when required to support growth of the business
Outreach	<p>External To provide access to business services in:</p> <ul style="list-style-type: none"> • Target communities; • Target geographical areas; • Target sectors; • Target industries <p>Internal Targeted extension of the system</p>	<p>External To facilitate/ procure the targeted provision of those services that commercial service providers are unable or unwilling to provide</p> <p>Internal Targeted extension of own activities</p>	<p>External To facilitate the targeted expansion of the market for commercial business services (supply and demand)</p> <p>Internal Targeted extension of own activities</p>	<p>External To provide those services that commercial service providers are unable or unwilling to provide</p> <p>Internal Targeted extension of own activities</p>	<p>External To grow the market for commercial business services on a commercial basis</p> <p>Internal Penetration of new markets for business services</p>	To have access to business services where and when required
Impact	<p>External To improve access to improved quality of life by recipients of business support through enterprise growth</p> <p>Internal Relevance</p>	<p>External To facilitate/ procure improved access to relevant business services</p> <p>Internal Relevance</p>	<p>External To facilitate the development of a market for relevant business services (supply and demand)</p> <p>Internal Relevance</p>	<p>External To provide relevant business services</p> <p>Internal Relevance</p>	<p>External To provide quality-competitive commercial business services</p> <p>Internal Competitiveness</p>	To improve business performance and profitability in support of personal- and business objectives
Cost-effectiveness	<p>External To facilitate the provision of business services on a cost-effective basis</p> <p>Internal The cost-effective application of internal system resources</p>	<p>External To facilitate the provision of required business services by whoever can provide them most cost-effectively</p> <p>Internal The cost-effective application of internal resources</p>	<p>External To promote competition in the provision of required business services</p> <p>Internal The cost-effective application of internal resources</p>	<p>External To provide business services on a cost-effective basis</p> <p>Internal The efficient application of internal resources</p>	<p>External To provide commercial business services on a commercially competitive basis</p> <p>Internal The efficient application of internal resources</p>	To have access to appropriate quality business services on acceptable terms
Sustainability	<p>External To sustain business services</p> <p>Internal Adaptation to the requirements of the market for business services</p>	<p>External To facilitate sustained service provision until objectives are met</p> <p>Internal Adaptation to new requirements for business support or phasing out when objectives are met</p>	<p>External To facilitate sustained competitiveness of service providers</p> <p>Internal Adaptation to new requirements for business support</p>	<p>External To sustain achieve improved self-sustainability</p> <p>Internal Adaptation to new requirements for business support or phasing out when objectives are met</p>	<p>External To survive in business as a commercial service provider</p> <p>Internal Adaptation to the requirements of the market for business services in order to survive</p>	To have access to appropriate quality business services on acceptable terms

5.1 Developmental Business Services

Developmental business services are those services required by business that the market is either unwilling or unable to provide. (Refer paragraph 2 *supra*) When economic inefficiencies occur in the system evidenced by imperfections in access to business services when the social returns to business support in terms of such considerations as job creation, social equity, and poverty reduction exceed the anticipated private returns to individuals providing such services the following are called for:

- a. Corrective interventions aimed at addressing the root causes of the imperfections; and
- b. Compensatory interventions to address the short-term consequences of the imperfections.

The objective of developmental business services has traditionally been to level the playing field by compensating for market- and other system imperfections. Whilst corrective interventions are critical to the achievement of overall socio-economic efficiency, they have traditionally tended to fall outside of the ambit of business service provision. Currently the emphasis is however shifting toward a more comprehensive approach that recognises the need both for shorter-term compensation and for medium- to longer-term correction.

5.2 Commercial Business Services

Commercial business services are those services acquired by business via the normal functioning of markets. At a conceptual level they represent inherent and enduring requirements of business even in the absence of market imperfections and inefficiencies. They are commercial services provided by commercial service providers for gain. The objective of commercial business services is thus the sustained generation of profit for the service provider.

6. The Scope of Business Support

The scope of services available to businesses provides a vitally important dimension to their business environments. It is clear from field research that businesses typically access a wide range of support services in a variety of different ways and from a variety of different sources, both formal and informal. The support networks within which businesses function are far more complex than initially thought. SMME's in particular typically display a complex array of

needs and access a variety of services from many different formal- and informal providers.³⁹

7. Emergent Good Practice Approaches to Business Support

7.1 The Central Paradigm Shift – “Making a Business Out of Poverty Alleviation”⁴⁰

a. The Market Development Paradigm

The failure of traditional approaches to business development as regards the achievement of scale, outreach and sustainability objectives has led to a central paradigm shift in the approach to the provision of business services in general, and business development services (BDS) in particular.⁴¹ The success of emergent new micro-financing initiatives⁴², the increasing realisation that emergent business actually accesses many “hidden” services from sources other than those specifically created to provide business development support and the realisation borne of practical experience that contrary to conventional wisdom emergent businesses most often purchase those services at full cost has lent momentum to this paradigm shift.⁴³ The emerging new paradigm places increasing emphasis in the delivery of business services in general, and of business development services in particular, on the interplay of supply and demand in a functional marketplace. As with all paradigms the new has the same potential for becoming ideological dogma as the old, particularly if it heralds an overemphasis in all circumstances on the support of business development through the medium only of commercial business services provided in the marketplace. A balanced approach incorporating features of both the traditional and the evolving new approaches recognises that significant potential exists for the fostering of markets in respect of many, though not necessarily all business support services currently either directly provided by government or other donor agencies. Key features of the new paradigm compared with the old are summarised in Table 3-2.^{44,45}

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- ³⁹ Gibson A. *et al* Micro-enterprise Best Practices: BDS Market Development - A Guide for Agencies on the Emerging Market Development Approach to Business Development Services (Development Alternatives Inc. 2001) p 3
- ⁴⁰ Heierli U. Activities of SDC in Private Sector Promotion: From Strategy to Implementation (SDC 2000)
- ⁴¹ Prey J. Institutional Challenges in Shifting to the BDS Market Development Approach (ILO 2000)
- ⁴² Goldmark L. Sorting Out the Truth: Financial Viability of BDS Prepared for Donor Committee Conference on Business Development Services (1999)
- ⁴³ Gibson A. The Development of Markets for Business Development Services: Where we are now and how to go further (ILO 2000)
- ⁴⁴ McVay M. *et al* Emerging Good Practices in Business Development Services (ILO 2000) p 6 as adapted.
- ⁴⁵ Prey J. Institutional Challenges in Shifting to the BDS market Development Approach

TABLE 3-2: KEY FEATURES OF THE BDS PARADIGM SHIFT

Feature	Traditional Approach	New Approach
Prevailing View of BDS	Primarily public goods.	<ul style="list-style-type: none"> Primarily private services Provision of BDS is a business in itself
Prevailing View of Business Recipients of BDS	Beneficiaries of charity.	Discerning consumers of services.
BDS System Vision	A sustainable (permanent) organisation provides quality BDS.	A sustainable (primarily) private market comprising competing service providers meets the demand for BDS from businesses.
Objective of BDS Intervention by Government and/ or Donors	Provide sustained quality affordable services.	Encourage others to provide competitive quality services in the marketplace at full cost on a sustainable basis.
Point of Departure for BDS Intervention by Government and/or Donors	Diagnosis of needs through surveys, etc, and imputation of the "need" for services	Assessment of the structure, functioning and potential of the market for BDS from the viewpoint both of supply and demand.
Point of Intervention by Government and/or Donors	Intervention is "top-down" with provision through a single local institution comprising in essence either a single delivery channel or a highly centralised one.	Intervention is facilitative at all levels with the accent on: <ul style="list-style-type: none"> Stimulation of market demand for BDS through demand-side interventions; and Stimulation of market supply through supply-side interventions.
Duration of Intervention by Government and/or Donors	Permanent. The approach is not self-sustaining with requirements generally for the core-funding of institutionalised delivery structures and top-up funding of projects and programmes.	Temporary and project-based until imperfections are addressed. Interventions are directed for the specific purpose of correcting/ compensating for market imperfections and are scaled down and ultimately terminated as market channels develop. Emphasis shifts as new imperfections develop.
Subsidies	<ul style="list-style-type: none"> Subsidies are justified on the basis that particularly emergent business cannot afford to pay full cost; Subsidisation takes place at the point of supply of the service. Subsidisation is a supply-side instrument 	<ul style="list-style-type: none"> Subsidies are justified: <ul style="list-style-type: none"> In the short-term if market development impact outweighs market distortion impact; In the long term only for services that are public goods Wherever possible subsidisation takes place at the point of demand. Subsidisation becomes a demand-side instrument.
Prevailing View of the Financing of BDS	Government/donors finance BDS.	BDS is financed through provider-consumer transactions.
Prevailing Institutional Approaches	<ul style="list-style-type: none"> Business development in institution-driven Dedicated institutions of the state or parastatals controlled by government provide the central channel for BDS delivery. 	<ul style="list-style-type: none"> Business development is less institution-driven than market-driven A network of BDS service providers combining (reduced) state/parastatal involvement in delivery is facilitated to provide BDS.

Application of the emerging new paradigm to increase the level and scope of commercial services accessed from the total business support system will impact most directly upon the category of business development services classified in paragraph 2.1 *supra* as developmental business services. It will increasingly include interventions to correct market imperfections rather than, as in the past, merely to compensate for them.

Obstacles to be overcome in effecting the paradigm shift have been summarised as follows:⁴⁶

⁴⁶ Prey J. (ILO 2000) Institutional Challenges in Shifting to the BDS market Development Approach (ILO 2000)

- i. The institutional gap requiring the review of institutional arrangements that have evolved in the past and that may not be appropriate according to the new paradigm;
- ii. The mentality gap requiring the natural scepticism towards new approaches to be overcome;
- iii. The co-ordination gap requiring joint and concerted action to ensure synergy rather than a conflict of approach by different players particularly in the period of transition; and
- iv. The conceptual gap requiring recognition that the pursuit of market-related objectives in an open free enterprise society does not necessarily contradict conventional developmental objectives.

b. Perspectives on the Functioning of Markets for BDS

Markets for business services are considered “effective” when transactions are enacted at a price that is unsubsidised, that is, when demand in the form of the need for a service meets supply of that service at a price acceptable both to provider and purchaser. The two elements determining the existence of a market(s) for commercial business services are thus supply of business services by willing providers, and demand for those services by businesses willing to access those services at the going market rate. Where either element is in some way deficient the functioning of the market for business services as a whole is also deficient.

Key characteristics of effective supply and demand are summarised in Table 3-3 with Chapter 3: Addendum 1 providing a more detailed exposition. Tables 3-4(a) and 3-4(b) and Chapter 3: Addendum 2 set out implications of typical demand- and supply-side deficiencies for the nature and scope of indicated BDS interventions according to the evolving new paradigm.

7.2 Role Definition

Main potential supply-side actors in the provision of business development services are:

- a. Government or government organisations;
- b. For-profit service providers;
- c. Networks;
- d. Business membership organisations (BMO's); and
- e. Not-for-profit business including NGO's and institutions that are largely autonomous from government.

The evolving new paradigms both of new public management (NPM) and of business support imply re-evaluation of the respective roles of these various supply-side elements in business service rainbow.

TABLE 3-3: KEY DETERMINANTS OF DEMAND FOR AND SUPPLY OF BUSINESS DEVELOPMENT SERVICES ⁴⁷

	Determinant	Comments
DEMAND	Recognition on the part of the business of the need for a solution	There are various gradations of problem recognition: <ul style="list-style-type: none"> • When there is no knowledge of the problem; • When there is recognition of a problem but lack of definition of the problem; and • When there is problem recognition and definition but a solution is needed
	Willingness to pay for support	Experiences with the extent of micro-lending ⁴⁸ suggests that individuals and businesses are prepared to pay for appropriately structured services on the right terms
SUPPLY	Ability to present an attractive offer	<ul style="list-style-type: none"> • Some suppliers may be good at marketing a service, but less good at providing the necessary quality of business support; • Subsidisation and asymmetric approaches on the part of different actors in the market can distort both supply and demand.
	Technical capacity to provide quality services	

TABLE 3-4(a): IMPLICATIONS OF DEMAND CONDITIONS FOR TYPICAL BDS INTERVENTION ⁴⁹

Analysis	Typical Intervention(s)
Effective Demand: <ul style="list-style-type: none"> • High problem recognition; • High Willingness to pay 	<ul style="list-style-type: none"> • Rationale for demand-side developmental business service intervention is limited; • BDS intervention will be supply-side in the form of corrective measures or (interim) compensatory supply of services outside of the marketplace may be necessary where market supply is deficient.
Weak Demand: <ul style="list-style-type: none"> • High problem recognition; • Low willingness to pay 	<ul style="list-style-type: none"> • Demand-side developmental business service interventions will need to address the internal and external constraints to willingness to pay (Table 3-3); • BDS intervention could also take the form of: <ul style="list-style-type: none"> ➢ Supply-side measures to address the inability of suppliers to present an attractive offer (Table 3-3); or ➢ (Interim) compensatory supply of services outside of the marketplace.
Weak Demand: <ul style="list-style-type: none"> • Low problem recognition; • High willingness to pay 	<ul style="list-style-type: none"> • Demand-side developmental business service interventions will need to address the internal and external constraints to problem recognition (Table 3-3);
Non-existent demand: <ul style="list-style-type: none"> • Low problem recognition; • Low willingness to pay 	<p>This is the least fertile circumstance for market development interventions. Typically developmental BDS interventions will take the form of:</p> <ul style="list-style-type: none"> • Facilitation of awareness through peer group interaction; and • Dissemination of comparative case studies.

⁴⁷ Adapted from:
Field M. *et al* Micro-enterprise Best Practices: Designing BDS Interventions as if Markets Matter (Development Alternatives Inc. 2000)

⁴⁸ Bliss R. *et al* SME's Demand for Business Development Services in Bosnia/ Hertzegovina (Babson/SEED 2001)

⁴⁹ Adapted from:
Field M. *et al* Micro-enterprise Best Practices: Designing BDS Interventions as if Markets Matter (Development Alternatives Inc. 2000)

TABLE 3-4(b): IMPLICATIONS OF SUPPLY CONDITIONS FOR TYPICAL BDS INTERVENTION⁵⁰

Analysis	Typical Intervention(s)
Effective Supply: <ul style="list-style-type: none"> • High problem solving/service delivery capacity; • High quality offer to businesses 	<ul style="list-style-type: none"> • Rationale for supply-side developmental business service intervention is limited; • BDS intervention will be demand-side in the form of: <ul style="list-style-type: none"> ➢ Corrective measures; or ➢ Development specifically of demand in underserved areas/communities
Weak Supply: <ul style="list-style-type: none"> • High problem solving/service delivery capacity; • Low quality offer to businesses 	Supply-side developmental business interventions are indicated to address service provider capacity to generate a relevant offer to the market (Table 3-3).
Weak Supply: <ul style="list-style-type: none"> • Low problem solving/service delivery capacity; • High quality offer to businesses 	Supply-side developmental business service interventions will need to address service provider capacity deficiencies (Table 3-3).
Non-existent supply: <ul style="list-style-type: none"> • Low problem solving/service delivery capacity; • Low quality offer to businesses 	<p>This is the least fertile circumstance for supply-side market development interventions. Typically developmental BDS interventions will take the form of:</p> <ul style="list-style-type: none"> • Facilitation of awareness of the opportunities in the business service market; and • Skills development in pursuit of the supply to the market of business service skills.

a. The Essential Nature of Business Services - Public or Private Goods?

The more rigorous preoccupation with economic efficiency ushered in by the evolving paradigm shift both toward so-called “new public management” (NPM) and in the area of business support has direct implications for various role players and generally for the manner in which business services are provided and financed. The dominant element in the debate specifically on the role of government in the provision of business services relates to whether, or to what degree, business services may be deemed to be public or private goods, the classical economic argument being that the provision of public goods is the responsibility of government.

In economic terms public goods refer to those goods (and services) that are non-exclusive, that is, that extend to the benefit of, or impact upon, society as a whole and from which no single individual or component of society can draw an exclusive benefit. In reality there are few pure public goods. There are however common instances where the consumption of a good or service by an individual brings with it external benefits to society as a whole beyond those private benefits to the individual consumer derived from the good or service concerned. In such instances economic efficiency dictates that society has an interest in the consumption of that good or service to the extent of the benefit that it derives.

⁵⁰ Adapted from:

The same applies to the individual consumer in regard to the private benefit derived. This argument has formed the rationale for state intervention in, and for state subsidisation of, a wide range of goods and services such as has occurred in the more developed high-income countries throughout the world. Whilst the approach is conceptually sound, problems with its practical implementation derive from the fact that there are in most instances no objective measures of relative benefit as between the societal- and private spheres. Specious arguments have at times been applied to justify undue and unwarranted state intervention and subsidisation in a variety of areas, not least the area of business support.⁵¹

The evolving new market development paradigm for the provision of business support reflects a wider re-evaluation of the role of the state and of government at all levels based upon application of the principle of subsidiarity according to which government's role in essence is the provision of those goods and services that cannot in the first place effectively and efficiently be provided by the marketplace. The evolving view of the role of government (and near-government institutions such as parastatals) is reflected in Figure 3-1.⁵² The essence of the new public management paradigm has been suggested to be the following.⁵³

- An entrepreneurial approach to government;
- A quality and performance oriented approach to public management,
- An emphasis on improved public service delivery and functional responsiveness;
- An institutional separation between public demand, public provision and public service production functions;
- A linkage of demand and supply units by internal contract management, "agencification", or contracting out; and
- The retreat wherever possible of government institutions in favour of commercial market enterprises and various forms of social organisation and self-governance.

Government's role in the provision of business support in the evolving paradigm is seen essentially to be one of activist co-ordination. Experience worldwide

Field M. *et al* Micro-enterprise Best Practices: Designing BDS Interventions as if Markets Matter (Development Alternatives Inc. 2000)

⁵¹ Gibson A. *et al* Micro-enterprise Best Practices: BDS Market Development - A Guide for Agencies on the Emerging Market Development Approach to Business Development Services (Development Alternatives Inc. 2001) p 31

⁵² Adapted from:

World Bank World Economic Report: The State in a Changing World (OUP 1999)

⁵³ Toonen T.J. Public Administration Vol 76 (Summer 1998) pp 229 to 252

suggests that whilst societal ills such as poverty and inequity exist, they are not necessarily constraints on market formation. Rather, the relevant constraints are seen to derive from the supply-side's inability to produce appropriate goods and services to serve segments of the market defined by such criteria as income level, gender, ethnicity, ability, and geographic location.⁵⁴

FIGURE 3-1: EVOLVING GOOD PRACTICE FUNCTIONS OF THE STATE

	Addressing Market Failure/Inefficiencies			Improving Equity
Minimal Functions	Providing Pure Public Goods: <ul style="list-style-type: none"> • Defence • Law and order • Property rights • Macroeconomic management • Public health 			Protecting the Poor: <ul style="list-style-type: none"> • Anti-poverty programmes; • Disaster relief
Intermediate Functions	Addressing Externalities: <ul style="list-style-type: none"> • Basic education; • Environmental protection 	Regulating Monopoly: <ul style="list-style-type: none"> • Utility regulation; • Antitrust policy 	Overcoming Information Dysfunction: <ul style="list-style-type: none"> • Insurance • Financial regulation • Consumer protection 	Providing Social Safety Nets: <ul style="list-style-type: none"> • Pensions; • Family allowances; • Unemployment insurance
Activist Functions	Co-ordinating Private Activity: <ul style="list-style-type: none"> • Fostering of markets • Cluster initiatives • Linkages and connectivity 			Redistribution: <ul style="list-style-type: none"> • Asset redistribution

Many business development programmes in poorer countries and in poorer communities have a poverty alleviation focus and are thus directly and indirectly heavily subsidised by government. Indeed government's involvement in business service provision has traditionally largely been motivated on this basis. Emerging good practice approaches suggest the requirement for a much clearer definition and separation of government's business development role from its role in pursuing social equity within society. The pursuit of business development *per se* by means of the fostering of markets is seen to be an activity distinct from the alleviation of poverty, although the potentially positive impact of business development upon poverty is undeniably a benefit of business development in disadvantaged communities. Traditional approaches internationally to business development on the part of government that have confused business development and poverty alleviation objectives in disadvantaged communities do little to incorporate the poor into the economic mainstream but have in effect

⁵⁴ Gibson A. *et al* Micro-enterprise Best Practices: BDS Market Development - A Guide for Agencies on the Emerging Market Development Approach to Business Development Services (Development Alternatives Inc. 2001) p 51

isolated the poor and disadvantaged into enclaves of welfare, charity and dependence. With no inherent sustainability such interventions that do not specifically seek to foster viable and self-sustaining business activity, become at best short-term welfare for the disadvantaged. In addition subsidies of business services weaken the very demand signals that are important measures of the relevance of the services concerned. Subsidies can and do distort markets and discourage market formation for the provision of services within communities. Without clear objectives on the individual enterprise level regarding the achievement of self-sustainability, most individual businesses find it extremely difficult if not impossible to make the transition from the relative comfort of highly subsidised services to a realistic full-cost market scenario.

The emerging role of government in the provision of business development services in accordance with emerging international good practice may be summarised as follows:

i. Long-term

The evolving long-term core role of government in business development financed by the state is as in Figure 3-1. According to the new paradigm this role should constitute the basis around which core government business support institutions within the overall business support system are designed and erected. In essence government should:

- Provide business support services by exception and only in closely defined circumstances;
- Act primarily as policy maker and regulator;
- Initiate research and development related to business development service products and approaches; and
- Facilitate and co-ordinate market-based systems for business service provision.

ii. Short-term

In addition to its longer-term core role in business development support government has an additional compensating role that could require the provision in the short-term and on a “stop-gap” basis of business development services that ultimately should and could be provided by the market. Emergent good practice however suggests that in doing so government must:

- Focus its intervention clearly and concisely on overcoming defined market constraints; developing sustainable market access to services; and structuring the mode of delivery appropriately to support the achievement of these objectives;
- Have a clear exit strategy related to the achievement of clear and measurable market development objectives;
- Limit the scale of its interventions to an exceptions basis so as not to disturb already operative markets for services;
- Simulate the operation of the market insofar as that is possible. This would involve the pursuit of profit- rather than mere cost recovery. Even where it provides compensatory services the approach to business support should at all times be “businesslike” and transactional;
- Co-ordinate its activities with those of other service providers. This is particularly important where a market development orientation may not be universal and where a variety of divergent approaches to business support may exist on the part of various NGO’s and government agencies;
- Avoid overloading providers by imposing multiple and unrealistic objectives or imposing excessive reporting, monitoring and evaluation requirements upon the system;
- Avoid excessive up-front investments to develop prestigious business development service organisations that are not viable and sustainable;
- Develop appropriate products that are suited to local preferences and delivery mechanisms; and
- Employ a portfolio approach by working with multiple partners to spread both project support and intervention risk. Single channel delivery mechanisms stifle choice and diversity, both important elements of a transactional environment for business support.

The evolution of thinking reflected in the current discourse on the role of government suggests the withdrawal of government from areas of business service provision in which it has been active either by design or by default. At the same time it suggests as part of an holistic institutional approach a recognition and affirmation of the key role played by other elements of the business support system.

b. For-Profit Service Providers

For-profit business service providers internationally have generally played a significantly more extensive and nuanced formal and informal role in business

support than initially thought, and particularly so in the service of established modern-sector businesses at the more sophisticated end of the business spectrum. Businesses typically derive support from the following sources:

i. **Formal Business Service Provision**

This is generally sourced from commercial service providers;

ii. **Commercial Intermediation**

Critical business service inputs are sourced from buyers and suppliers, brokers or agents whose core business is not the commercial rendering of business services but who nevertheless perform the function as part of their normal commercial interaction with business clients. Such information and advice typically relates to:

- Market analysis including for example product design and specification incorporated in a marketing advisory function;
- Access to inputs;
- Information and training on specific production technologies;
- Credit for working capital;
- Marketing services for specific products in specific markets; and
- Transport and logistical assistance and –facilities.

The role of commercial intermediation within production value chains for goods and services may be expected to grow in importance with the growth of competition at all tiers of business, and with it the scale of business support to businesses deriving from this source.

iii. **Relationships with Larger Principals**

Such relationships typically comprise outsourcing/subcontracting of non-core functions, and franchising. Both frequently involve the support by the principal of the contractor or franchisee in the establishment of the business, the acquisition of premises and facilities, the maintenance of quality standards, the accessing of inputs and branding. The outsourcing/subcontracting of non-core functions by government, parastatal organisations and larger corporate enterprises to SMME contractors is a worldwide trend in developed countries that may be expected to be necessitated in developing countries as well.⁵⁵ It is enabled by the pursuit of greater public sector efficiency as exemplified by

⁵⁵ Berry A. IFM-105 SME Competitiveness: The Power of Networking and Subcontracting (Inter American Bank 1997)

the new public management approach as it has been applied in a number of countries. The role of franchising is seen as particularly important in developing countries with the emergence of low cost-of-entry franchises or mini-franchises as a means to penetrate new and less affluent markets and as vehicles for the engagement of new participants in the business economy.⁵⁶ The combination of these elements strongly suggests a growing role for symbiotic relationships between larger principals and smaller service providers as a means of delivery of a range of business support.

The more comprehensive understanding of the current and potential role of for-profit business service providers has led to increasing recognition of the real and potential role in many, if not most environments including poorer communities worldwide of commercial service providers as a major source of business support services to the commercial business sector. This has in turn resulted in increased preoccupation with expanding, encouraging and facilitating the role of commercial (for-profit) service providers in the business service delivery system.

The role of for-profit service providers in the evolving new paradigm is essentially the following:

- The provision of business services on behalf of government on a (commercial) agency basis. Such services would involve essentially compensatory services to redress market imperfections in the shorter term, or subsidised services to achieve primarily social equity objectives;
- The provision of commercial business services to other service providers; and
- The provision of commercial business services to businesses other than business service providers.

The for-profit sector will in the longer term be sustained by revenues from the sale of services to business users in the market. It is to be expected that support functions in markets including training and skills provision, product development and information management will increasingly become traded services with advocacy and regulation the principal non-traded functions.

c. Networks

Self-sustaining networks in the sense of essentially non-hierarchical relationships between businesses and the environments in which they are embedded

⁵⁶ Refer Southern Africa Franchise Association as referred to in Barton C (1997) p 22

supplement the private sector and play a key role in business development support especially in the case of emergent smaller enterprises and in poorer communities where formal institutional arrangements are frequently deficient.

Networks in this context take essentially two forms namely:^{57,58}

- Personal or informal networks; and
- Business and commercial networks.

i. **Personal and Informal Networks**

- Friends and relatives provide the basic source of information and support services for small-scale entrepreneurs worldwide and particularly for those at the lower end of the spectrum of business sophistication. In communities that lack established and informed business traditions and therefore where the quality of assistance from friends and relatives who themselves are uninformed is deficient, reliance on advice and support from this source may be detrimental. There may also be significant social- and financial costs to emergent business of such "advice".⁵⁹ Where communities have a healthy business culture and are themselves informed the quality of such advice is generally more sound and valuable;
- Access to extended social networks beyond the immediate circle of family and friends typically characterises successful entrepreneurial cultures. Such social networks provide access to contacts and business information and support from further afield. They take the form of a variety of kinship structures, religious organisations and social groupings that address such community needs as education, health care, sport and recreation and mutual protection. Entrepreneurs within more open societies or communities that have a developed

⁵⁷ Barton C. Micro-enterprise Best Practices: Defining Institutional Options and Indicators of Performance (Development Alternatives Inc. 1997) p 17 *et seq*

⁵⁸ Shin Dong-Ho Structures, Strengths and Beneficiaries of Entrepreneurial Networks: Korean-American High Technology Firms in Silicon Valley (University of California 2001)

⁵⁹ Foster G. Peasant Society and the Emergence of the Limited Good (American Anthropologist 67, 1995) as quoted in Barton C (1997)

social networking infrastructure typically tend to enjoy advantages over businesses operating within societies that do not.⁶⁰

ii. **Business and Commercial Networks**

- Business membership organisations (BMO's) as representative organisations of the business sector are in one form or another features of the business scene in most societies with private free enterprise inclinations. Although in Europe some such organisations enjoy a status in public law that makes membership compulsory, most are voluntary and are formed specifically to serve the interests of their members.⁶¹ BMO's are by definition business collectives, owned and operated on a non-profit basis by business to the benefit of their members. Worldwide they generally provide a demand-driven range of services to their members and have more recently, and with indifferent success, served as vehicles for the delivery of donor-funded business support on a grander scale. Experience suggests that relationships between BMO's and the members that own and control them are not always strictly businesslike or transactional. In addition their role generally as vehicles for the provision of business development support is constrained by capacity and by the fact that that BMO's frequently do not wish to expand their activities beyond the scope of what they have traditionally done to serve parochial interests.

The emerging international good practice position around the role of BMO's in the context of the delivery of business services is that they have an important core role to play in advocacy on behalf of their members, in networking and in the dissemination of information. Their capacity to assume additional functions delegated by government, or involving innovation and skills enhancement is however a function of local capacity, circumstances, cohesion and attitude. There is nothing in the typical structure or functioning of BMO's that makes them inherently suited *par excellence* for an expanded role as business service providers beyond their typically limited present role.⁶²

⁶⁰ Fukuyama F. Trust: The Social Virtues and the Creation of Prosperity (Simon & Schuster 1995) as quoted in Barton C (1997)

⁶¹ Gibson A. *et al* Micro-enterprise Best Practices: BDS Market Development - A Guide for Agencies on the Emerging Market Development Approach to Business Development Services (Development Alternatives Inc. 2001) p 32

⁶² Gibson A. *et al* Micro-enterprise Best Practices: BDS Market Development - A Guide for Agencies on the Emerging Market Development Approach to Business Development Services (Development Alternatives Inc. 2001) p 32

- Flexible manufacturing (production) networks (also known as “flexible specialisation networks” or “clusters”) take the form of extensive institutionalised collaboration, co-operation and specialisation on the part of businesses, generally though not exclusively in production value chains to produce final goods and services. Such networks tend to have more ready access to outside information and market contacts, and are better able to leverage the benefits of personal contacts and modern information- and communication technology to maintain the requisite flow of information. They present mechanisms for group learning through community-based economic development initiatives. In the most successful form each firm participating in the network specialises in a specific part(s) of a complex multi-stage process and is integrated into the production value chain (or “value matrix”) through market-based transactions with buyers and other firms, including suppliers of intermediate inputs services.

The emergence of production linkages via value-chain relationships between businesses is not new, but has acquired a new significance within the context of globalisation and the need for emergent smaller enterprises within communities to band together to improve international competitiveness. Whilst the benefits of production linkages and business “clustering” in the global competitive context are established, the benefits of production linkages and the formation of symbiotic business “clusters” is however not confined to businesses engaging in international export activities.^{63,64} Clusters and networks of this kind can enhance productivity, the rate of innovation and competitive performance of firms through allowing smaller firms to combine the flexibility of small-scale activity with many of the benefits of larger-scale operation.⁶⁵

The significance of the role of clusters for business support lies in the fact that aside from direct production benefits, clusters can facilitate the (re-) configuration of relationships with suppliers of goods and services and can themselves become vehicles for business networking. They are also able to provide significant support to participants in the areas of joint marketing and purchasing; dissemination of information; mutual

⁶³ Berry A. IFM-105 SME Competitiveness: The Power of Networking and Subcontracting (Inter American Bank 1997)

⁶⁴ Enright M. Enhancing the Competitiveness of SME’s in the Global Economy: Workshop 2 – Local Partnership, Clusters and SME Globalisation (OECD 2000)

⁶⁵ Enright M. *Op cit* p 1

credit guarantee arrangements; joint design and sponsorship of business- and technical training; peer-based learning; and co-ordination of collective action.

Whilst the formation of successful production networks and clusters is a function of a number of factors, many of which lie beyond the control of policy makers, international experience suggests that where appropriate conditions for cluster formation exist production linkages and business clusters have an important role to play as elements in the business support delivery system.⁶⁶

- The advent of increased potential connectivity of individuals and businesses following the revolution in information- and communications technology (ICT) has brought with it the possibility for integration of businesses of all sizes and even those in the most remote areas into extensive (virtual) commercial networks without the same degree of cohesion as typifying formal clusters, but nevertheless providing those involved with network access to many similar benefits. In particular business services derived from commercial networks include market and production information including tender information; business peer group interaction; product design and development information; interaction with larger organisations and mentors; business- and technical training; access to funding sources; and access to business management tools such as *pro forma* business plans, simple accounting systems and the like.

The conditions precedent for commercial networking in the information age are in key respects generally less demanding than those required for the establishment of successful business clusters. Commercial networks nevertheless allow linked businesses access to many similar benefits. The dramatically increased importance of the role of commercial business networks in business support, and particularly so in support of SMME business worldwide, and the expectation of a dramatic increase in the nature and extent of that role, is seen to be amongst the most important potential economic development consequences to follow in the wake of the revolution that has taken place in the field of information and communications technology and production technology.

d. Non-governmental Organisations (NGO's), Private Volunteer Organisations (PVO's)

These organisations generally pursue social objectives for non-profit purposes. The role of NGO's in particular is in certain respects reminiscent of that of government in that NGO's typically tend to address deficiencies in the provision of public goods and services that otherwise should be provided by government. In doing so NGO's traditionally have had the advantage of being less constrained by bureaucracy than is government. Many NGO's and PVO's in particular owe their origins to a perceived need to address socio-economic imperfections that government has either been unwilling or unable to address. In many if not most instances their focus is upon the redress of inequities or disadvantage in society. By virtue of their antecedents that often are rooted in a drive to redress social injustice they are in some societies in which they function not always viewed as politically neutral. Whereas their driven and informal culture is seen as a positive factor in favour of NGO's, many as yet adhere to the welfare orientation that dominated their core focus at the time of their establishment. Though some have successfully transformed to a more businesslike culture others have not and remain burdened with a welfare legacy and an anti-commercial orientation that render them less than suitable vehicles for pursuing market objectives although their welfare role may still remain valid. Experience suggests that attempts at business support interventions by such organisations with a welfare bias can be detrimental to the formation of viable and competitive markets for business services in areas that could very well be better and more sustainably served by private for-profit service providers. NGO's (and PVO's) generally are seen to be flexible - a fact increasingly ascribed to their lack of accountability and capable of reaching disadvantaged communities.⁶⁷

The role of NGO's going forward tends to be viewed as follows:

i. Short-term:

NGO's with suitable business orientation and capacity could play a role as facilitators of the market for business services, and specifically as providers of developmental business services within disadvantaged communities;

⁶⁶ Gibson A. *et al*

Micro-enterprise Best Practices: BDS Market Development - A Guide for Agencies on the Emerging Market Development Approach to Business Development Services (Development Alternatives Inc. 2001) p 27

ii. **Long-term:**

NGO's generally are seen to have a limited role as business service providers in the longer term. Their longer-term role, if any, will be related more to the exploitation of such closeness and familiarity as they may enjoy to disadvantaged communities, as advocates of needs within such communities not expressed in the marketplace, as conductors of pilot interventions to test and develop new business service products, and as special skills development providers. It appears that the most successful NGO and PVO enterprise development programmes have been those that have:⁶⁸

- Developed synergistic relationships with for-profit service providers in business service delivery;
- Adopted a commercial approach both to the internal operation of the NGO/PVO and in respect of dealings with clients; and
- Paid attention to the nature of the demand for services and found ways and means of gauging client demand through transactions that are self-sustainable and that promote market development.

e. **Centres of Higher Education**

Business schools attached to higher education institutions frequently do provide business support services to business but experience suggests that unless such organisations are able to develop the right skills and culture to deliver services on a commercial basis their efforts are better directed elsewhere. Many academic institutions have been unable to make the necessary transformation of perspective and their culture has at times been even further removed from that of business than has the culture of government.⁶⁹ The role definition for such institutions suggested by current experience is that:

- i. Academic institutions *per se* have a role to play in business support, the nature of that role being determined by the character and capacity of the institutions involved;
- ii. Those institutions that have themselves succeeded in espousing a business culture in their dealings with clients and with the necessary

⁶⁷ Gibson A. *et al* Micro-enterprise Best Practices: BDS Market Development - A Guide for Agencies on the Emerging Market Development Approach to Business Development Services (Development Alternatives Inc. 2001) p 32

⁶⁸ Barton C. Micro-enterprise Best Practices: Defining Institutional Options and Indicators of Performance (Development Alternatives Inc. 1997) p 29

exposure and experience of practical business can provide valuable business training and -skills development in support of business development. Specifically they can enhance the skills and expertise of other business service providers; and

- iii. Those academic institutions that have not made the transition have a potential role to play in basic research informing the development of new theoretical approaches to business support.

7.3 Emerging Good Practice Strategies for Business Support

The emerging good practice approach to the provision of business services may be summarised as follows:⁷⁰

- Facilitate the development of business service markets and the business- and entrepreneurial climate rather than concentrate on providing services;
- Carry out market research to determine the character and functionality of markets;
- Fit the market intervention to the market problem;
- Work toward a clear market objective and have an exit strategy;
- Separate the roles of service provider and service facilitator;
- Promote competition and efficiency in the market;
- Develop transactional relationships at all levels in the market, that is between service providers and facilitators and between service providers and clients;
- Recognise market sensitivity and the fact that injudicious public intervention can "crowd out" commercial service providers that are functioning according to market principles. This is particularly so if welfare objectives based on a paradigm of subsidy are being pursued together with business development objectives;
- Be flexible and adapt to the changing patterns and needs of the market for business services; and
- Co-ordinate efforts to ensure common purpose and interventions that complement rather than conflict with one another.

⁶⁹ Gibson A. *et al* Micro-enterprise Best Practices: BDS Market Development - A Guide for Agencies on the Emerging Market Development Approach to Business Development Services (Development Alternatives Inc. 2001) p 32

⁷⁰ McVay M. *et al* Emerging Good Practices in Business Development Services (ILO/SEED 2000) p10

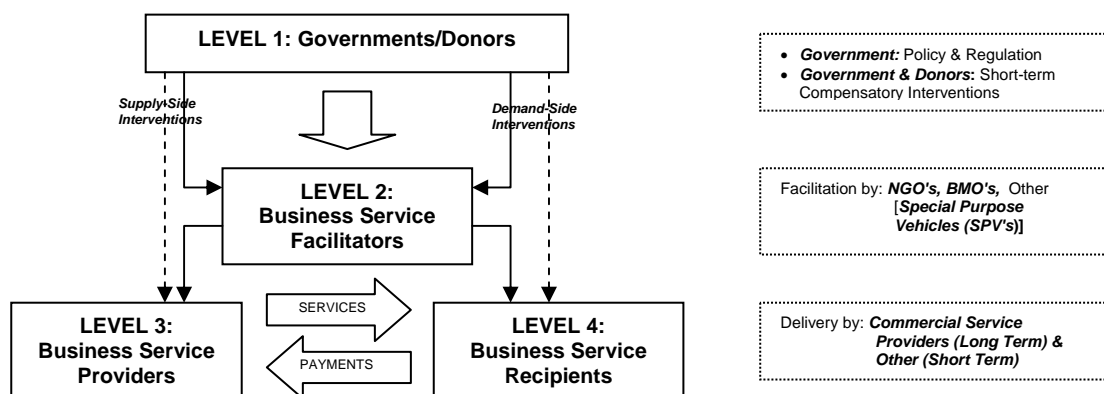
The above represents a significant departure in key respects from the traditional conventional wisdom and has heralded a fundamental revision of approach to business support based upon the conceptual underpinnings discussed below.

a. The Principle of Subsidiarity

The new paradigm roles of key stakeholders in business support have been addressed in 7.2 above. The emerging scheme suggests a vertical separation of roles and functions within a business development support system that should be based upon the principle of "subsidiarity" according to which the functions performed at each hierarchical level are determined solely by the effectiveness with which they can be performed at that level.⁷¹ The indicated hierarchy is reflected in Figure 3-2.

The overriding requirements of flexibility, relevance and immediacy of service to the client as the recipient of the service concerned determines as a matter of broad principle that functions should devolve to the lowest level of the hierarchy capable of performing them efficiently. Particularly strong emphasis is placed on the need to separate the roles of BDS provider and BDS facilitator as indicated in Figure 3-2 above. There is also a growing view that the facilitation role should not be seen as permanent but rather as transitional, directed as it should in the first place be toward the resolution of market- and other imperfections and necessary compensatory interventions.⁷² This has potentially significant institutional design implications for a business development support service system as analysed in Chapter 4.

FIGURE 3-2: AN EMERGENT HIERARCHY OF ROLES IN BUSINESS SUPPORT⁷³



⁷¹ Kennedy R.M. Working Paper No1: Case Study on the Operation of Three Romanian Business Centres (UNIDO 1999) p 3

⁷² Prey J. Institutional Challenges in Shifting to the BDS Market Development Approach (ILO 2000)

⁷³ Hallberg K. *et al* Presentation: Business Development Services for Small Enterprises - Guidelines for Donor Intervention (World Bank/ILO/GTZ 2000)

b. The Nascent Principle of Specialisation

Though it as yet does not enjoy recognition as consensus international good practice, there is a growing perception based on recent experience that financial- and non-financial business service functions need in the ideal to be delivered separately through specialised and dedicated channels in order to avoid conflict of interest and to exploit the advantages of specialisation.⁷⁴ Micro-financing institutions (MFI's) are increasingly finding it more effective to concentrate on offering finance alone and to rely on other specialist providers to provide non-financial business services.⁷⁵ However, there is growing consensus that it is in the interests of financial service providers to provide such threshold services as orientation and training in regard for example to the following:

- i. How to apply for loans and other financing;
- ii. Basic bookkeeping and financial controls; and
- iii. Management of loan- and other external business funding.

These services have traditionally been considered to fall within the purview of non-financial business services. The emerging view is that funding of such services should be incorporated in the cost of financing to be borne by loan recipients either by way of interest charges or up-front fees. The view is current that the locus of support of business planning and of the motivation of business funding should be separate from the locus of adjudication of applications for business funding. This is particularly so when it comes to new business development in order to provide for the necessary checks and balances and to avoid the distortions caused by the inevitable cross-subsidisation of business development services by financial services and the consequent erosion of "loanable" funds of financial service providers.⁷⁶ Other arguments hold that the institutional integration of delivery of financial- and non-financial services is necessary in order to achieve sustainability of the former. Whilst the issue remains moot the very nature of the specialisations required for the discharge of these functions is such as to dictate, if not their total institutional separation by way of totally separate and dedicated delivery mechanisms, then at least a measure of operational separation. Whatever the particular model adopted for the delivery of business services it is crucial that the delivery of financial and

⁷⁴ Gibson A. *et al* Micro-enterprise Best Practices: BDS Market Development - A Guide for Agencies on the Emerging Market Development Approach to Business Development Services (Development Alternatives Inc. 2001) p 33

⁷⁵ van Oyen L. *et al* Working Paper No 4: Financing Private Enterprise Development in Africa (UNIDO 1999) Chapter 3 p 1

⁷⁶ Allal M. Business Support Services for Micro- and Small Enterprises (MSE's) in Thailand (ILO/EASMAT 1999) p 77

non-financial services are harmonised so as to complement one another since whilst both are necessary for the achievement of business growth and development, neither is in itself necessarily sufficient to achieve it.

c. The Distinction Between Business and Welfare Considerations

A pervasive subject of discourse in the field of business support is the distinction between so-called “welfare oriented” approaches on the one hand and “business-like” or “business oriented” approaches on the other. The emerging view is that the main objective of facilitating access to quality business development services by emergent business enterprises is to assist them to establish, consolidate and grow to become more profitable. The “business-like” provision of business services should in all instances therefore be considered a primarily business transaction between the recipient and the service provider. There is a compelling argument reminiscent of the of the classical “infant industry” arguments of Mill⁷⁷ in a related context that to create a sustained artificially benign environment in which emerging business is sheltered from the harsh realities of the marketplace is to encourage dependence and to institutionalise essentially non-businesslike behaviours. A clear distinction therefore needs to be made between transactions that are “businesslike” and those that are not. The former would engage and promote *bona fide* business activity. The latter are based essentially upon welfare considerations involving poverty alleviation- or other social equity objectives to be achieved through the promotion of economic activities for gain amongst individuals with no real prospective capacity to establish and run a viable self-sustaining business.

A clear-cut distinction between an essentially business and a welfare orientation however remains elusive. Income-generating activities intended to benefit those who otherwise would have been forced to depend on charity for their livelihood incline intuitively toward “welfare”. However, whilst the need for quality business support at a higher level of sophistication applies marginally to this group they still need advice and assistance in the interests of developing latent entrepreneurial potential.⁷⁸ Self-employment and micro-enterprise, manifesting in the so-called “necessity entrepreneurship” phenomenon are often a pathway to the formation of small- and medium enterprise as discussed in Chapter 2.⁷⁹ Whilst many inherently non-viable emergent economic activities may fall within

⁷⁷ Mill J.S The Principles of Political Economy (1848)

⁷⁸ Allal M. Business Support Services for Micro- and Small Enterprises (MSE's) in Thailand (ILO/EASMAT 1999) p 76

⁷⁹ Graduate School of Business: University of Cape Town Global Economic Monitor (GEM): South African Executive Report (2001)

the lower reaches of the enterprise spectrum it is thus not good practice to approach all micro-business on the basis of a welfare framework.⁸⁰

d. Market Segmentation

Although small-, medium- and micro-enterprises (SMME's) tend to be distinguished as a class from the "rest" of business, in reality this class is itself heterogeneous in nature. Emerging good practice suggests that the different needs of the various elements within this group need to be individually addressed in a suitably nuanced way, indicating the need for relatively advanced market segmentation of the client business sector in the design and delivery of business services. This suggests that programmes need to be targeted to meet the needs of a variety of user groups, to have appropriate though different objectives and to use different approaches and tools.⁸¹

A scheme for the classification of business according to external business behaviour has been discussed in Chapter 2: Table 2-5. On the basis of the scheme a typically nuanced first order good practice approach to business support based on a synthesis of the currently evolving paradigm is proposed in Table 3-5.

TABLE 3-5: A FIRST ORDER NUANCED APPROACH TO BUSINESS SUPPORT IN A SEGMENTED MARKET

Business Sector	Facilitation	Delivery
<p>Necessity Entrepreneurs/Emerging Stable Business</p>	<p><i>Pectora robustant cultus recti</i></p> <ul style="list-style-type: none"> • Correctional interventions in support of the expansion of the generic business service market in this area of the market; • Procurement and co-ordination of minimal functions of government; • Procurement and co-ordination of intermediate functions of government, specifically (longer term) entrepreneurship development and education. 	<ul style="list-style-type: none"> • Generic business support services on a shorter-term basis to compensate for market imperfections and particularly in support of: <ul style="list-style-type: none"> ○ Market opportunities ○ Financial-, management- and technical skills; ○ Product development; ○ The development of value chain synergies and linkages with growth sectors; and ○ The promotion of business culture ○ The promotion of the adoption of appropriate business practices and - technologies; • (Shorter-term) entrepreneurship training. • Targeted subsidisation in support of equity objectives
<p>(Key Sector-Based) Growth /Competitive Business</p>	<ul style="list-style-type: none"> • Nuanced essentially sector-based correctional interventions in support of the commercial business service market serving the more sophisticated 	<p>Targeted sector-specific compensatory business support on a shorter-term (essentially commercial) basis to compensate for market imperfections and</p>

⁸⁰ White S. Working Paper No 3: Creating an Enabling Environment for MSE in Thailand (ILO/UNDP 1999) p 23

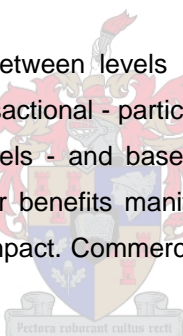
⁸¹ Callan B. *et al* Enhancing the Competitiveness of SME's through Innovation (OECD 2000) p 3

Business Sector	Facilitation	Delivery
	end of the business spectrum; • Nuanced promotional support of key business- and economic sectors, particularly those providing greatest leverage in terms of employment creation; • Procurement and co-ordination of minimal functions of government; • Procurement and co-ordination of intermediate functions of government, specifically (longer term) entrepreneurship enhancement.	particularly in support of: • The development of value chain synergies; • Product development; • Marketing and sales; • Human resource development; • Linkages with necessity entrepreneurs; • Knowledge-based business; • Improved global competitiveness, generic marketing and –trade promotion; • Investment promotion.

e. Relationships in Business Support Delivery Systems

The relationships between the various role players in business support are a significant defining feature of the evolving business development paradigm and of critical importance to the functioning of a business support system. Emerging good practice suggests the following in regard to the relationships between parties to a business support delivery system:⁸²

- i. Relationships between levels in the business support hierarchy are essentially transactional - particularly those between the facilitation and the delivery levels - and based on mutual benefit. Government and (other) facilitator benefits manifest in the form of greater programme outreach and impact. Commercial service providers benefit in the form of :



- Higher sales of services;
 - Greater profits;
 - Penetration of new service markets; and
 - An expanding supplier base and a generally growing market for business services;
- ii. Clear contractual relationships between parties to the business service delivery system with sanctions for non-performance are essential; and
- iii. Parties are free to conclude contractual arrangements according to the dictates of their own best interests in order to introduce the element of competitiveness at all levels.

⁸² McVay M. *et al* Emergent Good Practices in Business Development Services (ILO 2000)

f. The Focus of Interventions in Business Service Markets⁸³

Given that interventions in business service markets may be required in order to address dysfunction and to improve efficiency and effectiveness, the question arises as to how best such facilitating interventions are to be focussed. In particular the particular point of intervention in the market process has been suggested to be of critical importance.

Figure 3-3 illustrates possible points of intervention in business service markets. Intervention in the delivery stage has hitherto been the practice of NGO's and government.

FIGURE 3-3: POINTS OF INTERVENTION IN MARKET PROCESSES⁸⁴

Generating Ideas	Developing products	Developing People and Organisations	Advertising and Product positioning	Information for Consumers	Delivery Supply-Side	Delivery Demand-Side	Assessment of Markets and Products
↑↑					↑↑		↑↑
Pre-delivery					Delivery		Post-delivery

Experience however suggests that the direct provision of business services on an essentially non-transactional basis has resulted in significant market distortions, and particularly so where such interventions have served to replace commercial business services or have interposed third parties between market players, leading to the distortion of demand signals in business service markets. Emerging good practice points rather to intervention in business service markets at the pre- and post-delivery stages than at the delivery stage. This suggests a preoccupation with the generation of ideas and concepts for viable commercial business support, product development, capacity building, information, marketing and consumer awareness than with the delivery of business support *per se*. Building markets to serve the needs of business rather than serving business directly should be the main imperative of agencies engaged in facilitating business support.

g. Business Development Programme Design

Key good practice design characteristics for high performance business service programmes are reflected in Table 3-6 and expanded upon below:⁸⁵

⁸³ Adapted from:
McVay M. *et al* Emergent Good Practices in Business Development Services (ILO 2000)

⁸⁴ Adapted from:

TABLE 3-6: GOOD PRACTICE BDS PROGRAMME DESIGN CHARACTERISTICS

Design Characteristic	Indicator
Focus on specific market opportunities	<ul style="list-style-type: none"> • Market scanning • Mechanisms for market analysis
Responsiveness to needs/demand for business services	<ul style="list-style-type: none"> • Client surveys; • Analysis of constraints; • Pilot testing of services; • Cost recovery and profitability of service provision
Sustainability strategy	<ul style="list-style-type: none"> • Fee-for-service arrangements; • Sound use of front-end funding; • Diversification of sources of development support beyond traditional "single channels".
Breadth of impact	<ul style="list-style-type: none"> • Number of firms requiring the service provided; • Plans for scaling up through innovative replication of services
Focus on developmental objectives: <ul style="list-style-type: none"> • Stimulation of demand for business services; • Complementing and supporting rather than duplicating or supplanting private business services; • Promoting business linkages; • Providing catalytic services that stimulate service growth • Accelerating the rate of learning in businesses 	<ul style="list-style-type: none"> • Willingness of businesses to access and pay for services; • New services addressing existing service gaps; • Linkages through distribution arrangements, franchising, sub-contracting, etc • Benefits accrue to commercial firms in a growing service market; • Rapid diffusion of product and service information and good business practice.

i. Responsiveness to Business Needs

Emerging good practice suggests that business development programmes must be responsive to, and driven by, the needs of client businesses rather than by the needs and interests of implementing organisations including government. Front-end assessment of needs of prospective clients for business support is critical, and the new paradigm suggests that the most effective way of achieving this is when fee-for-service arrangements are incorporated into business support programmes;

ii. Market Orientation

Business development support programmes need to be market-oriented in that they need to be directed toward the exploitation of market opportunities at all levels. Emerging (small) businesses most frequently require relief from the constraints that bind them to increasingly over-traded, saturated and declining product markets. Sound good practice business support must provide them with access to "high-road" competitive alternatives, in higher-growth and more diversified markets;

Springfield Centre BDS 2000 Training Course (2000)
⁸⁵ Gibson A. *et al* Micro-enterprise Best Practices: BDS Market Development - A Guide for Agencies on the Emerging Market Development Approach to Business Development Services (Development Alternatives Inc. 2001) p 36

iii. Sustainability

High performing business development support programmes are characterised by the generation of revenues for business services and a generally businesslike approach to the delivery of such services. In particular they are characterised by realistic strategies to achieve sustainability of the business support system without the ongoing infusion of public funding. In the micro-finance industry some micro-funding agencies have achieved full financial sustainability by charging commercial rates of interest and fees enabling rapid scaling up of activities and relatively rapid mass impact. But this has generally taken place in environments where the culture of micro-lending was well established. Clearly where markets for business services are underdeveloped, where demand for services is weak and willingness to pay on the part of prospective clients is low, the achievement of short-medium term sustainability for non-financial business services involves more than raising income from service fees alone. Non-financial business service providers can and must, at least as a short-term transitional measure, exploit other sources of funding support including:⁸⁶

- The provision of profitable business services that can cross-subsidise less viable ones;
- Subscriptions; and
- Private sponsorships;

iv. Scale and Outreach

High performing business development systems tend to focus on building on existing support structures and institutions and networking local knowledge and experience as well as informal business service delivery mechanisms into expanded business service delivery solutions, rather than developing new organisational arrangements for service delivery. This suggests an institutional rather than an organisational approach to the design and development of business support systems. It is frequently the capacity to achieve such institutional solutions that is the most significant constraint on the achievement of synergy in business support;

⁸⁶ Stanton D *et al*

Getting Realistic about Creating Financially Sustainable Business
Development Institutions (ILO/DFID 2000) p 1

v. **Externalities and the Benefit-Cost Principle**

The cost of government involvement in business development support must at least be offset by the external benefits received by the community at large. Subsidisation alternatives should be seen as interim, short-term instruments of finite limited duration only and should be applied in such a manner as to encourage self-sufficiency at all levels of business and business support.

h. **Performance Measurement and Monitoring**

Emerging good practice suggests that business service programmes and institutional arrangements need to be closely monitored and evaluated. Although indicators of success for commercial (for-profit) service providers are clear cut, non-commercial role players and for-profit service providers implementing government-funded programmes face a more complex problem of performance measurement.

In assessing business support programmes it is necessary to distinguish between performance indicators that measure:

- i. "Efficiency" in the delivery of specific services. Such measures typically relate to cost-efficiency of business service provision in terms of the relationship between input and output; and
- ii. "Effectiveness" relative to the achievement of specific desired external outcomes of business support intervention programmes.

Measurement frameworks and development indicators have been suggested for the performance management of business development systems.⁸⁷ No unambiguous best practice has as yet emerged and significant problems still exist regarding the measurement of critical performance indicators relative to typical objectives set for business development interventions. The following have been recommended by way of intuitive provisional guidelines for the development of evaluation methodologies:⁸⁸

- Cost-benefit frameworks should be applied;

⁸⁷ McVay M. BDS Performance Measurement Framework (World Bank/Inter-American Bank/ILO 1999)

- Quantifiable, measurable criteria should as a matter of general principle be adopted for determining success;
- Evaluations of “effectiveness” must attempt to determine what the result would have been in the absence of a BDS intervention relative to some control reference. Many results attributed to programme interventions in the past may well have been fortuitous and not the result of the intervention at all.

7.4 Good Practice Instruments for Business Development

Central good practice themes are emerging in the pursuit of the support of markets for business development services worldwide in accordance with the market development paradigm. These themes serve broadly to define key international good practice business development service interventions and have implications for good practice approaches to the conception of delivery systems for business services in general, and for business development services (BDS) in particular. Central themes are proposed below with amplification provided in Addendum 2.

a. Providing Temporary Subsidised Access to Business Services

This category of intervention comprises the support of temporary access to business support services by emergent small enterprises through the provision of a conditional subsidy direct to target businesses to be redeemed in a predetermined way and through the marketplace in return for business support services. Such interventions, whilst distortive in that they constitute demand-side interventions at the delivery stage (refer Figure 3-3) are less so than interventions involving subsidies at other points of intervention in the process.

b. Promoting and Publicising Business Services

Such informative interventions have been applied specifically in developing countries.⁸⁹ They typically take the form of a variety of actions toward the dissemination of information on the availability and benefits of business services.

⁸⁸ Andersson T. Public Policies for SME's in Europe: Policy Design, Implementation and Evaluation - Rationale, Efficiency and Systemic Concerns (DSTI/OECD 2000)

⁸⁹ Tanburn J. A Market-Based Approach to BDS: Insights on Sustainability gained in the FIT Project (ILO 1999)

c. Establishing Business Development Clusters and –Networks

Such programmes typically involve the facilitation of groupings or networks of businesses that are assisted in jointly accessing business development services through the marketplace. Assistance on the part of the cluster- or network facilitator frequently also takes the form of advice in assessing service quality and negotiating fair terms in the marketplace. Typically successful network broking approaches tend to lock in benefits of existing or embryonic clusters.

d. Promoting Managed Workspace and Business Incubation

Such interventions typically take the form of managed workspace and business incubator schemes providing premises from which businesses can trade. Variants include the provision of core activities such as shared office services, equipment, security and business support and advice and more intensive sources of support for tenant businesses.

e. Promoting Business Linkages and Embedded Services

This typically includes amongst other elements the identification and development of opportunities for business linkages within production value chains and value matrices and the building of the capacity of those businesses that supply embedded business services forward or backward to other businesses in their business environment and along the value chains in which they engage.

f. Supply-Side Capacity Building

Supply-side interventions typically involve capacity building of business service suppliers in accordance with credible signals of market demand for services and imputed demand for strategic services designed to address a range of business development deficiencies.

g. Demand Side Capacity Building

Demand-side capacity building tends to be a longer-term intervention typically involving the education of persons already in business in the appropriate business- and life skills specifically to provide them with the insight to

recognise business problems and to look elsewhere for solutions where they are unable to solve those problems themselves.

h. Financial Support for Business Service Providers

Such interventions typically include investment by a donor or facilitator in a business service provider (s) or conditional loan- or other funding coupled to the achievement of predetermined performance objectives.

i. Establishing Information- and Communications Technology (ICT) Platforms for Business Support

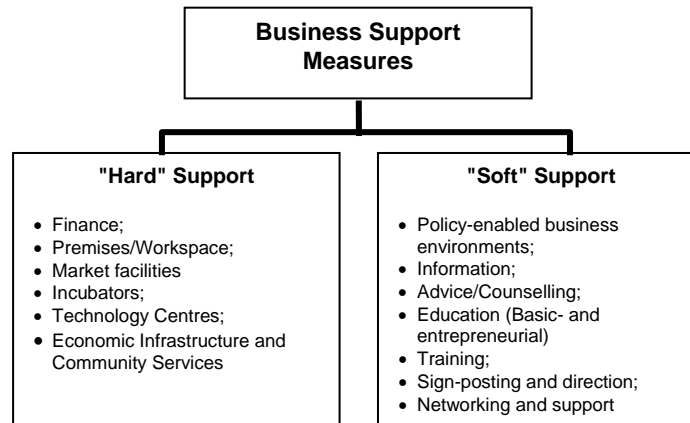
These interventions typically include the establishment of information and communications platforms supplying a range of information and communication needs of business and supporting real and virtual business networking. It is proposed that potential of ICT solutions to a range of business support needs exist amongst others in the areas of business news services; frequently asked questions (FAQ's); on-line discussion forums; service provider information services; marketing services and financial linkup services. (Addendum 3-2)

8. Implications for Business Development Support

The approach to business support in developing countries as yet remains in important respects in a state of flux. The emerging new “market development” paradigm requires a heightened focus upon developing markets and processes for the delivery of business support services by independent service providers within the context of more or less structured networks for business support, rather than a preoccupation with the creation of monolithic and centralised single channel delivery systems. The role of government in particular in the area of business support and specifically the rendering of so-called business support services (BDS) has been influenced by the emerging new public management paradigm and has shown evidence of nascent transformation. The emerging new business support paradigm has generally been influenced by the realisation that businesses typically access support formally and informally from a variety of sources.

Experience suggests that indicated "soft" and "hard" business support interventions also typically take a variety of forms at a variety of levels and points of application.⁹⁰ (Figure 3-4)

FIGURE 3-4: ELEMENTS OF BUSINESS SUPPORT



Emerging good practice suggests an integrated approach is required at the programme level of business support that goes far beyond the delivery of business support services *per se* and that enables the entry into the business development support arena of a variety of competitive and innovative providers. The micro-finance industry has set an example that can inspire the non-financial business service industry, although the parallels between the two are not always perfect and should not be laboured. Nevertheless there is an increasing awareness that latitude exists for the viable expansion of market-based activity in the provision of non-financial business development services and that there is potential for making a business out of business development support. That is, however, not to say that there are areas that will not need delivery of business support by other means, but where this occurs it should be well motivated and the exception rather than the rule. Considerations of affordable sustainability of business support services to large growing populations in developing countries and to developing communities generally dictate increasing emphasis upon alternatives to the state and to parastatal entities as means of delivery of business support. Clearly in the short- to medium- term transitional arrangements would in any event have to be in place reflecting attributes both of the old approach and of the new. The implications of the thrust of the new approach for the institutional development of business support systems are significant, as will be addressed in Chapter 4.

⁹⁰ Glas M. Municipalities and Business Development (SEED 2001) p 13

CHAPTER 3

ADDENDUM 1

KEY DETERMINANTS OF DEMAND FOR AND SUPPLY OF BUSINESS DEVELOPMENT SERVICES¹

	Determinant	Typical Influencing Factors	Comments
DEMAND	Recognition on the part of the business of the need for a solution	<p>Internal Constraints:</p> <ul style="list-style-type: none"> • Lack of problem diagnostic capacity; • Education and business skills; • Physical location; • Lack of competition; • Lack of exposure to peer businesses <p>External Constraints:</p> <ul style="list-style-type: none"> • Distorted or limited market information; • Subsidies that encourage accessing of inappropriate services; • Undue access to (cheap) credit and misdirected donor activities diverting attention from internal inefficiencies; • Preferential treatment (affirmation, tender preference, etc) creating false security in mode of operation 	<p>There are various gradations of problem recognition:</p> <ul style="list-style-type: none"> • When there is no knowledge of the problem; • When there is recognition of a problem but lack of definition of the problem; and • When there is problem recognition and definition but a solution is needed
	Willingness to pay for support	<p>Internal Constraints:</p> <ul style="list-style-type: none"> • Education and business skills; • Physical location; • Lack of competition; • Lack of exposure to peer businesses; and • Access to "hidden" informal sources of support. <p>External Constraints:</p> <ul style="list-style-type: none"> • A culture of subsidy and of entitlement; • Existing subsidies by donors or other business service providers; • Profile and prestige of donors and business service providers; • Quality of service. 	<p>Experiences with the extent of micro-lending in South Africa and elsewhere² has shown that individuals and businesses are prepared to pay for appropriate services on the right terms</p>
SUPPLY	Ability to present an attractive offer	<p>Internal Constraints:</p> <ul style="list-style-type: none"> • Marketing skills and information; • Cost structure of supplier related to level of elaboration; • Appropriateness/relevance of service; • Quality of service; • Location; • "Wrong" culture/approach of supplier staff; • Lack of capacity to develop relevant and competitive new products <p>External Constraints:</p> <ul style="list-style-type: none"> • Subsidised donor support for competitors; • Inappropriate donor support for "capacity building" 	<ul style="list-style-type: none"> • Some suppliers may be good at marketing a service, but less good at providing the necessary quality of business support; • Subsidisation and asymmetric approaches on the part of different actors in the market can distort both supply and demand.
	Technical capacity to provide quality services	<p>Internal Constraints:</p> <ul style="list-style-type: none"> • Technical skills and practical business experience; • Limitations of access to information and undeveloped/underdeveloped networks; • Lack of access to appropriate new technologies. <p>External Constraints:</p> <ul style="list-style-type: none"> • Education and access to knowledge; • Donor/subsidised support for inappropriate service delivery paradigms; • Importation of (subsidised) "generic" solutions from other countries which may also be inappropriate to local conditions 	

¹ Adapted from:

Field M. *et al* Micro-enterprise Best Practices: Designing BDS Interventions as if Markets Matter (Development Alternatives Inc. 2000)

² Bliss R. *et al* SME's Demand for Business Development Services in Bosnia/ Herzegovina (Babson/SEED 2001)

CHAPTER 3

ADDENDUM 2

DEMAND AND SUPPLY CONDITIONS AS DETERMINANTS OF BDS INTERVENTIONS

TABLE 1: IMPLICATIONS OF DEMAND CONDITIONS FOR TYPICAL BDS INTERVENTION¹

Analysis	Consumer Profile	Typical Implications for Intervention
Effective Demand: <ul style="list-style-type: none"> • High problem recognition; • High Willingness to pay 	Businesses recognise and understand their problems and are looking for a BDS service provider to deliver a solution at a reasonable price.	<ul style="list-style-type: none"> • Rationale for demand-side developmental business service intervention is limited; • BDS intervention will be supply-side in the form of corrective measures or (interim) compensatory supply of services outside of the marketplace may be necessary where market supply is deficient.
Weak Demand: <ul style="list-style-type: none"> • High problem recognition; • Low willingness to pay 	Consumers recognise and know what the problems are and are looking for solutions but are unwilling to pay.	<ul style="list-style-type: none"> • Demand-side developmental business service interventions will need to address the internal and external constraints to willingness to pay (Table 3-3); • BDS intervention could also take the form of: <ul style="list-style-type: none"> ➢ Supply-side measures to address the inability of suppliers to present an attractive offer (Table 3-3); or ➢ (Interim) compensatory supply of services outside of the marketplace.
Weak Demand: <ul style="list-style-type: none"> • Low problem recognition; • High willingness to pay 	Consumers recognise they may have a problem but do not know what it is. They are not inherently averse to paying for services to assist them in its resolution.	<ul style="list-style-type: none"> • Demand-side developmental business service interventions will need to address the internal and external constraints to problem recognition (Table 3-3);
Non-existent demand: <ul style="list-style-type: none"> • Low problem recognition; • Low willingness to pay 	Not uncommon among entrepreneurs. The consumer does not recognise a problem and does not see the need to expend resources. Frequently such problems as exist are (correctly or incorrectly) ascribed to external factors over which the business itself has no control negating any incentive to address it.	<p>This is the least fertile circumstance for market development interventions. Circumstances however in effect constitute a dysfunction in the system. Typically developmental BDS interventions will take the form of:</p> <ul style="list-style-type: none"> • Facilitation of awareness through peer group interaction; and • Dissemination of comparative case studies.

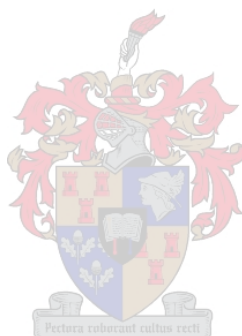
TABLE 2: IMPLICATIONS OF SUPPLY CONDITIONS FOR TYPICAL BDS INTERVENTION²

Analysis	Consumer Profile	Typical Implications for Intervention
Effective Supply: <ul style="list-style-type: none"> • High problem solving/service delivery capacity; • High quality offer to businesses 	The service provider has the requisite problem-solving/service delivery capacity and the ability to package it competitively.	<ul style="list-style-type: none"> • Rationale for supply-side developmental business service intervention is limited; • BDS intervention will be demand-side in the form of: <ul style="list-style-type: none"> ➢ Corrective measures; or ➢ Development specifically of demand in underserved areas/communities
Weak Supply: <ul style="list-style-type: none"> • High problem solving/service delivery capacity; • Low quality offer to businesses 	Despite having the technical skills and capacity service providers have difficulty in packaging these skills correctly to make them attractive to the market. Structural problems in the form of internal cost structures and relevance of services offered to the market could also be a factor.	Supply-side developmental business interventions are indicated to address service provider capacity to generate a relevant offer to the market (Table 3-3).
Weak Supply: <ul style="list-style-type: none"> • Low problem solving/service delivery capacity; • High quality offer to businesses 	Despite having sound marketing/packaging skills the service provider lacks the capacity to provide quality services in accordance with promises or undertakings made to the market – i.e. lacks the capacity to deliver on promises.	Supply-side developmental business service interventions will need to address service provider capacity deficiencies (Table 3-3).
Non-existent supply: <ul style="list-style-type: none"> • Low problem 	In effect no business service industry exists.	This is the least fertile circumstance for supply-side market development interventions. Circumstances

¹ Adapted from:
Field M. *et al* Micro-enterprise Best Practices: Designing BDS Interventions as if Markets Matter (Development Alternatives Inc. 2000)

² Adapted from:
Field M. *et al* *Op cit*

Analysis	Consumer Profile	Typical Implications for Intervention
solving/service delivery capacity; • Low quality offer to businesses		however in effect constitute a dysfunction in the system. Typically developmental BDS interventions will take the form of: <ul style="list-style-type: none"> • Facilitation of awareness of the opportunities presented by the business service market; and • Skills development in pursuit of the supply to the market of business service skills.



CHAPTER 3

ADDENDUM 3

EMERGING GOOD PRACTICE INSTRUMENTS FOR BUSINESS DEVELOPMENT

A body of good practice instruments has emerged in the pursuit of the objectives new business development support paradigm. These include amongst others the following:

1. **Short-term Temporary Subsidised Access to Business Services**

1.1 **The Intervention**

This category of intervention comprises the support of access to business support services by emergent small enterprises through the provision of a conditional subsidy direct to target businesses to be redeemed in a predetermined way and through the marketplace for business support services. Such interventions, whilst distortive in that they constitute demand-side interventions at the delivery stage (refer Chapter 3 Figure 3-3) are less so than interventions involving subsidies at other points of intervention in the process.

1.2 **Objectives**

The objectives typically pursued with this category of short-term intervention are:

- a. The promotion of the benefits of business services as an aid to business establishment, survival and growth;
- b. The encouragement of the acquisition of business services by businesses through the mechanism of the market; and
- c. The subsidisation of business services in target low-income communities in a manner that is not detrimental to the operation of the market;

1.3 **Experience with Specific Applications**

The following represent typical variants of intervention under this category:

c. **Voucher Programmes**

Such programmes typically involve the issuing to applicants of a limited number of coupons or “vouchers” for training or other business development services redeemable from a large number of independent service providers.

Minimal screening of applicants takes place other than the application of a means test or other specified qualifying requirement. Effective discounts on business development services represented by the vouchers typically range from 35% to 80% of the market purchase price of the services concerned. Good practice suggests that full subsidy of services is not desirable. Recipients of vouchers are also informed as to the service providers available to them and are thus able to make their own choice of provider, frequently from a list of accredited service providers.¹

Critical good practice key performance areas in the implementation of voucher programmes are as follows:

- i. Credible facilitation and supervision to ensure impartiality and to avoid corruption and politicisation of voucher distribution and supplier accreditation;
- ii. Sound programme management;
- iii. Facilitation of an adequate supplier base capable of providing credible service alternatives in a competitive market;
- iv. Effective exit strategies on the part of government or other donors providing for a limited period of application of such programmes in accordance with stated market development objectives

Voucher programmes have tended to become popular with governments as a means to affect subsidies whilst serving market development objectives. Unfortunately there is some temptation on the part of governments to see such intervention programmes as permanent rather than as temporary. Whilst experience is varied regarding the degree of sustainability of benefits of such programmes in terms of development of the market for business services, results suggest some successes.² The applicability of these programmes is not universal and their success is seen to be conditional upon a complex of local market factors.

d. **Matching Grant Programmes**

Such programmes typically have focussed on involving medium-sized firms in export-promotion programmes. They generally involve the proposal of projects by selected businesses to an agent/facilitator acting on behalf of

¹ Schor G. *et al* Voucher Programmes: Potential, Problems & Prospects (ILO 1999)

government or a promoting donor. Businesses proceed at their own expense with approved projects and make use of business development services in developing the proposed project in accordance with the proposal submitted to government or the promoting donor. The cost (or a predetermined part thereof) of these business development services is, upon evidence of the successful conclusion of the project, then reimbursed to the business. Such programmes typically deliver good cost-benefit results in terms of employment creation and economic growth, but there is little evidence as yet of their efficacy in providing sustainable development in the market for business development services.³

2. Promoting and Publicising Business Services

Such interventions have been applied specifically in developing countries.⁴

2.1 The Intervention

Such interventions typically take the form of a variety of actions toward the dissemination of information of business services. Specific interventions have taken the form of:

- a. The institution of business-to-business magazines and newsletters;
- b. The development of directories/databases containing profiles and contact particulars of service providers;
- c. The use generally of the mass media to promote business services;
- d. The organisation of events to bring together service providers and potential clients;
- e. Informative social marketing campaigns promoting the value of business services as tools for assisting businesses;
- f. Linkages between information programmes and voucher- and matching grant programmes as a means of demonstrating business service benefits and of linking clients with service providers.

² Botelho C. *et al* Paraguay Vouchers Revisited: Strategies for the Development of Training Markets (USAID 2000)

³ McVay M. *et al* Emergent Good Practices in Business Development Services (ILO 2000) p 39

2.2 Objectives

The objectives typically pursued with this category of intervention are:

- a. The raising of awareness of the importance and benefits of business services to good business practice; and
- b. The dissemination of information on available business services and the profiles of business service providers and their products.

2.3 Experience with Specific Applications

Such interventions work well when markets or market segments are well supplied with quality business services. Commercialisation of information dissemination can also enhance the business development impact of such programmes provided that this does ensure that all areas of the client- and provider markets are adequately served. Where markets are under-supplied with services these initiatives need to be accompanied by parallel supply-side initiatives to stimulate the supply of business services into under-served market segments.⁵

3. Establishing Business Development Clusters and –Networks

3.1 The Intervention



Such programmes typically have involved the facilitation of the formation of groups or networks of businesses that are then assisted in accessing business development services jointly through the marketplace. Assistance on the part of the cluster- or network facilitator frequently also takes the form of advice in assessing service quality and negotiating fair terms in the marketplace. Typically successful network broking approaches tend to lock in benefits of existing or embryonic clusters by:

- a. Facilitating access by new entrants;
- b. Promoting the establishment of supplier associations and learning circles and other collaboration;
- c. Allowing specialisation and local adaptation in university-industry linkages including development of incentive structures that can encourage local industry links;

⁴ Tanburn J. A Market-Based Approach to BDS: Insights on Sustainability gained in the FIT Project (ILO 1999)

⁵ Goldmark L. *et al* Micro-enterprise Best Practices: Vouchers- From Practice to Principles (Development Alternatives Inc. 2001)

- d. Ensuring effective technical support and information services.

3.2 Objectives

The objectives typically pursued with this category of intervention are:

- a. Enabling joint access particularly by emergent small businesses to viable business services; and
- b. The achievement of the benefits of agglomeration in the supply of business support services.

3.3 Experience with Specific Applications

Networking initiatives have assisted in enabling individual businesses jointly and individually to derive economies of scale in accessing business services in the marketplace. In addition services embedded in business transactions also tend to be facilitated by cluster- and networking arrangements since it is easier for larger businesses to justify such assistance on the basis of scale when dealing with groups of users than with individual businesses. Smaller businesses operating in concert also generally have greater leverage in accessing larger contracts and also entering the export market, thereby providing an additional motivation for cluster- and network formation as an appropriate good practice business support intervention.

Experience suggests that cluster- or network formation is not generally regarded by businesses as a service for which they are prepared to pay. Emerging good practice suggests that wherever possible the private sector should take the lead in cluster-development initiatives with government playing a facilitative catalytic mediation role. In such cases initiatives should be linked to the "right" level of government (i.e. local-, provincial-, or regional-) determined by the geographic scope of the cluster concerned. The argument has been advanced that at least the setup costs attaching to the establishment of such networks should be borne by government.⁶ In such cases, however, funding by government should be modest and should be phased out in accordance with a clear exit strategy as network participants begin to engage more closely.⁷ The formation of groups and networks for the purposes of providing innovative and relevant services can itself however constitute a sound business

⁶ Clara M. *et al* Cluster Development and BDS Promotion: UNIDO's Experience in India (UNIDO 2000)

⁷ Enright M. *et al* Workshop 2: Local Partnership, Clusters and SME Globalisation (OECD 2000) p 5

opportunity for business service providers.⁸ Where innovative commercial service providers exist that have a stake, or are able to develop a stake in business clusters and –networks they can play a key role in network/cluster formation. In other cases, the alternative of initial government funding of the establishment costs may need to feature more prominently in:

- a. The establishment of networks and clusters; and
- b. Linking them with suppliers and other enterprises.⁹

4. Promoting Managed Workspace and Business Incubation

4.1 The Intervention

Such interventions typically take the form of:

- a. Managed workspace schemes that are a form of property development providing premises from which businesses can trade. Variants include the provision of core activities such as shared office services, -equipment, security and business support and -advice;
- b. Business incubators, similar in key respects to the managed workspace model in that they provide serviced units for small companies additionally provide significantly more intensive sources of support for their tenant businesses as well as operating a more- or less selective entry- and exit policy. Business support is usually provided directly through an on-site incubation manager. Such services are provided either by contracted service providers or an on-site dedicated incubation team; and
- c. "Virtual incubators" providing many of the key incubation services but delivering them through computer- and web-based networks to business participants at widely divergent physical locations.

4.2 Objective

The objective of interventions of this kind is to provide either a real- or virtual location where businesses are able in a more or less structured way to be provided with business services.

⁸ Field M. *et al* Micro-enterprise Best Practices: Designing BDS Interventions as if Markets Matter (Development Alternatives Inc. 2000)

⁹ Sandee H. *et al* McVay M. *et al* As quoted in: Emergent Good Practices in Business Development Services (ILO 2000)

4.3 Experience with Specific Applications¹⁰

Incubation interventions are particularly suitable for application to innovative, technology-based businesses with higher growth potential and with high impact on the economy. They do however have applications in other areas of business development as well. Variants of managed workspace- and incubation interventions have been used to provide the seed for the regeneration of run-down (inner city) areas in industrial towns and -communities. Increasingly it has come to be realised that they can be successful in supporting the generation of new (small) businesses in target areas. At the one end of the spectrum they have been attached to universities as a means of sponsoring innovation in products and processes through so-called "techno-parks". At the other they have been shown to provide a means of stimulating a culture of enterprise and have provided the vehicles for inner-city regeneration and the productive application of dormant capital in the form *inter alia* of disused factories and public infrastructure. To be successful specifications for facilities must match the needs of small growth businesses and must be carefully located to provide optimal access to markets and suppliers. In all variants, real or virtual, space and other facilities are let to tenant businesses on short leases or licences and on flexible terms, often at (initially) concessionary rates. Many operate "soft-start" payment schemes for rental and services, raising charge rates in a controlled and predetermined fashion over a period.

In some communities the local authority properties department or the local authority economic development department either directly or through a dedicated external development agency manages such initiatives.¹¹ The "development company" model has been employed successfully in some local authorities in association with the managed workspace and incubation approaches involving the establishment of a vehicle to develop incubator sites together with other municipal property in support of business development- and promotion objectives.¹²

5. Promoting Business Linkages and Embedded Services

5.1 The Intervention

Such interventions typically include:

¹⁰ British Local Government Association (2000)

¹¹ British Local Government Association *op cit*

- a. The identification of opportunities for business linkages within production value chains and value matrices;
- b. Promotion of subcontracting particularly by larger enterprises of emergent smaller (SMME) enterprises;
- c. Provision of interaction opportunities by way of trade shows, business tourism and the like;^{13,14}
- d. Facilitation of expansion of business membership organisations (BMO's) to include emergent smaller business interests with those of larger established businesses; and
- e. Building business service capacity for those businesses that supply embedded business services forward or backward to other businesses in their business environment and along the value chains in which they engage.

5.2 Objectives

Typical objectives of such interventions are to:

- a. Foster “forward” (market) and “backward” (supplier) linkages primarily though not exclusively through the dissemination of information that enables businesses to develop symbiotic (“win-win”¹⁵) relationships;
- b. Promote the scope of embedded business services delivered by businesses to one another in the normal course of their commercial transactions with one another.



5.3 Experience with Specific Applications

The capacity of increased inter-firm co-operation via the promotion of business linkages to contribute strongly to local and regional economic growth has been illustrated by a number of recorded cases in Europe and in Latin America.¹⁶

Experience suggests that:

- a. SMME's in particular stand to benefit from such initiatives;
- b. Larger suppliers are able to expand their customer base, achieve lower-cost and more efficient production and build supplier networks;

¹² Wigan Metropolitan Development Company (WMDC) Wigan Borough Council (1980)

¹³ Tanburn J. A Market-Based Approach to BDS: Insights on Sustainability Gained in the FIT Project (ILO 1999) p 2

¹⁴ FIT Manual Series Facilitating MSE Shows (ILO 2000)

¹⁵ McVay M. *et al* Emergent Good Practices in Business Development Services (ILO 2000) p 44

¹⁶ Berry A. SME Competitiveness: The Power of Networking and Subcontracting (Inter- American Development Bank 1997)

- c. Expanding embedded services circumvents the frequent disinclination of SMME's to pay for business development services "up-front" since the costs of embedded services are subsumed within transactions or are charged to third party commercial players.¹⁷ At the same time the scale of embedded services is a determinant of the viability of associated linkage programmes. The notion has become current in government that the preferred emphasis should generally be on supporting those businesses potentially able to provide embedded services to a relatively large, if not the largest number of recipients.

6. Supply-Side Capacity Building

6.1 The Intervention

Supply-side interventions typically involve capacity building of business service suppliers in accordance with credible signals of market demand for services and imputed demand for strategic services designed to address *inter alia* the following deficiencies:¹⁸

- a. Lack of the requisite technical/professional skills on the part of the business service providers to provide quality business services to key under-served segments of the business service market;
- b. Lack of special skills necessary to manage business service provision including marketing- and pricing of business service products;
- c. Deficiencies in knowledge of the needs of potential consumers of business services; and
- d. Limitations in capacity on the part of existing or aspirant business service providers to innovatively develop appropriate business service products and to penetrate new and challenging business service markets.

6.2 Objective

The objective of supply-side interventions generally is to improve the supply-side capacity of business service markets in order to meet developing market demand for business services.

¹⁷McVay M. *et al* Emergent Good Practices in Business Development Services (ILO 2000) p 45

¹⁸ Field M. *et al* Micro-enterprise Best Practices: Designing BDS Interventions as if Markets Matter (Development Alternatives Inc. 2000)

6.3 Experience with Specific Applications

Experience suggests that business support in the form of technical assistance to suppliers of business services has the capacity to lessen suppliers' risks in diversifying into new product areas and business service markets. At the level of practical implementation supply-side technical assistance is a key pre-delivery intervention strategy in the development of markets for business services. (Chapter 3: Figure 3-3) Whilst providing individually customised technical assistance to small business service suppliers with limited scope and outreach may not be cost-effective, experience suggests that:

- a. Grouping of suppliers and the establishment of supplier networks or clusters can serve to facilitate joint training and technical support to many suppliers encountering similar problems;
- b. Targeting larger business service providers that reach a wider clientele though not at the expense of maintaining healthy competition in the marketplace can enhance cost-effectiveness of supply-side capacity building; and
- c. The potential exists for developing the capacity of the private sector itself to provide business service capacity building on their own account to other business service providers.



7. Demand Side Capacity Building

7.1 The Intervention

Demand-side capacity building tends to be a longer-term intervention typically involving the equipping of persons already in business with the appropriate business- and life skills to enable them to recognise business problems and to look elsewhere for solutions if they are unable to solve those problems themselves.

7.2 Objective

The objective of demand-side capacity building interventions is to stimulate demand for relevant advice and support on the part of businesses as a means toward achieving more efficient and profitable operation, and realising the full economic potential of business activity.

7.3 Experience with Specific Applications

There are instances of universities and colleges providing specialist training in small business skills either to service providers for transmission to businesses through the normal mechanism of service provision or directly to individual business people as part of "mini" or "micro" MBA- or similar programmes.¹⁹

8. Appropriate Business Service Product Development and -Commercialisation²⁰

8.1 The Intervention

Business product development and –commercialisation are focussed variants of supply-side capacity building. Such interventions typically take the form of the performance of functions that the private sector is either reluctant or unable to provide on own account including:

- a. Business service product research and development;
- b. Publicising new business services; and
- c. Quality control of business services.

Such services can typically be provided by a donor/facilitator. Government or a government agency or agencies typically would fund such services where the private sector is unwilling or unable on a commercial basis to do so. In practice implementation takes the following forms:²¹

- a. Franchising arrangements for business service products such as the SIYB (Start and Improve Your Own Business) courses developed by the International Labour Organisation (ILO). Training in the product application is supplied by the franchise holder through a local facilitator that also accredits suppliers and performs the associated quality control function;
- b. Market research to enable business service suppliers to innovate business service products; and
- c. Permanent- or long-term market-based development and sale of new products to service providers.

¹⁹ Allal M. BDS for MSE's in Thailand: Overall Review of Approaches to Institutions (ILO/UNDP 1999)

²⁰ McVay M. *et al* Emergent Good Practices in Business Development Services (ILO 2000) p 47

²¹ Field M. *et al* Micro-enterprise Best Practices: Designing BDS Interventions as if Markets Matter (Development Alternatives Inc. 2000)

8.2 Objective

The objective is to extend the application of appropriate technology approaches to the design and development of new business service products.

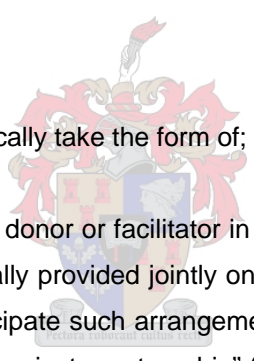
8.3 Experience with Specific Applications

Because these functions address areas that frequently are less attractive to commercial service providers they tend to be carried out, and to an extent financed, by governments and donor organisations. Experience suggests that even in such instances revenue can be recovered by way of the sale to business service providers of the products ultimately developed together with the necessary after-sales service. The fact that government or its agencies may have to provide them therefore does not imply that they must be subsidised.

9. Financial Support for Business Service Providers

9.1 The Intervention

These interventions typically take the form of;

- 
- a. Investment by a donor or facilitator in a business service provider (s). Venture capital is generally provided jointly on a **pro-rata** basis. Where government is inclined to participate such arrangements manifest in the form of one or other variant of “public-private partnership” (PPP); or
 - b. Conditional loan- or other funding coupled to the achievement of predetermined performance objectives.

Experience suggests that government in defined circumstances can play the role of facilitator or joint venturer in such arrangements. Venture capitalisation tends preferably to be “front loaded”, with appropriate life-cycle capitalisation upon establishment of the joint venture in preference to ongoing core funding. Operational core funding of the service provider is typically not provided and such **ad hoc** funding as may from time to time be necessary is specifically linked to the expansion of core capacity or for new product development.

9.2 Objective

The intervention objective is typically to provide financial support for the expansion of the business service industry.

9.3 Experience with Specific Applications

Experience has demonstrated the potential for distortion that nevertheless is inherent in such interventions unless they are minutely and responsibly managed. The risk inherent particularly in extensive ongoing core funding of service providers by government or other donors- or joint venturers is that it can serve to focus the attention of the providers concerned upon satisfying the whims of the donor- or facilitator rather than upon exploiting the market for business services as the primary source of funding of operations. To the extent that this occurs the intervention will be counter-productive.

10. Information- and Communications Technology (ICT) Platforms for Business Support

10.1 The Intervention

The dissemination of information is crucial to the efficient functioning of markets, including business service markets. The following information services typify good practice business support systems (Figure 1).^{22,23,24,25}

Experience has indicated the potential of ICT solutions particularly in the following areas:

a. A Business News Services (BNS)

Such news services typically include the delivery of targeted information and - news announcements to beneficiaries who are automatically registered for the service upon accessing this- or related electronic business services. The service is generally free of charge and is accessed via a home page representing the relevant information platform. Information is transmitted on a regular and frequent basis to beneficiaries;

b. A Frequently Asked Questions (FAQ) Service

Typically such a service would provide prepared information on a variety of topics of concern to business. The relevance of the information provided would be constantly updated on the basis of the evolving profile of user

²² Working Party on Small- and Medium Sized Enterprises SME's and Electronic Commerce (OECD 1998)

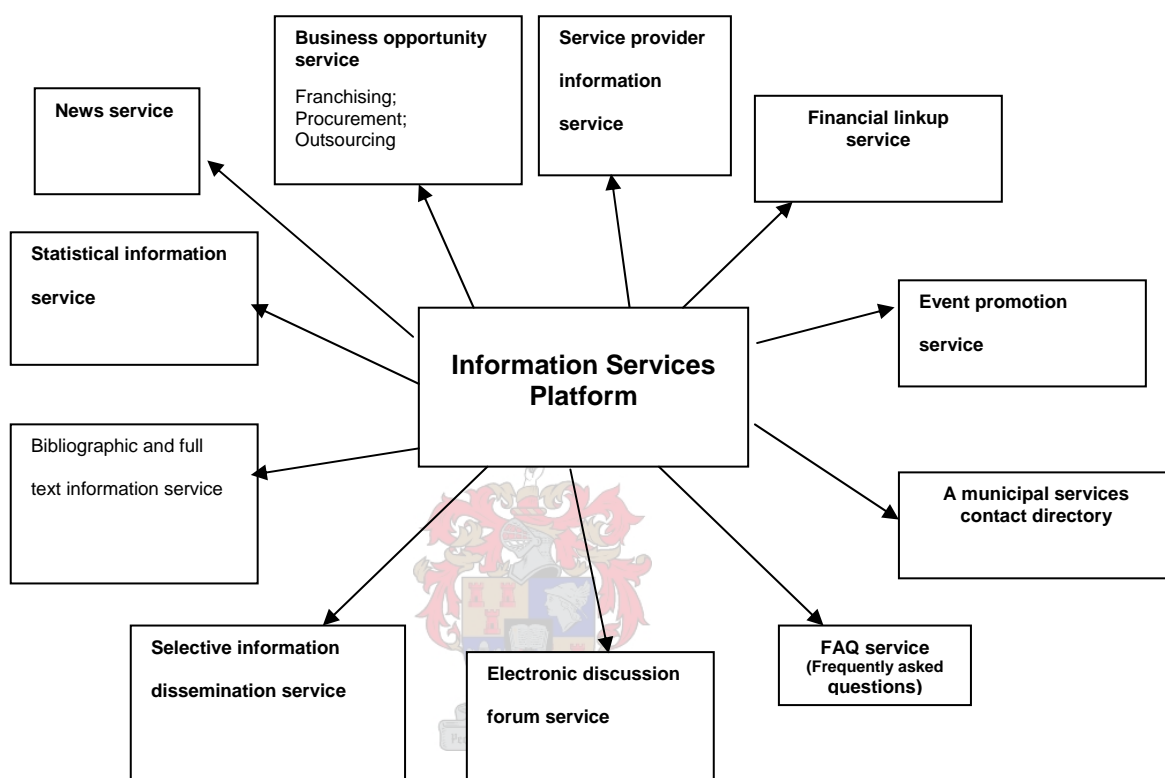
²³ Arroyo J. SI-PROMICRO: Using the Web to Support Business Development Services in Central America (ILO 2000)

²⁴ Conference of Ministers Enhancing the Competitiveness of SME's through Innovation (OECD 2000)

²⁵ Steinmuller E & Bastos M-I. Information and Communication Technologies: Growth, Competitiveness, and Policy for Developing Nations (UNIDO 1995)

queries. The FAQ service can be linked to the directory of available business service providers to provide the names and particulars of consultants or other service providers able to provide further information on the relevant issue should that be required;

FIGURE 1: A CONCEPTUAL FRAMEWORK INFORMATION PLATFORM FOR BUSINESS SUPPORT



c. Selective Information Dissemination Services (SIDS)

Such services typically are user-based and user-specific. Information is selected according to the specific interests and requirements of registered users captured on a central system database. Information received is thus relevant to the expressed interests of users;

d. Bibliographic- and Full-Text Information Services – Virtual Library Services (VLS)

Such services, comprising access to a technical virtual library, can include full online access to books and hyperlinks to full-text documents on a wide range of subjects of business interest;

e. Consultant/Service Provider Information Services (SPIS)

Such services typically provide a database of business consultants and business service providers according to a classification or rating system and typically reflecting *inter alia* the following information in respect of each service provider:

- i. General information and contact details;
- ii. Academic background;
- iii. Professional experience;
- iv. Areas of specialisation and services provided;
- v. Portfolio of assignments completed;
- vi. Publications;
- vii. Other experience (Teaching, management-, etc);
- viii. Computer and internet skills;
- ix. Language proficiency;
- x. Personal and professional references;

These services provide an important window for service providers to market their services, and for businesses to obtain perspectives on the business services available from service providers;

f. On-line Discussion Forum Services (DFS)

Such services provide for the open interchange, with or without a moderator, of information, views and experiences on business promotion topics either by recipient businesses or by government and service providers;

g. Event Promotion Services

Such services provide the platform for publicising shows, trade fairs, meetings, workshops and other business events. Information may be posted on the platform home page and/or disseminated through the BNS and SIDS;

h. Finance Linkup Services (FLS)

Such service typically provide information on the products, terms, conditions and other information relevant to business financing for various business categories, including business service providers themselves. It could also be

linked to the SPIS database where appropriate, thus linking business applicants for finance to non-financial service providers capable of helping them meet the relevant requirements;

i. A Statistical Information Service (SIS)


Such a service would for example provide information and data on business startups, numbers of registered businesses by sector, and other statistical information relevant to reflecting a macroscopic picture of the business sector and tracking its development.

j. A (Municipal) Government Services Contact Directory (GSCD)

Aside from conventional business development services businesses require a whole range of other (essentially, though not exclusively municipal- or government-) services. Businesses frequently are typically not easily able to access contact details of key points of entry into the government system to assist them with specific queries. Such a directory is a key requirement in the local business support mix.

k. Information Services Platform (Marketing Services)

Typically these take the form of:

- 
- i. A directory of intermediate goods and services. or the establishment of local business activity clusters and the development of linkages and connectivity between local businesses in the development of final product value chains and –matrices the availability of objective “neutral” information within the business community as to locally available (intermediate) goods and services is a vital requirement;
 - ii. A directory of final goods and services; and
 - iii. A marketing linkup service providing the platform for interaction between willing buyer and willing seller.

10.2 Objective

The objective typically is to provide information- and communications technology-based (ICT-based) solutions for business support.

10.3 Experience with Specific Applications

- a. The significance of ICT for businesses lies in essentially three focus areas, although the division between them is blurred:
 - i. Potential applications of ICT to existing business activities to effect greater efficiencies;
 - ii. Potential applications to advance business activities in totally new and innovative directions; and
 - iii. Potential applications for the accessing of business support services.

Whilst the popular emphasis on “e-commerce” is typically on the business-to-consumer dimension, it is in the more comprehensive evolving concept of “e-business” encompassing the business-to-business dimension in the context of the development of value chains and other business linkages and the facilitation of ready access to business support that potentially the most important economic consequence of the ICT revolution worldwide is to be found.

- b. The potential benefits of “e-business” particularly for emerging small-and medium-sized businesses are typically as follows:
 - i. Ready access to new products and services and to new market opportunities;
 - ii. Increased value-addition in production processes;
 - iii. Modification of scale economies and the offsetting of the traditional advantages of larger enterprises as production processes disaggregate;
 - iv. Decoupling business from its traditional geographic locations;
 - v. Flattening and disaggregating organisational structures as lines of communication within business are modified;
 - vi. Increased scope for accessing niche markets;
 - vii. Spin-off business through the commercialisation of in-house intellectual capital.

However, e-business solutions are not an unconditional solution to all business support challenges and cannot simply be imposed upon businesses

whose operational logic, internal systems and ethos cannot support them. The matter of implementing viable e-business solutions to the benefit of businesses therefore most often requires far more comprehensive business enterprise reform and support engagement than simply the introduction of information and communications-based technology.

c. Problems and barriers typically encountered in the promotion of e-Business specifically in the developing countries are as follows:²⁶

- i. Lack of awareness particularly by smaller business of the importance of e-business;
- ii. Lack of understanding of, and exposure to, the potential benefits;
- iii. Lack of human resources and in-house ICT skills and frequent aversion or resistance to acquiring skills from outside the business;
- iv. Inadequate internal business systems and an inappropriate ethos;
- v. Real or perceived prohibitive set-up costs particularly to very small- and micro-business; and
- vi. Concerns about security of business information especially in highly competitive and innovative environments;

d. Emerging good practice approaches suggest the following in addressing some of the obstacles to e-business reflected above:

- i. Lack of Awareness:

Dissemination of information on technologies and their use through:

- Distribution of hard-copy and on-line information sources; and
- Conferences and workshops.

Case study experience suggests that government actions should typically be aimed at the entire business community whilst that of business membership organisations (BMO's) will be targeted to serve their members.

²⁶ Arroyo J. SI-PROMICRO: Using the Web to Support Business Development Services in Central America (ILO 2000)

ii. Lack of Understanding of the Potential Benefits of e-Business

Physical demonstrations have been found to be effective in illustrating and motivating the application of e-business solutions in specific relevant business settings. In general terms SMME businesses/settings relevant to production clusters or market segments offering the largest leverage in terms of the creation of jobs and economic growth should be targeted. Such interventions in practice generally take the form of:

- The establishment of e-business demonstration centres;
- Interactive on-line tutorials simulating relevant business decision making;
- Presentation of commercial “best practice” involving e-business;
- Pilot projects in relevant business settings; and
- Stimulation of interest by the increasing use of e-commerce links for public procurement purposes, initially in parallel with traditional approaches.

iii. Lack of Human Resources and Skills

Emerging good practice approaches here typically include:

- The institution of courses and interactive teaching sites to transfer skills to businesses;
- The establishment of links to manufacturers and suppliers of software and hardware that supply embedded advice and support to prospective purchasers;
- The facilitation of linkages, partnerships and mentorship arrangements with organisations and businesses already competent in the practice of e-business; and
- Support and assistance with the transformation or adaptation of business practices and –ethos and the re-engineering of business systems and approaches required by e-business.

CHAPTER 4

INSTITUTIONAL ARRANGEMENTS AND -MECHANISMS FOR BUSINESS SUPPORT

1. Introduction

The institutional arrangements serving economic development generally and business support in particular, have faithfully reflected the prevailing paradigms. In the 1950's and 1960's the "first generation" paradigm was dominated by a high degree of institutional centralisation in accordance with the preoccupation particularly with a dominant role for central government and parastatal development enterprises in business support delivery. (Refer Chapter 3) Where local enterprise development facilities were established at community level these were essentially merely local outlets of large monolithic (national- or regional) development agencies comprising in essence single-channel delivery mechanisms for development support.

In the 1970's and 1980's the disillusionment in some countries with conventional approaches to regional development, namely that it could be effected by centralised interventions on the part of government and its agencies, gave rise to a second generation of initiatives based on endogenous development alternatives. This "second generation" approach was also to an extent reflected in increasing decentralisation of institutional arrangements for regional development but with the state through the medium of national- and regional governmental entities still a prominent role player. Increasing emphasis on the role of intra-regional and inter-firm co-operation, and of unions and business associations in "endogenising" the development process was however also becoming evident.¹ Development was however still viewed as externally driven with its locus of control essentially outside of recipient communities.

With the substantial realignment in the 1990's of the relationships between state and society that manifested in the process of democratisation in many developing countries in South America and elsewhere, decentralisation afforded local and regional governments more room for manoeuvre. Local governments in turn, in particular in the light of their financial- and other limitations began to involve other private sector and NGO actors, creating the genesis of a variety of local economic development approaches with appropriate institutional overtones. The result of these developments and of the advent of globalisation has been the "third generation"

¹ Maillat D. Innovative Milieux and New Generations of Regional Policies (Entrepreneurship and Regional Development 1998)

approach premised on the recognition that new policies and approaches need not necessarily require more resources but need to enhance "system-" or "systemic" rationality in the application of local and other resources in support of local economic development within communities.²

The "third generation" or "new wave" institutional approach strongly suggests that in determining the shape of business support systems the emphasis needs to be holistic with business development viewed in a more comprehensive local economic development context. It also suggests that the preoccupation should be less "organisational" to the extent that such a perspective is limited to a preoccupation with governmental- and parastatal structures as conduits for the delivery of business development services, than "institutional" with attention given to the interactivity between all organisations capable of delivering business development support and of enhancing synergies within an integrated multi-channel business support system. In particular the institutional approach suggests delivery mechanisms that depart significantly from the earlier single-source paradigms where government was viewed as the logical origin of all development assistance. Indeed the current international trend in business development support, and particularly in more progressive developing countries where it is supported by the requisite political ideology, is toward the development of markets as the primary channel for providing development support services. (Chapter 3) The challenge in designing appropriate institutional mechanisms for business development support therefore lies less with the creation of new organisations than with the exploitation of synergies through the building of interactive development support systems comprising organisations and agencies capable individually and collectively within business support value chain networks of delivering appropriate services to business on a competitive basis and according to optimal individual functional posture- and capacity.

2. Theoretical Design Foundations

2.1 The Institutionalisation of Local Economic Development Management

In a number of countries including South Africa the development policy focus upon communities and localities has caused the role of local governance- and other representative instruments at community level to be brought into sharper focus, not only as vehicles for the delivery of traditional municipal services *per se* but also as vehicles for the promotion of local economic development (LED). This nuanced role is in the case of South Africa for example enshrined in the Constitution in terms of which

² Helmsing A.H.J. Partnerships, Meso-institutions and Learning: New local and regional economic development initiatives in Latin America (ISS 2001)

the object of local government is, *inter alia*, “to promote social and economic development”.³ Municipalities in South Africa are for example specifically charged to:⁴

- a. Structure and manage (their) administrations, and budgetary and planning processes to give priority to the basic needs of the community, and to promote the social and economic development of the community; and to this end to
- b. Participate in national and provincial development programmes.

Nationally the view of local government as the “hands and feet”⁵ of development in South Africa has been confirmed by extensive statutory powers conferred in terms of such legislative instruments as the Municipal Structures Act⁶ and the Municipal Systems Act⁷. This legislation variously provides for the establishment by local authorities of land development objectives (LDO’s) for their jurisdictions and of integrated development planning processes (IDP’s). These developments have formally ushered in a new era of “developmental local government” in South Africa and have clearly established the pivotal role of the local government sphere and of communities in developing and implementing an inclusive local economic development approach. Such an approach is seen to incorporate the promotion of local business activity as a key component, if not the key component of sustainable organic growth and development.⁸

The more sharply focused economic developmental role of local government in the new dispensation increasingly requires a focus on communities not only as social entities but also as economic- and developmental entities. This shift in emphasis departs in significant respects from the traditional view enshrined in historical approaches to local government in traditionally Anglophone countries of communities primarily as the recipients of municipal services. The evolving role of developmental local government as it has emerged in South Africa in particular reflects the dual imperatives of alignment of the activities of a the wide variety of autonomous business- and other stakeholder interests in the local economic system to maximise local developmental synergy, and fostering the development of local business- and other local capacity to engage productively, innovatively and independently in economic activity.

³ Constitution of the Republic of South Africa, 1996 (Act 108 of 1996) Article 152(1)

⁴ Constitution of the Republic of South Africa, *op cit* Article 153

⁵ Local Government and Economic Development: A Guide for Municipalities in South Africa
Department of Constitutional Development (1997)

⁶ Local Government: Municipal Structures Act, 1998 (Act 117 of 1998)

⁷ Local Government: Municipal Systems Act, 2000 (Act 32 of 2000)

⁸ Department of Provincial and Local Government Local Economic Development: Strategies and Instruments LED Manual Series 2/5 (2000)

This clearly has implications for the institutionalisation and management by local government of those activities and functions within its own jurisdiction that have an impact on the local economy. In particular it brings into sharp relief the issue of the “virtual institutionalisation” of activities and functions that have an impact on the local economy and, most importantly, that can be used as levers to promote local economic growth and development. The emerging amplified developmental role of local government where it has emerged in developing countries such as South Africa, together with the need to align developmental initiatives in the local community context has increasingly suggested the need for the institutionalisation at local government level of various elements of local economic management that hitherto have fallen outside of the remit of local government. In addition the virtual institutionalisation of a range of development support activities in which local government has a direct interest but whose locus of control lies in other spheres or otherwise outside of the jurisdiction of local government itself comprises a range of arrangements that enable local government directly or indirectly to influence or “procure” the application of these levers in the interests of local economic development.

The promotion and support of local business activity across the spectrum is an area that is specifically recognised as a critical lever for the stimulation of local economic development. The direct and indirect promotion of local business activity involves a range of actions on the part of government. These have been classified in Chapter 3 (Figure 3-2) as the so-called “minimal”, “intermediate” and “activist” functions of government. Business support therefore goes well beyond merely the provision of business development services, traditionally the narrow focus of business development and promotion programmes. The inadequacy of many such programmes in impacting business development to any appreciable degree is frequently the result of too narrow a perspective of the requirements of business support. In addition in developing environments such as South Africa the business environment comprises two worlds – the one modern, established and progressive, the other emergent, survivalist and generally marginalised. In such situations past business development paradigms internationally have tended to institutionalise this schism rather than to develop and exploit synergies and connectivity across it. Any business support system that is to impact meaningfully upon the common local business environment in which all businesses function and in which all “business-like” activities take place must therefore provide for the effective integration of all relevant elements of business support into a coherent local package capable of supporting an integrative approach to the local business economy. This has implications for the way in which business support in general is institutionalised. In particular the need for alignment points to the requirement for an integrated rather than a piecemeal

approach to the full spectrum of activities that impact upon local business. If the object of business development support is to stimulate the growth and development of viable sustainable business activity in a single integrated local business economy then issues of business development cannot be divorced from the broader but closely-related issues of place marketing and locality branding, trade promotion and investment recruitment, generally far removed from conventional business development service preoccupations. In particular business development support cannot be divorced from the batch of issues traditionally associated with local economic development (LED).

2.2 A Theoretical Framework

A framework for the institutionalisation of local economic development management and of business support at local government level generally is provided through the adaptation and application of accepted institutional design principles.

In general any institutional arrangement may be characterised as comprising the following five generic components (Figure 4-1):⁹

- a. The *Strategic Apex* charged with ensuring the institutional arrangement serves its broad mission. This in effect incorporates the governance arrangements relating to the institutional structure;
- b. The *Operating Core* representing those elements of the institutional arrangement engaged in the production of the outputs across institutional boundaries;
- c. The *Middle Line* connecting the strategic apex to the operating core by means of various formalised authority systems;
- d. The *Techno-structure* comprising the elements of the institution engaged in control-analytical tasks affecting standardisation and alignment of activities within the institution. These comprise essentially the following:
 - i. Strategic planning;
 - ii. In-house training;
 - iii. Work study/Order and Method (O&M);
 - iv. Quality assurance; and
 - v. Clerical/administrative tasks.

⁹ Adapted to institutional application from:
Mintzberg H. *The Structuring of Organisations* (Prentice Hall 1979) p 33

e. The *Support Structure* comprising all elements of the institution engaged in specialised tasks providing support to the institution outside of the operating work flow. These comprise *inter alia* the following:

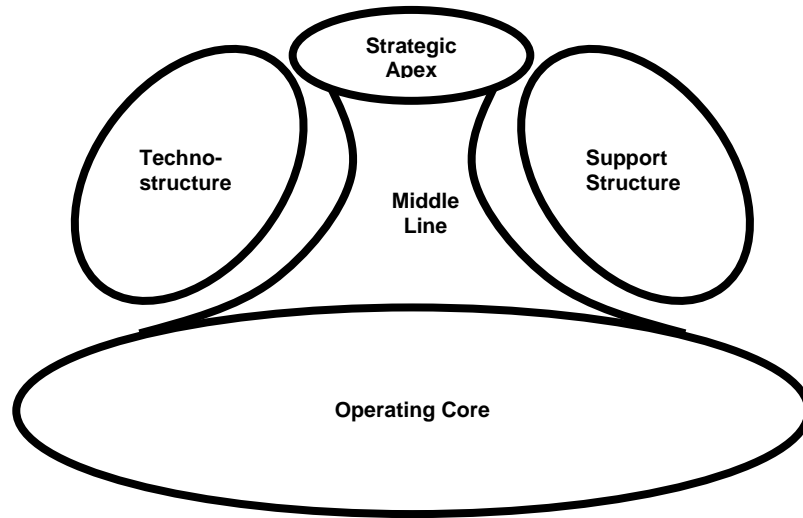
- i. Public relations and external liaison;
- ii. Research and development;
- iii. Knowledge management and e-Business applications; and
- iv. Other business support tasks.

Key determinants of institutional form within this broad scheme are reflected in Chapter 4: Addendum 1.

Five main structural institutional configurations have been identified¹⁰ of which essentially three typify institutional variants generally associated with local economic development governance. These are the divisionalised form comprising essentially a set of quasi-autonomous institutional arrangements coupled together by a central structure; the professional bureaucracy, an institutional arrangement typical in social work agencies, business service providers and professional consultancies providing standardised professional products or services; and the adhocracy, a highly organic essentially project-based structure encountered in circumstances calling for flexibility, multiple focus and innovation. Two further variants of the adhocracy present in practice namely the operational adhocracy suited essentially to innovation and the resolution of problems across institutional boundaries and the administrative adhocracy suited to an introspective activity focus. Whilst the former represents a mechanism for delivery or “doing”, the latter presents essentially an inwardly-focussed institutional vehicle for “facilitating” institutional growth and development. The defining dimensions of these three main institutional forms are amplified in Chapter 4: Addendum 2. In seeking to institutionalise business support arrangements within the context of local economic development the issue arises as to which of the institutional forms is the most relevant and appropriate.

¹⁰ Adapted to institutional application from :
Mintzberg H. *op cit* p 467

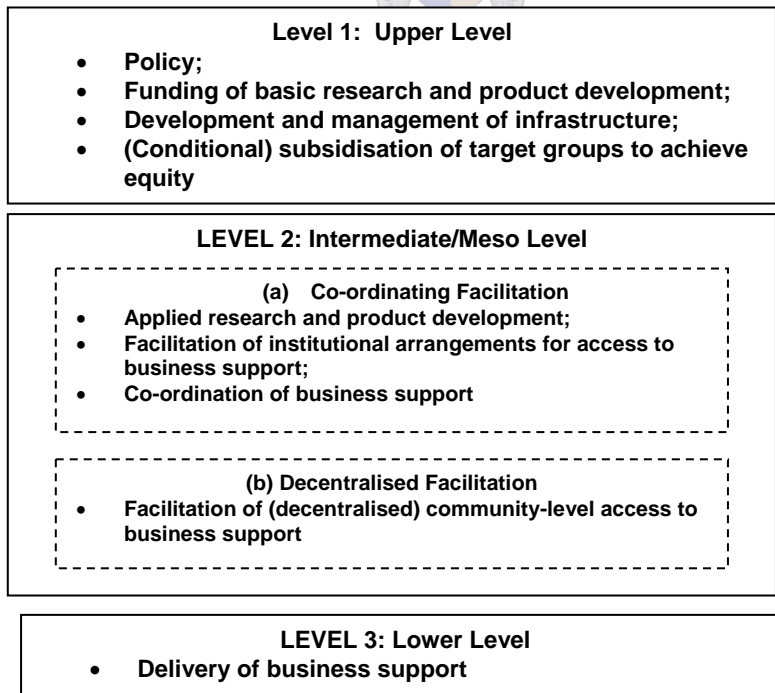
FIGURE 4-1: KEY ELEMENTS OF INSTITUTIONAL FORM



2.3 Vertical Separation of Roles in Business Support

The emerging paradigm established in Chapter 3 suggests the hierarchical disaggregation of good practice business support functions in accordance with the principle of subsidiarity¹¹ into essentially three levels as reflected in Figure 4-2. This has central significance from the viewpoint of the structuring of appropriate institutional vehicles for business support.

FIGURE 4-2: AN EMERGENT FUNCTIONAL HIERARCHY FOR BUSINESS SUPPORT



¹¹ Gibson A. Putting Principles into Practice in BDS: Where we are, where we are going and how to get there (Springfield Centre for Business in Development 2000) p 12

Past approaches have frequently suggested a confusion of roles on the part of various actors in business development with consequent implications for the quality, sustainability, coherence and relevance to its ultimate recipients, and particularly so to the emergent business community. The wide role of government in business support globally has proven to be particularly problematic, compounded as it generally is by the fact that clear distinctions have hitherto also not been drawn between support initiatives with a clear business objective, and those with essentially social welfare objectives. (Chapter 3) Emergent good practice suggests that a clear vertical separation of functions related to business development is an essential starting point in the institutional design of business service delivery systems.

3. Prevailing International Themes in Institutional Design of Business Service Delivery Systems

In the global context a number of institutional design variants manifest as components of more comprehensive business service delivery systems. These include the following:

3.1 Community-based Corporate Arrangements: Community Development Corporations (CDC's)

a. Introduction

The focus of interest on community development in the United States following the Civil Rights Movement in the 1960's brought with it the emergence of a variety of local-, regional-, state- and even multi-state support organisations (known as "intermediaries") as vehicles for addressing the economic marginalisation of large numbers of citizens, severe poverty, and urban decay in many inner-city areas. The result has been the emergence of a vibrant community development "industry" across the country comprising largely local grassroots organisations engaged in providing access to jobs, training and resources for local communities and integrating business support in various forms into a more comprehensive and holistic approach toward community development. This industry enjoys significant recognition and active support from all levels of government.

The seed of the community development movement was planted by a number of private- and federal initiatives to support the establishment of community-based development support- and promotion mechanisms. Most prominent amongst the classes of organisational arrangements that have emerged have been the so-

called Community Development Corporations (CDC's) established in terms of federal statute.¹² More recently, federal legislation¹³ has enabled the establishment of a new variant of CDC's known as Corporate Financial Development Institutions (CDFI's). Whilst CDC's and CDFI's are a feature of the local economic development canvas in the United States, corporate development institutions at community or local level are, however, not unique to North America. In Great Britain and other countries local authority development companies have been established to develop and manage workspace and business incubation facilities and to invest on a venture capital basis in new-, incoming (immigrant-) and existing businesses within the local municipal areas.¹⁴

The emergence of community-based corporate development initiatives has been lent great impetus in the United States by the passage of legislation that has required the formal banking sector in the United States to demonstrate performance in functional- and geographical areas formally "redlined" for the purposes of development funding.¹⁵ In terms of these arrangements banks' performance is monitored against set criteria, failure to meet which impacts upon the lending rating of the banks concerned. The approximately 3 600 CDC's and CDFI's have played a vital role in leveraging the resultant inflow of funds particularly into disadvantaged communities.

Whilst the emergence of corporate development institutions is the most strongly characteristic feature of the community development system in the United States, other organisational forms performing appropriate roles have also emerged as part of the total delivery system for community development. (Refer Table 4-1) In the United States corporate community development institutions therefore constitute a part, albeit the most prominent community based part of a diversified system of development support that includes business development support as an integral part of the institutional support arrangements for local community-based economic development.

¹² Economic Opportunity Act (1964)

¹³ Community Development Banking and Financial Institutions Act (1994)

¹⁴ Wigan Metropolitan Development Company (WMDC) Wigan Borough Council (1980)

¹⁵ Community Reinvestment Act (1977) (CRA)

TABLE 4-1: ORGANISATIONAL COMPONENTS OF A DELIVERY SYSTEM FOR COMMUNITY DEVELOPMENT ¹⁶

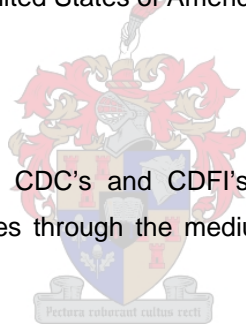
Category	Typical Examples
Community Development Corporations (CDC's)	<ul style="list-style-type: none"> • Housing Development Corporations; • Economic Development Corporations; • Comprehensive economic development corporations
Community Development Financial Institutions	<ul style="list-style-type: none"> • Community development credit unions; • Community development banks; • Community loan funds; • Community development venture capital organisations; • Community development micro-loan organisations
State, Local Government and Quasi-Government Organisations	<ul style="list-style-type: none"> • Local-, state- and regional government agencies; • Local- state and regional finance and community development agencies; • Regional planning commissions and councils of government; • Economic development districts (EDD's); and • Special purpose development authorities

b. Community Development Corporations (CDC's) and Community Development Finance Institutions (CDFI's)

The following generally typify corporate community development institutional arrangements in the United States of America:

i. Governance

The many variants of CDC's and CDFI's typically are accountable to local communities themselves through the medium of appropriate community-based governance structures;



ii. Focus

CDC's and CDFI's typically are vehicles for the implementation of local community-based economic development strategies controlled by communities themselves. They are thus instruments for the practice of participative local economic development governance at the community level. They typically target activities to benefit disadvantaged communities/groups, specifically with a view to creating new economic opportunities within these communities;

¹⁶ Phillips R.L. Promotion of Best Practices in Community Economic Development (Annexure 1): History and Profile of the Community Development Industry in the U.S. (USAID 1999) p 103

iii. **Approach**

These institutions are typically highly flexible and locally based and interface with both the public- and private sectors, leveraging funding into communities and bridging the gap to those requiring resources. Their activities generally include:

- Financial and technical assistance to emergent business;
- Housing development;
- Property development;
- (Certain) Community facilities;
- (Certain) education and training;
- Consumer lending; and
- Community infrastructure and asset-building initiatives.

In the United States community development is approached in a businesslike essentially transactional manner and is generally conducted within the parameters of a business performance management regime.

iv. **Establishment and Intermediation**

Whilst local-, state- and federal government has played an important role in facilitating the genesis of the community development industry in the United States the advocacy role both with federal government and the private sector in pursuit of private- and public capital for housing, property- and micro-enterprise development has been important. This intermediation role has been played by various national- and state-level enterprise development-, community development- and venture capital associations and organisations;

v. **Funding**

CDC's and CDFI's operate essentially as non-profit organisations. Because of the diversity of their operations and particularly as a result of their focus in many cases on the redress of social problems and -inequities within communities CDC's and CDFI's are generally not self-sustainable, although the degree of self-sustainability varies according to the activities in which the particular organisation engages. The Small Business Association (SBA) and the U.S. Treasury sponsor the CDFI programme and CDFI's are able to access core funding of certain of their lending operations from federal government sources. The capacity of CDC's and CDFI's to leverage funding for community development has been closely associated with the application of the Community Reinvestment Act (1977)

(CRA) and the associated obligation upon the banking sector to divert funding into community development particularly in areas formally spurned (“redlined”).¹⁷ CDC’s typically draw funding from a number of sources but with the majority preponderance receiving some form of funding from Federal Government, State Governments, Banks and Foundations as indicated in Table 4-2.

TABLE 4-2: TYPICAL SOURCES OF CDC/CDFI FUNDING¹⁸

SOURCE	% of CDC's receiving > \$50 000 in Grants, Loans and Investments	
	1998	1995
Federal Government	90	77
State Government	46	51
Banks	49	48
Foundations	46	45
Local Government	31	40
Intermediaries	41	27
Religious Institutions	13	15
Other	12	-

c. Neighbourhood Equity and Trust Corporations (NETC's)¹⁹

Typifying the local economic development landscape in the United States and in keeping with the developed entrepreneurial spirit in many communities is a variety of so-called neighbourhood equity- and trust corporations (NETC's). A neighbourhood equity and trust corporation is a publicly traded, for-profit stock corporation under the control of community entrepreneurs, residents and businesses that is limited by charter to a defined local neighbourhood area. Such corporations are uniquely American and typify a wide class of neighbourhood organisations and neighbourhood stock corporations (NSC's) within communities that serve entrepreneurial interests as an extension of neighbourhood- and community interests and of the imperative for community development not as an act of charity but rather through the creation of local individual wealth.

NETC's typically link private capital, private sector know-how and -technology with local neighbourhood entrepreneurs that have ideas and neighbourhood knowledge to produce returns for stockholders and for the neighbourhood at large. Increasing the economic value created and retained in communities (the so-called "gross community capital" or "GCC") through the pursuit of profit, the application of sound business principles and the mobilisation of "street equity" lie at the centre of their business strategy. For the purpose “gross community capital” (GCC) is generally taken to include physical neighbourhood assets

¹⁷ Practitioners' Working Group (PWG) Final Report: Promotion of Best Practices in Community Economic Development (USAID 1999)

¹⁸ National Congress on Community Economic Development (Washington D.C) (1999)

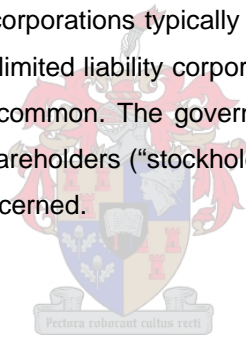
¹⁹ Solari Inc A Design Book for Neighbourhood Stock Corporations Version 1.3 (1998)

including buildings, land, roads, and other amenities; human assets reflecting demographic features, skills, education and experience resident within communities; income reflecting neighbourhood personal income, local business profits, and inflows from such sources as government programmes; community “fabric” reflecting ties that bind the community together such as churches, schools, clubs, and other social structures and networks; and unique community assets reflecting locational advantages, unique neighbourhood attractions, and other unique characteristics of individual communities.

In the course of their operations NETC's typically aim to provide entrepreneurial support and a wide range of business development services, including incubation services and venture capital within neighbourhoods to residents of those neighbourhoods as a first priority and to others outside the boundaries of those neighbourhoods as a lower priority.

i. **Structure and Governance**

Neighbourhood stock corporations typically take a variety of forms ranging from sole proprietorships to limited liability corporations, although incorporation in one or other form is most common. The governing structure typically is a board of directors elected by shareholders (“stockholders”) who generally are residents of the neighbourhood concerned.



ii. **Objectives**

Typical objectives of neighbourhood stock corporations are to:

- Provide continuous learning and neighbourhood performance feedback;
- Align neighbourhood incentive systems, including community control/ownership of property;
- Organise neighbourhood consumers to optimise delivery of public- and private goods and services;
- Increase community productivity and re-engineer the community import/export ratio;
- Provide goods and services such as management services, data servicing, product development networking, accounting and tax consultancy, telemarketing, and legal services to the neighbourhood and others;
- Create incentives for neighbourhood networking;
- Share corporate- and public risk in dealing with the community;

- Reduce neighbourhood cost of living; and
- Facilitate business incubation, venture investment and business lending.

3.2 Local Economic Development Agencies (LEDA's)

a. Introduction

The first local economic development agencies (LEDA's) were established in Western Europe in the late 1950's. The number has now multiplied to in excess of 500. Canada, the United States and Australia also have introduced LEDA's. In the United States the broad designation "LEDA" may be taken generally to include the relevant categories of CDC's and CDFI's described in paragraph 3.1 *supra*. Since the opening up of Eastern Europe that began in the early 1990's LEDA's have also emerged in former Eastern Bloc countries. Since the early 1990's LEDA's have increasingly begun to form part of the emerging developmental landscape of developing countries.²⁰

LEDA's typically have contributed significantly to local economic rejuvenation, the mobilisation of developmental resources and the setting up and support of (emergent small) businesses in Europe. Their role in small business support, the efficient use of local resources, and the provision of professional and entrepreneurial training has been particularly significant in the transformation of the former Eastern Bloc economies. 150 European LEDA's constitute a network known as EURADA whose function is:

- To represent LEDA's to national governments as well as to European institutions;
- To promote the LEDA concept;
- To exchange experiences; and
- To facilitate an international dimension for LEDA's.

Local economic development agencies particularly are proving to be an increasing force for the support of local businesses and disadvantaged regions and communities in product development, marketing, improving local competitiveness and exploiting the advantages offered to communities by globalisation.

²⁰ Saublens C. Preface to "Local Economic Development Agencies: International Co-operation for Human Development, Economic Democracy and Poverty Reduction" (ILO/UNOPS/EURADA 2000)

b. Features, Structure and Governance^{21,22}

Local economic development agencies have arisen to serve many and varied circumstances. As a result they do not adhere to a fixed form or model but are adapted to the specific needs of the environments and communities they serve. They do however share certain common features and characteristics.

i. Essential Features of LEDA's

LEDA's share the following common features:

- They are non-profit organisations. LEDA's characteristically have their own legal *persona* and functional autonomy and typically involve local interests from both the public- and private sectors and provide a variety of "one-stop" services to businesses in the areas of finance, technical assistance, entrepreneurial training, and "territorial" services such as managed workspace and the like;
- They have an autonomous and democratic quality. Whilst the public- and private sectors participate, the LEDA is not accountable to individual parties but to a general assembly representing community interests;
- They are contractual entities with independent access to funding, to subcontracts and to national and international programmes;
- They are also administrative entities with the capacity to implement projects and to provide services and credit;
- They are territorial entities in the sense that their activities are confined to local geographical areas and communities where they provide the vehicle for community-based decision making on developmental issues and the management of local development processes;
- They constitute a platform for social dialogue where local actors are able to promote local perspectives and imperatives for local economic development;
- They typically co-ordinate local economic development planning and implementation

²¹ World Bank Local Economic Development: The Role of Local Economic Development Agencies (LEDA) (2001)

²² van Empel C. Local Economic Development Agencies as an Instrument to Promote Job-creation in Europe (ILO 2001)

ii. **The Operation of LEDA's**

These agencies typically assemble (local) actors to design strategies for local economic development; indicate most promising sectors, priority interventions and their configurations; serve as vehicles/agents for sharply focussed interventions aimed at particular groups or communities; provide technical assistance to local administrations/ governments responsible for planning; promote entrepreneurial culture and assist and mentor entrepreneurs; and assist local businesses during start-up and initial establishment phases through:

- Business planning;
- Provision of business credit; and
- Post-financing assistance;

LEDA's typically develop collaborative inter-sectoral relationships and co-operation amongst interest groups toward shared objectives and promote free and fair competition among healthy businesses.

iii. **Governance**

Governance structures of LEDA's comprise a representative form of "general assembly" to determine policy and an executive "board" to handle administration, regulation and day-to-day management decision making.



The general assembly typically is composed of representatives of:

- Community groups and civic associations;
- Trade unions;
- Producer organisations;
- Business associations;
- Business service centres and service providers;
- Local government;
- Local offices of national and regional ministries;
- Special purpose development vehicles (SPDV's) such as community development corporations;
- Banks and financial institutions; and
- Local universities and training institutions.

The executive board on the other hand is accountable to the general assembly in a defined way and typically consists of between 5 to 10 members elected by the general assembly with an office of 1 or 2 years;

iv. Operational Structure

The operational structure of the LEDA provides the board with support and the capacity to implement policy as determined at the governance level. Typically operational structures comprise the following elements:

- A chief executive officer appointed by and accountable to the board;
- Professional and administrative staff. Generally structures of this nature tend to be sparsely staffed in accordance with their functions, relying upon the capacity present in other stakeholder entities within the business support system;
- A physical facility combined in some cases with satellite facilities providing the loci of service delivery.

v. Objectives

Common objectives of LEDA's are as follows:

- Fostering the economic development of a local area or community for which they have been constituted;
- Capitalising on local resources;
- Focussing attention on those groups with most problematic access to regular economic and financial circuits;
- Fostering the development of a shared vision of local economic development and the integration and coordination of the efforts of local institutions and -associations in support of the achievement of that vision;
- Creating an entrepreneurial culture and promoting (local) business, and particularly SMME business;
- Facilitating the planning and development of an infrastructure- and services web appropriate to local economic development; and
- Focussing attention on identifying and addressing local poverty traps.

Instances of LEDA's in Great Britain are provided by Scottish Enterprise and the Highlands and Islands Enterprise (Chapter 4: Addendum 3)

3.3 Community Enterprise Development Centres (CEDC's or EDC's)

a. Introduction

Community enterprise development centres (also referred to as "enterprise development centres", or more recently in some instances as "business-" or "enterprise centres") are encountered in a number of countries variously as physical or virtual manifestations of the application of the LEDA concept. Their focus is essentially on the promotion of local entrepreneurship and local enterprise development in the context of more comprehensive local economic development (LED) plans and programmes within communities.

b. Features, Structure and Governance

i. Essential Features

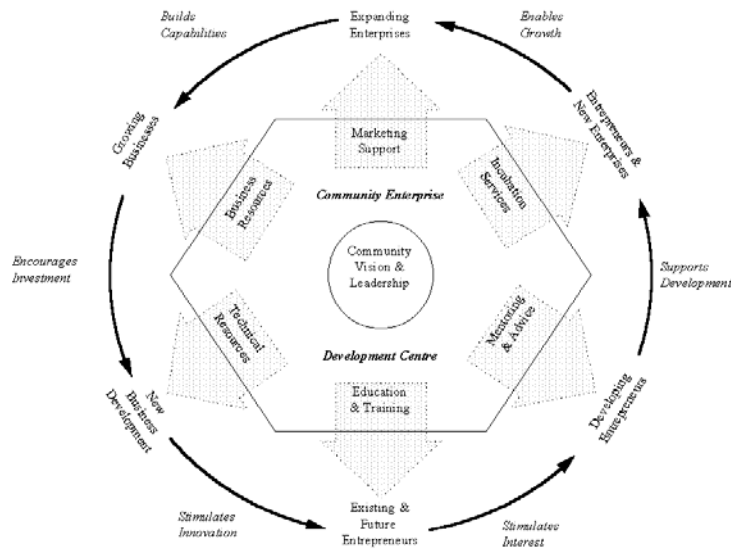
A community enterprise development centre (CEDC or EDC) typically is a community-led initiative to expand the availability and effectiveness of entrepreneurial- and enterprise development resources in a given community. It provides a physical- or virtual focus within the community for enterprise development-related activities. To be effective experience suggests that CEDC's should have a distinctive and public presence within the community. They should be accessible to the communities they serve and be user friendly.

The central operative concept of enterprise development centres is to link, integrate and expand upon the range of enterprise development resources available at the community level. A conceptual model of the class of arrangements typically known as EDC's and embodying the elements typically encountered in practical application of the concept in various forms throughout the world is reflected in Figure 4-3.

The concept provides the locus for focussing and linking private- and public resources and efforts toward enterprise and entrepreneurship development within target communities. The secondary focus of enterprise development centres within the communities they serve varies according to local circumstances. In some instances the focus is on the support of all business activity. In others it is on the support of emergent business, and in yet others on

the support of specific sectors. The latter variant enables a significant degree of specialisation within the relevant EDC.²³

FIGURE 4-3: A CONCEPTUAL MODEL OF A COMMUNITY ENTERPRISE DEVELOPMENT CENTRE²⁴



ii. Focus

The focus of EDC's typically is on the following aspects:

- Education, training and skills development for businesses and educators as well as for the community at large in the areas of market-focused training, seminars, workshops and conferences;
- Mentorship resources provided by centre staff as well as on-line experts for example in process design, marketing, finance, business planning and inventory management;
- Incubation services offering affordable workshop space/office space to new organisations or providing administrative and other support resources on a shared-use basis;
- Marketing support including local and global information databases and linkages with local, national, and international marketing initiatives;
- Business resources provided through link-ups with economic development agencies, business and community groups as well as individual enterprises; and

²³ Oldsman E.

Making Business Development Work Lessons from the Enterprise Development Centre in Rafaela, Argentina (I-ADB 2000) p 18

²⁴ WESTARC Group *et al*

Appendix G to Phase 1 Report to the CEDC Management Committee: A Model of a Community Enterprise Development Centre (1998) p 2

- Technology resources that could include shared access to on-line subscription information services, information location and sourcing, technical advisory support and referrals for example to specialised research and development groups and laboratories.

Services are typically provided through the medium of EDC's to individual businesses, to *ad hoc* groups of businesses or to structured business collectives.²⁵ Such groupings or collectives may be either sectoral or non-sectoral depending upon the shared common business services needs of the businesses concerned.

Significantly the EDC approach has typically seen the separation of financial- and non-financial functions (Refer Chapter 3), with the EDC's tending to focus more sharply on providing non-financial services and acting as a conduit through which businesses are able to access "linked-up" financing through specialised but distinct financial delivery mechanisms.

iii. The Character of EDC's

EDC's vary in character from the highly formalised to the relatively informal depending upon the needs and sophistication of the communities they serve. The more formalised EDC's typically are:

- Institutional entities with their own legal *personae*. In many if not most cases EDC's are private entities;²⁶
- Non-profit organisations. Particularly in developed countries EDC's have been largely linked to more comprehensive local economic development (LED) initiatives. Their activities have typically been subsidised in an environment where subsidies have become an institution and where considerations of affordability and sustainability have been less of an issue than in the developing countries. In various applications of the EDC approach in developing countries greater emphasis on such issues as operating efficiency and financial self-sufficiency is, however, emerging.²⁷ At a more fundamental level the question is increasingly posed as to how effectively organisations such as EDC's can promote business and "businesslike" activities when their own approaches are not "businesslike",

²⁵ Tabuença A.G. *et al.* Enterprise Development Centres: Evaluation Results and Lessons Learned in Four projects in Latin America (ILO/I-ADB 1998) p 11

²⁶ Tabuença A.G. *et al.* *Op cit* p 2

²⁷ Oldsman E. Making Business Development Work: Lessons from the Enterprise Development Centre in Rafaela, Argentina (I-ADB 2000) p 1

that is, when they themselves are not subject to the very regime that they seek to establish in the community they serve.²⁸

- Providers of a variety of “one-stop” services to businesses in the areas of finance (largely referral services), technical assistance, entrepreneurial training, and “territorial” services such as managed workspace- and incubation facilities;
- Contractual entities with independent access to funding, to subcontracts and to national and international programmes;
- Administrative entities with the capacity to implement projects and programmes and to provide services and credit;
- Physical or virtual entities with with physical and/or electronic sites of operations; and
- Autonomous and democratic. Whilst the public- and private sectors participate EDC’s are typically not accountable to individual parties but through appropriate representative governance structures to the community they serve.

iv. **Structure and Governance**

In practice EDC's have evolved according to the circumstances, perspectives and needs of the communities they serve. They may start as relatively informal arrangements with informal co-ordinating and organisational structures. However as centres assume financial and contracting functions in particular greater formalisation is required. The more formalised variants of CEDC's or EDC's typically comprise:

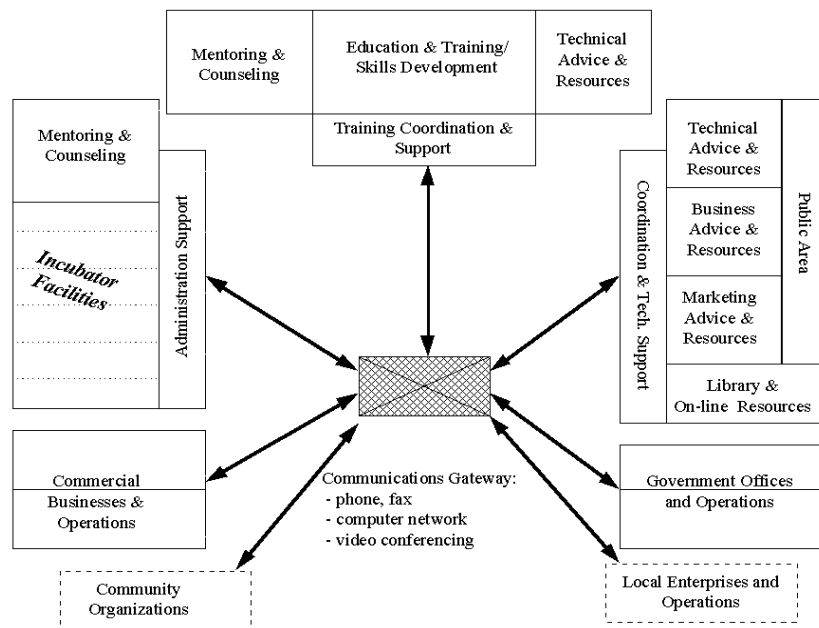
- A community-based governance structure such as an executive board with the authority to direct the activities of the centre. Business membership organisations (BMO's: Refer Chapter 3) and local trade associations characteristically have played a role in governance structures of EDC's; and
- An operational structure comprising management; facilities (physical and/or virtual); specialist and administrative staff as appropriate; structured access to consultants and other providers of outsourced services; and satellite (outreach) or mobile facilities serving target communities.²⁹

²⁸ Gibson A. Putting Principles into Practice in BDS Where we are, Where we are going, and How to get there (Springfield Centre for Business in Development 2000) p 25

²⁹ Kennedy R.M. Case Study of Three Romanian Business Centres (UNIDO 1999)

Typical components of the operational structure of an EDC/CEDC are reflected in Figure 4-4. These components may either be located wholly or partially together at a single physical site according to the principle of "co-location"³⁰, at multiple physical sites, or as a virtual facility (ies). In all cases the essential defining feature of a CEDC is the high level of connectivity and effective integration between the activities of the component elements allowing seamless "one-stop" access to the business development support services.

FIGURE 4-4: TYPICAL OPERATIONAL COMPONENTS OF STRUCTURE OF A COMMUNITY ENTERPRISE DEVELOPMENT CENTRE³¹



v. Objectives

EDC's typically share the following objectives:

- Enhancing linkages, supporting co-ordination and encouraging co-location amongst community-based organisations and relevant local governmental agencies that have a role to play in entrepreneurship- and enterprise development activities or whose activities are directly relevant to the conduct of business in communities;
- Providing a physical and/or virtual focal point for enterprise- and entrepreneurship activities in the community. In developing third world

³⁰ WESTARC Group *et al* Appendix G to Phase 1 Report to the CEDC Management Committee: A Model of a Community Enterprise Development Centre (1998) p 2

³¹ WESTARC Group *et al* Appendix G to Phase 1 Report to the CEDC Management Committee: A Model of a Community Enterprise Development Centre (1998) p 3

communities physical rather than virtual presence is the major operational consideration;

- Achieving critical mass synergy in entrepreneurship- and enterprise development activities through the concentration or "crowding-in" of development resources in the community;
- Providing a visible, local and accessible "first stop/one-stop" portal for information, access to business services and expertise;
- Stimulating the demand for, and sustainable supply of, quality business services to the local business community;³² and
- Achieving appropriate- and relevant outreach to those elements of the local population in the service area that are under-served.³³

vi. Funding

EDC's as they have evolved in the developed countries of Western Europe generally have not been run on a for-profit basis and their funding takes a variety of forms. In such countries as the United Kingdom it has been suggested that business support systems in totality have taken the form of rambling bureaucracies of questionable efficiency, generously publicly core-funded and with transparent political objectives³⁴:

As a general rule establishment costs are provided by local- regional or national government by way of specific funding programmes for local economic development, and through donor programmes. A variety of approaches are encountered in practice, from full-cost subsidisation of establishment cost to co-operative funding by government and communities on a proportional basis.³⁵ Funding of operating costs takes various forms depending upon the specific application.

Variants of operational funding of business development services typically include:

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- ³² Tabuença A.G. *et al.* Enterprise Development Centres: Evaluation Results and Lessons Learned in Four projects in Latin America (ILO/I-ADB 1998)
- ³³ Oldsman E. Making Business Development Work: Lessons from the Enterprise Development Centre in Rafaela, Argentina (I-ADB 2000) p 2
- ³⁴ Gibson A. Putting Principles into Practice in BDS (Springfield Centre for Business in Development: 2001) p 6
- ³⁵ Tabuença A.G. *et al.* Enterprise Development Centres: Evaluation Results and Lessons Learned in Four projects in Latin America (ILO/I-ADB 1998) p 5

- Core- and service programme funding by local-, regional and national governments and donors including development agencies and large enterprises or foundations);
- Fees for services;
- Fee differentials arising from services acquired from contracting external business consultants and service providers and on-sold to clients;³⁶ and
- Sponsored services. Many EDC's in developed countries provide services on a significantly subsidised basis, with the relevant subsidies typically financed by government.

In many instances in developing countries where the market for business services is not highly developed, the initial uncertainty of generating income from the sale of services by EDC's advises against having project completion depend upon income generated from this source alone and co-funding of operating costs particularly by government or other donor agencies is indicated. In the more developed countries of Latin America for example up to 55% of costs are typically covered by donor agencies (including government) whilst 45% are contributed by local entities and the EDC itself in the form of "local counterpart funds".

Training and skills development is typically funded by means of:

- Core- and service programme funding by local-, regional and national governments and donors (development agencies and large enterprises or foundations);
- Contract fees from public- and private sector organisations for services rendered; and
- Charges for conferences and events and the use of centre facilities.

Rental- and user fees typically augment core- and service programme funding of incubation facilities and programmes and managed workspace.

vii. Networking of Community Enterprise Development Centres

The promotion of EDC's at community level serving individual communities within a local area or region raises a number of questions as to the nature and level of interactivity between them. In particular it has raised the issue of the nature and character of the functional- and institutional network support vehicles

³⁶ Tabuença A.G. *et al.*

Enterprise Development Centres: Evaluation Results and Lessons Learned in Four projects in Latin America (ILO/I-ADB 1998) p 5

required for the promotion and/or ongoing support and maintenance of systems or networks of EDC's. Typically such networks can themselves take the form either of virtual institutional arrangements or associations, or of more formally defined and structured arrangements around specific joint capabilities – a form of so-called “structured networking”.

Typically EDC networks can and do develop according to either of the following models, with possible variants of emphasis in the range between:

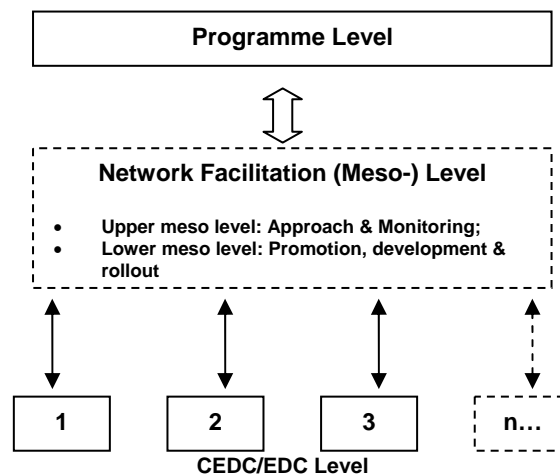
- The "bottom-up" model with individual autonomous EDC's providing the impetus and resources leading to the development of specific collective network capabilities that are required by all member EDC's and that are adjudged to be better and more efficiently provided or accessed collectively; or
- The "top down" model, generally driven by government policy imperatives, co-operative NGO action and/or other donor support where active locally- or regionally centralised facilitation of the establishment of EDC's at community level takes place within a larger local area such as a city, large town or region on a relatively more structured basis.³⁷

Three distinct hierarchical functional levels are typically evident in EDC network formation namely: (Figure 4-5)

- The programme level. Local- regional- or national government and/or donor organisations are particularly prominent at this level in "top-down" energising-, steering- and mediation processes leading to network formation;
- The network level where network facilitation and maintenance takes place; and
- The EDC level where services are delivered.

³⁷ Tabuença A.G. *et al.* Enterprise Development Centres: Evaluation Results and Lessons Learned in Four projects in Latin America (ILO/I-ADB 1998)

FIGURE 4-5: HIERARCHICAL SEPARATION IN EDC/CEDC NETWORKS³⁸



viii. Network Support Services

Particularly the "top-down" model for network development based on an externally driven dynamic suggests a requirement for the following services to be conducted at the network level: (Refer Chapter 4: Addendum 4)

- Implementation support services. Such services are typically required by communities to enable them to establish community EDC's. They represent the key initial "facilitation" or "seed" activities ultimately leading to network formation;
- Consolidated services. These typically involve generic or "shared" services to communities/community EDC's that can be provided more cost-effectively at the network level than at the individual community level. Such support services can for example be provided by support vehicles or network platforms specifically created for the purpose; and
- Agency services. These services typically involve the ongoing identification and development of opportunities for external interaction to the benefit of the network.

ix. Institutional Arrangements for Network Facilitation and Support

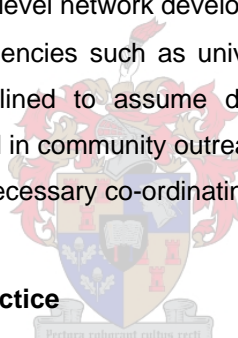
A variety of institutional arrangements emerges for the facilitation and maintenance of EDC networks. The common characteristic defining good practice is the employment of an approach that features community-based leadership and control. Prominent as vehicles for the institutionalisation and

³⁸ Tabuença A.G. *et al.* **Op cit**

management of network formation and support are agencies specifically tasked for the purpose and including:

- Local executive agencies in the form of foundations or other non-governmental or donor agencies with the necessary capacity to undertake network development on an agency basis or business management organisations or trade associations (BMO's) that are delegated the agency function for network development. Where representative business organisations are strong and have the capacity, and where their culture of active engagement in the business affairs of the community is developed, business membership organisations have individually or in association successfully assumed the role of national-, regional- or local facilitators of EDC establishment and networking.³⁹ The engagement of trade associations tends to become more prominent where EDC's are more specialised and have a sharper industry- or sectoral focus;
- National- or Regional Enterprise Development Centres⁴⁰ as resource centres for local-level network development and support; and
- Other private agencies such as university business schools where such schools are inclined to assume delegated functions and to become actively engaged in community outreach activities and where they are able to assume the necessary co-ordinating and facilitative role.^{41,42,43}

x. EDC's in Practice



Local Enterprise Companies (LEC's) in the Scottish Enterprise Network provide an instance of the application of the EDC concept in Europe. Scottish Enterprise operates at community level through 12 LEC's, each with its own locally-based governance structure. These 12 LEC's form the main points of community contact and entry into the Scottish Enterprise service network. They are autonomous not-for-profit enterprises functioning within the Scottish Enterprise support network, and funded by Scottish Enterprise.

³⁹ Tabuença A.G. *et al.* Enterprise Development Centres: Evaluation Results and Lessons Learned in Four projects in Latin America (ILO/I-ADB 1998) p 4

⁴⁰ UNCTAD Empretec (1999)

⁴¹ Tabuença A.G. *et al.* Enterprise Development Centres: Evaluation Results and Lessons Learned in Four projects in Latin America (ILO/I-ADB 1998) p 4

⁴² Kennedy R.M. *et al* Case Study of the Operation of Three Romanian Business Centres (UNIDO 1999) p 1

⁴³ Glas M. Entrepreneurship Centres at Universities: Comparison of Canada and Slovenia (IntEnt98 1998)

The term "business development centre" or "business centre" has been used together with other terminology such as "EDC" or "CEDC" by many agencies and in many contexts where it has applied to a variety of local business development institutions albeit with common themes. However, more recently the term has become strongly synonymous with the particular approach developed by Swisscontact in Peru and Ecuador in 1994 and later replicated in Indonesia and in other developing countries.⁴⁴ It has become most directly synonymous with a particular intervention, referred to generally as the "business development centre approach" aimed less at the mere subsidised provision of business services *per se* as has predominated approaches to EDC's and similar institutions in developed countries in the Northern Hemisphere. Rather, the approach aims at establishing mechanisms for the delivery of demand-led, sustainable and competitive business services particularly in areas where such services are absent or are deficiently provided by existing commercial business service providers.⁴⁵ With the increasing focus on the market development approach to the provision of business development services as discussed in Chapter 3 a number of EDC's, CEDC's, business centres and other local development support institutions in developing countries are inclining toward variants of the "business centre approach" as it has evolved from its beginnings in Peru and Ecuador.⁴⁶ The Swisscontact approach represents at once both a process- and an institutional dimension to the establishment of mechanisms for the delivery of business support services in accordance with the emerging new market development paradigm. In an important sense therefore the business centre approach as it has emerged in Peru and Ecuador has heralded a watershed in the practical development and implementation of institutional mechanisms and - approaches for the delivery of business support in developing communities characterised by relatively underdeveloped markets for business development support services. A more detailed exposition of the Swisscontact approach is provided in Chapter 4: Addendum 5.

3.4 Lessons Learned

Experience with the Swisscontact approach in particular has suggests a number of lessons that can serve to guide the development and support of business development institutions:

-
- ⁴⁴ Swisscontact The Business Centre Approach in Indonesia and the Philippines (ILO 2000)
- ⁴⁵ Gibson A. Putting Principles into Practice in BDS Where we are, Where we are going, and How to get there (Springfield Centre for Business in Development 2000) p 25
- ⁴⁶ Oldsman E. Making Business Development Work: Lessons from the Enterprise Development Centre in Rafaela, Argentina (I-ADB 2000) p 8

- a. Business centres are more successful when they have on offer a specific product they know how to deliver and that is in demand by the business community they serve. "Weak" business centres for example in the Philippines typically have not had a strong product offering and recent thinking in Indonesia has emphasised the importance of working with individuals with some specific service to offer as the core around which business centres may be developed;⁴⁷
- b. While sub-contracting is a valid means of delivering services generally, business centres should not only be referral points but also retain some in-house delivery capacity. Business centres that have no capacity to deliver, no matter how limited, may be perceived and act as empty "shells";⁴⁸
- c. Business centres are more likely to be successful if they have a capacity to deliver services and a strong business instinct from the outset on which they can build. Business centres at start-up and with little expertise are most vulnerable;
- d. Business service providers and business centre operators typically tend to behave rationally as (small) businesses in their own right. Business service providers should therefore be regarded and treated as businesses in their own right;
- e. Management capacity at business centre level is critical as is the capacity to innovate - that is, their entrepreneurial character. As in the case of any small business, motivation and "ownership" are crucial. Training and development of business centre management is important, as is the appointment of the correct personnel. However, in common with emergent business generally business centre operators/managers tend to discount their own training against the need to generate income. Training and building of own capacity are perceived in having an opportunity cost in terms of income foregone;
- f. The Swisscontact approach is essentially a supply-side approach to market development. It must therefore be accompanied by demand-side measures to achieve balanced development of the market for business development services. (Refer Chapter 3);
- g. Because of their size business centres in the Swisscontact experience typically have tended to specialise in their product offerings. They have tended therefore to offer a limited range of specialised services with which they are comfortable, rather than a mix of business service products that will require them to move out of their comfort zone;

⁴⁷ Swisscontact: *Op cit*

⁴⁸ Swisscontact: *Op cit*

- h. Product development and ongoing network support is required that cannot be provided on an ongoing basis by NGO's or donor agencies alone. The need has thus been identified for the development of a second-tier of intermediate service institutions or vehicles capable of responding to the needs of business centres themselves and other business service providers. The role of this intermediate tier equates to network facilitation specifically through the capacitation not of the ultimate client businesses themselves, but of those businesses specifically engaged in providing business development services into the market;
- i. The respective roles of programme-level business centre network development and of facilitation of the establishment of individual business centres at the facilitation level must be clearly separated. Whilst typical business development objectives such as impact and outreach are characteristic of the programme level, at the facilitation- and the service provider levels profitability and hence sustainability of individual business centres are key drivers of successful and sustained business support service provision;
- j. The issues of donor funding of business start-ups, and of implied subsidy albeit on a limited and transactional basis, remain relevant particularly where it is applied, as in the Swisscontact case, to the development of private business centre enterprises owned by individuals rather than by the community. The question remains as to whether, if business service provision is to be "businesslike", business centres should not, as do micro-finance institutions, look to private sector funding. The Swisscontact approach has many of the characteristics of "matching grant" subsidy schemes as applied in the U.K and elsewhere with ambiguous results,⁴⁹ and
- k. Typically clients served by the system of business centres already resulting from the Swisscontact approach are small- to medium sized enterprises with potential for growth rather than subsistence-level micro-enterprises. The Swisscontact approach is therefore not an instrument for direct poverty alleviation. However, experience of the application of the approach in Indonesia has indicated the potential of business centres as vehicles for the implementation of donor- or government-funded subsidised service provision to micro-enterprises and other target groups. There are, however, substantial risks that unless the protocols whereby they carry out such agency arrangements are carefully determined such

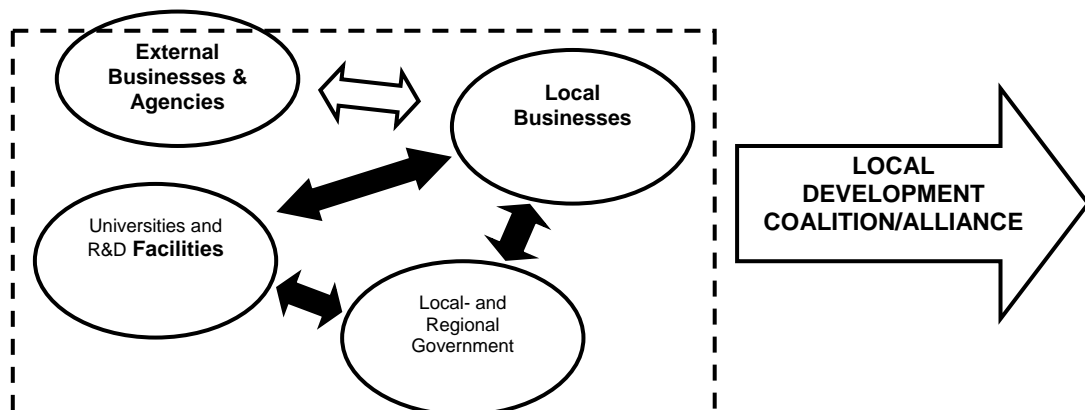
⁴⁹ Gibson A. Putting Principles into Practice in BDS: Where we are, Where we are going, and How to get there (Springfield Centre for Business in Development 2001) p 28

programmes can be diverted from their course.⁵⁰ Ways of avoiding or reducing distortions due to subsidisation of the activities of business centres could be achieved through the payment of an agency- or management fee to the business centre for the delivery of subsidised services to target groups and tied to strict performance requirements or demand-side subsidies where the client is subsidised directly as with a voucher system such as discussed in Chapter 3.

4. Institutional Implications of the Local Economic Development Approach

Emerging good practice suggests that successful business development within the local- and community context cannot be pursued or achieved outside of the context of a more comprehensive and integrated approach to local economic development (LED). (Chapter 3) The parallel development of thinking in the area of local economic development (LED) therefore also needs to inform the business development support paradigm particularly insofar as institutional development and local economic governance are concerned. The complexity of local economic development issues, and with them of business development support, reflects the need for a high level of connectivity and interactivity with and between the elements typically comprising local economic- and business development coalitions and -systems. (Figure 4-6)⁵¹ This clearly has implications for the institutionalisation both of local economic development and of business development to the extent that systems serving these ends must support formalised, structured and institutionalised community participation in all developmental processes in what in effect is an institutionalised participative local economic governance model.

FIGURE 4-6: TYPICAL COMPONENTS OF A LOCAL DEVELOPMENT COALITION



⁵⁰ Hitchens R. The Business Centre Approach to Business Development Services: Assessing the Approach of Swisscontact in Latin America and Asia (Swisscontact 1999)
⁵¹ Glas M. Municipalities and Business Development (SEED 2001) p 10

5. Emerging Systems Design for Business Development Support

5.1 Good Practice Institutional Design Features for the Management of the Local Business Economy in Local Economic Development (LED)

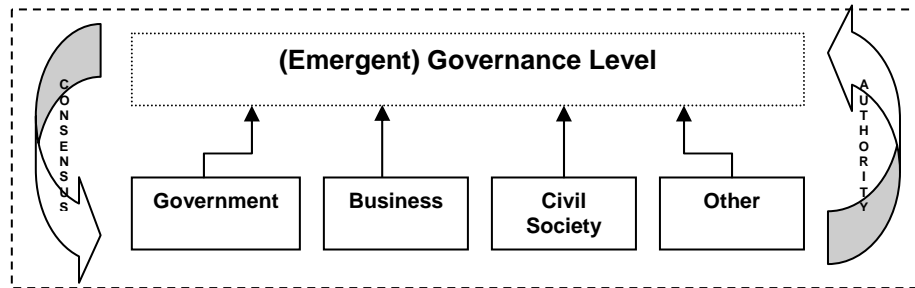
If a local business economic system is approached as an institutional entity, application of the Mintzberg institutional design scheme⁵² to typical good practice systemic responses to business support needs within the context of an integrated local economic development (LED) approach suggests the following key good practice institutional design features:

a. The *Strategic Apex*

In practice formal, statutory systems of representative government are increasingly being augmented and enhanced by participatory non-statutory arrangements in an inclusive developmental governance model in which government *per se* is merely another player, albeit at times an important one. The emerging requirement is for a strategic apex comprising formal representative- and accountable governance elements as well as relatively less formal participative elements providing in concert for the accommodation of a wide range of collective stakeholder interests. What is emerging as a feature of democratisation within a number of progressive developing communities is an institutional model for local and regional developmental governance that has incorporated a governance level above the level conventionally occupied by government. This provides institutional substance to the emerging new public management role of government in economic developmental governance. Indeed a formalised institutionalised governance role particularly for non-statutory mechanisms such as forums and alliances is an emerging good practice feature of progressive development initiatives. The emerging institutional form is reflected schematically in Figure 4-7. These features reflect the increased institutional accommodation of integrative consensus-seeking devices at a level removed from formal or statutory authority but in such a manner as not to compromise such formal authority. This needs to be accommodated in the formalisation of the design of institutionalised systems for the management of business economic development within the context of a local economic development (LED) framework.

⁵² Refer paragraph 2.2 above.

FIGURE 4-7: THE EMERGING SOCIO-ECONOMIC GOVERNANCE APEX



b. *The Operating Core*

The emerging market development paradigm places less emphasis at the systems level on the collective delivery by the network mechanism **per se** of business support than upon network-based innovation, business service product development, and facilitation of access to market-based business support. (Refer paragraphs 3.3b viii to 3.3b ix above) From an institutional design viewpoint in terms of the Mintzberg scheme this translates into a diminished emphasis upon institutionalisation of the operating core of the business support system (this should increasingly be provided through the “market”) and an increased emphasis in the development of integrated management platforms for business support network on such other elements as the techno- and support structures – the former in the Mintzberg idiom achieving system standardisation, integration and effectiveness, and the latter providing system administrative support. Good practice institutional systems responses to the needs of managing integrated local business economic development support therefore tend to reinforce the requirement for “introvert” institutional forms that reflect a diminished prominence for the operating core in favour of an enhanced role for the techno- and support structures.

c. *The Middle Line*

With the diminished significance of the operating core at the business support systems level the middle line as the connecting link in the systems context between the strategic apex and the operating core becomes less prominent. In reality middle line management becomes more prominent at the systems level in the context of the management of systems projects and -programmes than in a conventional functional line role. To this extent the middle line management function at systems level typically becomes blurred. This is consistent generally with the systems design requirement

for a middle line component reflecting the institutional capacity for project- and programme management of business support.

d. *The Techno-structure*

A key determinant of the character of the techno-structure of an institution is the level of standardisation inherent in its internal task structure or alternatively the level of standardisation pursued by the institution. Whilst integrated governance systems typically pursue enhanced levels of alignment or standardisation of the activities of a variety of disparate and essentially autonomous interests within the local business economic system, the adjustment mechanisms regulating the means by which such standardisation are achieved typically may themselves be non-standard. Good practice business development support systems designs suggest the need at the business support systems level for training and indoctrination supporting high levels of horizontal specialisation as the essential adjustment mechanisms for achieving standardisation or alignment, and for relatively low levels of vertical specialisation or “centralisation” of decision-making. Typically, however, the alignment of the business support activities of disparate and autonomous elements of the local business economy is itself a complex task that needs to be pursued in a complex and variable environment and that requires the institutional capacity at the business support systems level necessary to manage ambiguity. This has direct implications for the nature of the techno-structure element of institutional arrangements for the systems level management of the local business support system.

e. *The Support Structure*

Typical of good practice business support systems requirements is the need for relatively high levels of horizontal task specialisation on the part of elements of the support structure together with varying degrees of vertical specialisation or decentralisation and the capacity to deal with relatively non-standard tasks. The higher the level of complexity of the local business economy, whether by virtue of its level of sophistication or, paradoxically of its developmental deficit as in typically Third World environments, the more elaborate its support structure requirements. The essential difference between such circumstances lies in the nuance rather than in the fact of complexity. In the case of the former institutional arrangements typically need to support more horizontally specialised

support strategies than in the latter case where the need for more generic business support is indicated. (Refer Chapter 3)

5.2 An Indicated Generic Institutional Form for Business Support in the Context of a Local Economic Development (LED) Approach

On the basis of emerging good practice approaches to business support the indicated optimal institutional form for the integrated management of local economic development lies between the bureaucratic- and adhocratic forms with the inclination toward the adhocratic form particularly on the basis of:

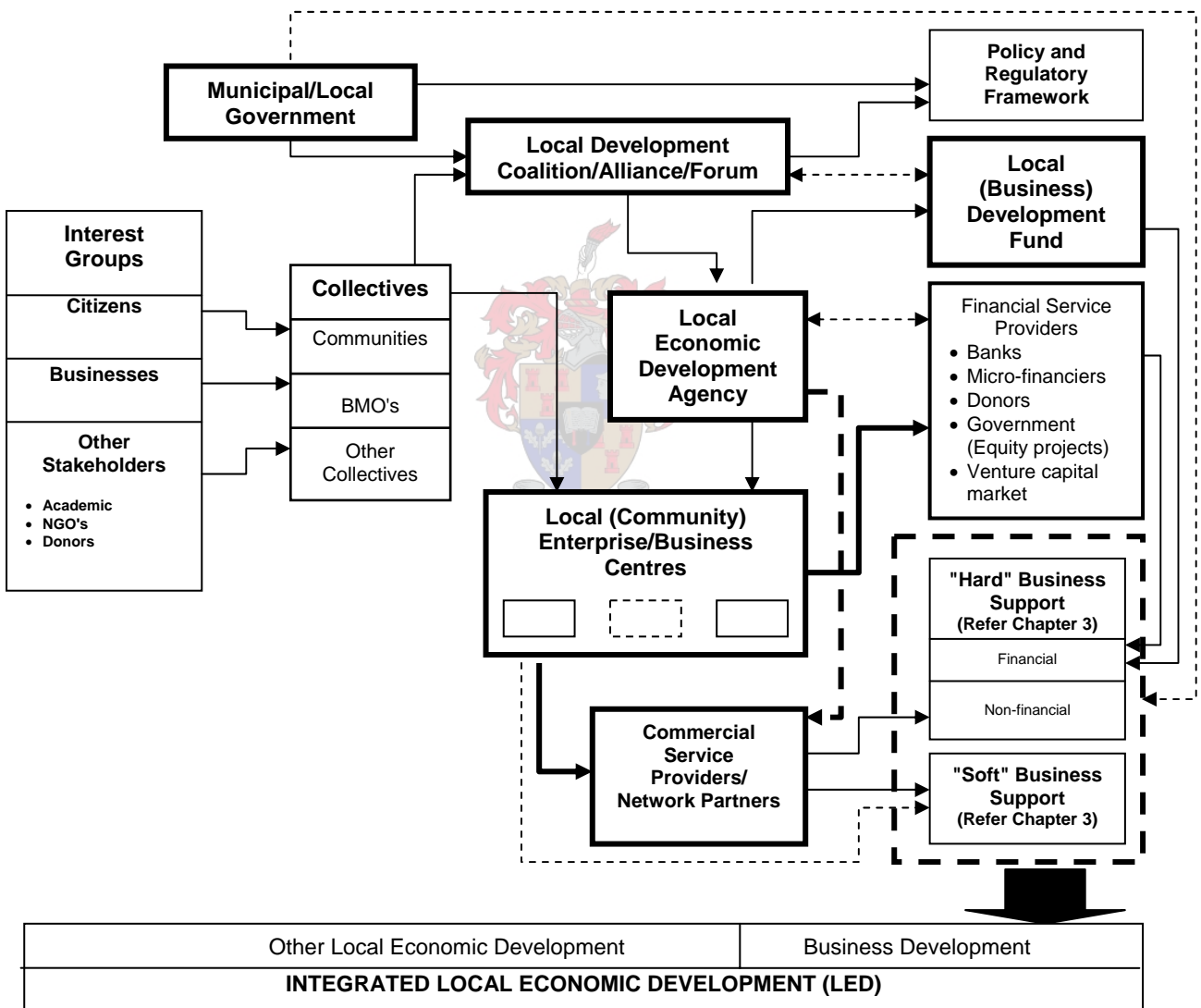
- a. It's essentially inward facilitative focus upon innovative development which is typically well suited to systemic support and capacity enhancement; and
- b. The high level of autonomy accorded the operating core or "service delivery" element that in some variants of the adhocracy (namely the so-called **administrative adhocracy**) is to all intent and purpose totally separated from the rest of the institutional structure. This is consistent with the essential autonomy of individual businesses within the local business system that operate independently but are to a greater or lesser degree dependent upon the alignment and support provided by the business system in its totality. This "adhocratic" system form is typified by:⁵³
 - i. A limited **techno-structure** inclining toward training and indoctrination as the key adjustment mechanisms for standardisation and alignment of activity across the system;
 - ii. A relatively elaborate **support structure** as the receptacle of innovative expertise at the service of the system;
 - iii. An extensive though relatively amorphous **middle line** employed on project-related management tasks;
 - iv. A truncated or independent **operating core** consistent less with an outward delivery focus than with an inward systems-developmental focus; and
 - v. The capacity to "park" expertise according to specialisation but to apply that expertise in project- and programme context on a geographic, market- or other (project- or programme-) basis.

⁵³ Mintzberg H. The Structuring of Organisations (Prentice Hall 1979) p 471

5.3 An Emerging Good Practice Systems Approach to the Design of Systems for Business Support in the Context of Local Economic Development (LED)

Institutional structures and arrangements that have emerged internationally, combined with key elements of institutional design in business support set out in paragraph 2.2 *supra* suggest a distillation of emerging good practice features at the local government level as indicated in Figure 4-8.^{54,55}

FIGURE 4-8: KEY ELEMENTS OF AN INTEGRATED GOOD PRACTICE SYSTEMS APPROACH TO INSTITUTIONALISING BUSINESS DEVELOPMENT

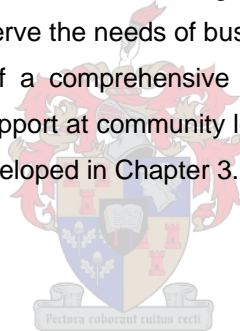


⁵⁴ Gibson A. Putting Principles into Practice in BDS (Springfield Centre for Business in Development 2001)

⁵⁵ Based on significant adaptation and enhancement of work contained in: Glas M. Municipalities and Business Development (SEED 2001)

6. Implications for Business Development Support

An institutional- rather than an organisational approach that places the emphasis on multi-channel delivery of business support within an aligned systems networking framework rather than through the medium of a single-channel monolithic delivery mechanism is essential if all existing capacity is to be effectively employed and networked in the service of local business development support objectives. Such a framework will, in the ideal, consist of a variety of mutually supportive and interactive organisational forms and arrangements, all pursuing distinct but compatible development objectives within the overarching aims of integrated local economic development. Institutionalisation and virtual institutionalisation of development support systems to achieve the requisite alignment in support of common cause particularly at local community level however suggests the need for such systems to reflect the key elements of institutional form. Macro-institutional forms for business service delivery systems are indicated on the basis of institutional and network theory together with emerging good practice approaches to business support developed in Chapter 3. The organisational variants of organisational and institutional form that have emerged globally to serve the needs of business support provide useful pointers to the form of elements of a comprehensive institutional networking approach to aligned business service support at community level in accordance with the emerging good practice paradigm developed in Chapter 3.



CHAPTER 4

ADDENDUM 1

KEY DETERMINANTS OF INSTITUTIONAL FORM¹

Design Grouping	Design Parameter	Related Concepts	Application	Comment
Decision making System	Horizontal decentralisation	<ul style="list-style-type: none"> • Division of labour • Work constellations • Informal communications structure • Ad hoc decision processes 	<ul style="list-style-type: none"> • Horizontal decentralisation refers to the extent to which non-managers control decision processes; • Vertical decentralisation refers to the degree of dispersal of formal line authority/power within an institutional arrangement; • Effective power is determined by the authority to: <ol style="list-style-type: none"> i. Collect/disseminate information for decision making; ii. Processing information to advice; iii. Making choices of intended action; iv. Authorise action; and v. Execute action 	<ul style="list-style-type: none"> • Horizontal decentralisation exhibits the following relevant forms: <ol style="list-style-type: none"> i. The systems variant where effective power (in essentially centralised institutions) is vested in co-ordination systems (technostructure)²; ii. The expert variant where effective power (in essentially professionally innovative institutions) rests with the expert component of the institutional arrangement; • Higher levels of horizontal institutional decentralisation are indicated to underpin for professional tasks.
	Vertical Decentralisation	<ul style="list-style-type: none"> • Division of labour • Work constellations • Regulated (work) flows • Ad hoc decision processes 		<ul style="list-style-type: none"> • Tasks requiring high levels of ad hoc innovation, judgement and training typically preclude “top-down” vertical specialisation; • Innovative Professional tasks typically are best underpinned by institutional arrangements that are horizontally- but not vertically specialised.
Lateral Linkages	Planning and control	<ul style="list-style-type: none"> • Standardisation of outputs • Systemic regulation of flows 	<ul style="list-style-type: none"> • The purpose of performance control is to regulate the overall results of given institutional units; • Performance control can serve to: <ol style="list-style-type: none"> i. Measure performance; and ii. Motivate 	<ul style="list-style-type: none"> • Performance control systems are most critical where interdependencies are pooled and tasks indicate a market-based institutional grouping; • The more global are task groupings typically the greater the propensity to control overall performance rather than individual actions.
	Liaison Devices	<ul style="list-style-type: none"> • Mutual adjustment • Informal communications systems • Work constellations • Ad hoc decision processes 	<p>Typical liaison devices within institutional arrangements are the following:</p> <ul style="list-style-type: none"> • Liaison functionaries without formal authority; • Task forces and Standing Committees; • Integrating managers with formal authority over cross-cutting decision processes; • Matrix (dual authority) institutions: <ol style="list-style-type: none"> i. Permanent/stable; ii. Shifting/project-based 	<ul style="list-style-type: none"> • Liaison devices are indicated where: <ol style="list-style-type: none"> i. Tasks are horizontally specialised; ii. Are complex; and iii. Are interdependent • Matrix-type institutional arrangements are the most effective devices for developing new activities and for co-ordinating complex interdependencies.³ They however: <ol style="list-style-type: none"> i. Dispense with the principle of unity of control; ii. Require relatively high levels of sophistication and thus are more suited to professional institutions; iii. Require the capacity to manage ambiguity.

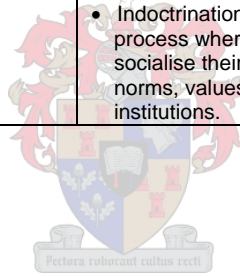
¹ Mintzberg H. The Structuring of Organisations (Prentice Hall 1979) p 67

² Refer Figure 4-1

³ Permanent matrix structures are found in the administration of some cities where functional (city-wide) departments (e.g. police, parks, etc) are jointly responsible with ward administrators for ensuring the quality of services. (Refer Mintzberg *op cit* p 171)

Design Grouping	Design Parameter	Related Concepts	Application	Comment
Institutional Superstructure	Unit Grouping	<ul style="list-style-type: none"> • Direct supervision • Division of labour • Formal authority systems • Regulated (work) flows • Informal communications structure • Work constellations 	Task grouping may be according to, or combinations of: <ul style="list-style-type: none"> • Knowledge/skill; • Work process and/or function; • Product or output; • Client group/market focus; • Geographical location 	<ul style="list-style-type: none"> • Functional grouping: <ol style="list-style-type: none"> i. Emphasises specialisation at the cost of the “bigger picture”; ii. Renders performance measurement problematic; iii. Implies greater multiple-layer bureaucracy; • Market grouping (geographical or otherwise): <ol style="list-style-type: none"> i. Emphasises client focus above process- and scale economies ii. Makes performance measurement more direct; iii. Implies self-contained units drawing on generic “centrally” pooled resources; iv. Promotes identification with client needs; • Project-based grouping typical of professional tasks and combining the two concurrently
	Unit Size	<ul style="list-style-type: none"> • Informal communications structure • Direct supervision • Span of control 	There are in fact two kinds of professional tasks indicating different institutional arrangements: <ul style="list-style-type: none"> • Independent where skills standardisation on tasks is high; and • Interdependent where requirement for inter-disciplinary interaction and co-operative effort is high. 	Typically: <ul style="list-style-type: none"> • Independent professional tasks indicate larger unit groupings and span of control (e.g. homogeneous groupings of tasks by skills requirement) ; • Interdependent professional tasks (typically “one-stop shop”-type tasks) indicate closer grouping of diverse disciplines into smaller, less formal co-operative units where frequent interaction, consultation, etc is facilitated.
Institutional Core	Task Specialisation	<ul style="list-style-type: none"> • Basic division of labour 	<ul style="list-style-type: none"> • Horizontal task specialisation narrows the span of tasks in order to allow for greater focus of (narrow) expertise • Vertical task specialisation separates the performance of the work from the administration/ management of it; • Task specialisation concentrates focus and thus raises challenges of communication, integration and co-ordination. 	<ul style="list-style-type: none"> • Tasks requiring high levels of ad hoc innovation, judgement and training typically preclude “top-down” vertical controls; • Innovative Professional tasks typically are best underpinned by institutional arrangements that are horizontally- but not vertically specialised.

Design Grouping	Design Parameter	Related Concepts	Application	Comment
	Behaviour Formalisation	<ul style="list-style-type: none"> Standardisation of task content Regulated (task) flows Bureaucratic rules 	<ul style="list-style-type: none"> Bureaucracies rely on "coordination" through formalisation of behaviour by means of procedures, rules, etc; Organic arrangements typically display less formalisation and standardisation. 	<ul style="list-style-type: none"> The more stable, programmed and repetitive the task the more suited to a bureaucratic institutional arrangement; The more complex and non-rationalised the task the more suited is it to an organic institutional structure; Organic structures are indicated where: <ul style="list-style-type: none"> i. Tasks involve specialised knowledge/experience; ii. Situation-specific solutions are required; iii. Tasks are defined by interaction with clients; iv. Problems need resolution <i>in situ</i>; v. Extensive networking is required; vi. The location of the task is the locus of authority and communication; vii. The requirement for lateral inter-functional of information/advice rather than vertical communication of instructions; viii. Professional ethos ranks more highly than obedience.
	Training and Indoctrination	<ul style="list-style-type: none"> Formalisation through standardisation of skills 	<ul style="list-style-type: none"> Tasks that are complex and non-rationalised are professional in nature; Training is a key design parameter for professional tasks; Indoctrination refers to the process whereby institutions socialise their members into the norms, values, etc of institutions. 	<ul style="list-style-type: none"> Training formalises behaviour without restricting initiative; In-house indoctrination is required where tasks are sensitive or remote and thus not performed under close supervision- typically professional tasks.



CHAPTER 4

ADDENDUM 2

DEFINING DIMENSIONS OF RELEVANT INSTITUTIONAL CONFIGURATIONS

Form	DIVISIONALISED FORM	PROFESSIONAL BUREAUCRACY	ADHOCRACY
Dimension			
Key Co-ordination Mechanism	Standardisation of outputs	Standardisation of skills	Mutual adjustment
Key Component	Middle line	(Professional) Operating core	<ul style="list-style-type: none"> • Support structure (Administrative adhocracy); • (Professional) Operating core (Operational adhocracy)
Design Parameters			
Task specialisation	Some horizontal and vertical specialisation	Much horizontal specialisation	Much horizontal specialisation
Training/indoctrination	Some training for managers	Much training and indoctrination	Much training
Behaviour formalisation	Much (bureaucratic) formalisation	Little formalisation (but bureaucratic)	Little formalisation (but organic)
Unit grouping	Market-based	Functional and market	Functional and market
Planning and Control	Much performance control	Limited planning and control	Limited action planning
Liaison devices	Few liaison devices	Administrative liaison devices	Many liaison devices throughout
Decentralisation	Limited vertical decentralisation	Horizontal and vertical decentralisation	Selective decentralisation
Functioning			
Strategic Apex	Strategic portfolio, performance control	External liaison, conflict resolution	External liaison, conflict resolution, work balancing & project monitoring
Operating Core	Formalised according to division structure	Skilled, standardised work with much individual autonomy	Truncated, outsourced or merged for project purposes
Middle line	Formulation of divisional strategy, managing operations	Controlled by professionals – much mutual adjustment	Extensive but blurred with staff engaged in project work
Techno-structure	Elaborated at apex for performance control	Limited	Limited and blurred in project context
Support Staff	Split between apex and divisions	Elaborated to support professionals	Highly elaborated (especially in Administrative adhocracy) but blurred in project context
Contingency Factors			
Age and size	Typically old and large	Indeterminate	Typical of young and innovative institutional arrangements
Technical system	Divisible bureaucratic	Not regulating or sophisticated	<ul style="list-style-type: none"> • Very sophisticated (Administrative adhocracy) • Not regulating or sophisticated (Operational adhocracy)
Environment	Ideally relatively simple and stable with diversified product and service markets	Ideally complex but stable	Complex, dynamic and disparate
Seat of effective power	Middle line (essentially bureaucratic) management	(Professional) operating core	Expert support system

CHAPTER 4

ADDENDUM 3

SCOTTISH ENTERPRISE AND HIGHLANDS AND ISLANDS ENTERPRISE AS SPECIFIC INSTANCES OF LEDA'S IN GREAT BRITAIN

1. Essential Features

Scottish Enterprise (SEn) and Highlands and Islands Enterprise were established in Britain as creatures of statute¹ specifically for the purpose of economic development promotion by a variety of relevant means. The organisations:

- Are bodies corporate, separate and distinct from the Crown;
- Not-for profit;
- Are each governed by a Board appointed by the relevant government ministry from the ranks of those within the community “who....appear to have knowledge or experience relevant to the discharge of the (relevant) functions...”;
- Provide territorial services through essentially contractual arrangements with 12 regionally-based and autonomous Local Enterprise Companies (LEC's) comprising with SEn a structured business support network;
- Are contractual entities, though they are largely core- and project funded by government, but with independent access to funding, to subcontracts and to national- and international programmes;
- Are administrative entities with the capacity to implement projects and to provide services and credit;
- Directly engage in training, the promotion of industrial development and tourism, the promotion of self-employment, and business development;
- As joint venturers with government agencies engage via Scottish Development International (SDI) in the promotion of Scotland particularly from the point of view of the recruitment of inward investment;
- Fund apprenticeship- and skills development programmes; and
- Act as central holding companies and strategic joint venturers in various economic development enterprises.

¹ Enterprise and New Towns (Scotland) Act 1990 (1990 c.35)

2. Structure and Governance

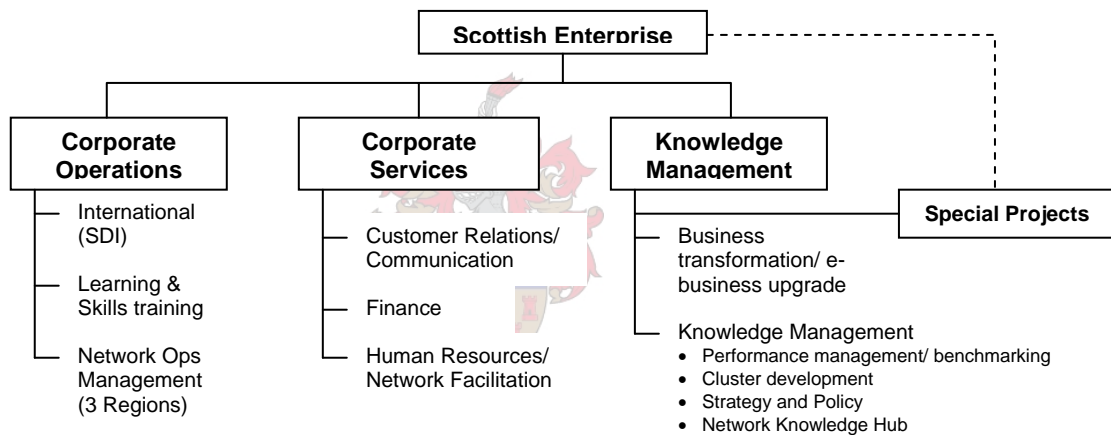
2.1 Governance

Scottish Enterprise board members, including the Chairman, are appointed by the relevant Scottish minister(s) for a fixed period of 3 years. The CEO is also accountable to the Scottish Parliament that appropriates the bulk of the funding for SEN.

2.2 Operational Structure

Main operational features of Scottish Enterprise are reflected in Figure 1.

FIGURE 1: OPERATIONAL FEATURES OF SCOTTISH ENTERPRISE



CHAPTER 4

ADDENDUM 4

TYPICAL NETWORK SERVICES TO EDC's^{1,2}

Network-level Service	Network-level Task	Focus Group	Information	Service	Expertise/Resources
Implementation Support	Exploration	<ul style="list-style-type: none"> Communities without EDC's; Communities with dysfunctional or inadequate EDC access 	<ul style="list-style-type: none"> Concept development; Community profiles 	<ul style="list-style-type: none"> Concept validation; Cost-benefit analysis 	<ul style="list-style-type: none"> Community facilitation; Leadership initiative
	Planning	<ul style="list-style-type: none"> Communities that have decided to establish an EDC; 	<ul style="list-style-type: none"> Case studies 	<ul style="list-style-type: none"> Mentoring; Co-ordination with affected parties within- and beyond the community 	<ul style="list-style-type: none"> Funding assistance
	Design	<ul style="list-style-type: none"> Communities that have decided to re-engineer an EDC 	<ul style="list-style-type: none"> Sources of funding assistance; Sources of enterprise-/programme material; Standardised specifications and designs 	<ul style="list-style-type: none"> Assistance in accessing funding; Assistance in accessing information; Bulk purchasing/ leasing of requirements; Training of EDC staff and volunteers; Development of local training and information resources; Development of local business service resources 	<ul style="list-style-type: none"> Assistance with procuring the development of local suppliers and products for EDC's
	Commissioning	<ul style="list-style-type: none"> Communities launching EDC's; Embryo EDC's; Re-engineered existing EDC's 	<ul style="list-style-type: none"> Standardised procurement processes, purchasing agreements; Standardised management/administration systems and documentation 	<ul style="list-style-type: none"> Bulk purchasing/ acquisition/ adaptation of training- and other materials; Ongoing staff and volunteer orientation and training; Marketing and promotion of centre launches; Assistance with personnel recruitment; Secondment/ temporary placement of personnel to assist with start-up 	<ul style="list-style-type: none"> Development of generic education and training activities on a multi-community basis; Design of workshops and seminars on a multi-community basis; Design of marketing and promotion programmes on a multi-community basis
Consolidated Services	Ongoing	<ul style="list-style-type: none"> Communities; Other stakeholders 	<ul style="list-style-type: none"> Potential areas of development; General network information 	<ul style="list-style-type: none"> Maintenance of a database of case material from (other) communities; Conduct of communication events across network communities and with third parties outside the network; Marketing and production database management; Maintenance of remote- or electronic access intra- and extra network information systems Co-operative marketing; Co-operative (bulk) purchasing; Organisation and co-ordination of enterprise development between communities; Sharing of resources between community EDC's that are infrequently used by individual communities; Strategic planning support to community EDC's; Assistance with the setting of service fees, tariffs and charges; Facilitation of the market for sustainable commercial business services 	<ul style="list-style-type: none"> Ongoing research and development of published communication materials in support of enterprise development; Research and development of appropriate approaches to multi-site conferencing, real-time and interactive access to information; Strategic network development; Enterprise development paradigm development
Agency Services				<ul style="list-style-type: none"> Identification and development of co-/joint venture arrangements with external organisations based on the capabilities of the EDC network and of individual EDC's within the network 	<ul style="list-style-type: none"> Strategic environmental scanning

¹ Adapted from:

WESTARC Group *et al* Appendix H to Phase II Report to the CEDC Management Committee: Network of Community Enterprise Development Centres (1998) p 4

² Tabuença A.G. *et al.* Enterprise Development Centres: Evaluation Results and Lessons Learned in Four projects in Latin America (ILO/I-ADB 1998)

CHAPTER 5

FINDINGS AND CONCLUSIONS

1. Introduction

Chapters 1 to 4 have examined current theory and international good practice in business support. The present chapter synthesises key findings and conclusions

2. Entrepreneurship and Proprietorship (Chapter 2)

The capacity to innovate lies at the heart of business sector growth and development. Yet the preoccupation has long been with the symptom presenting in the form of inadequate business growth, rather than with the basic malady namely the incapacity toward entrepreneurial behaviour. It is increasingly recognised that the capacity of businesses to derive benefit from the competitive opportunities provided by globalisation and the liberalisation of markets and trade will be a function of their capacity to behave entrepreneurially - that is, of their capacity to innovate. Without specific targeted interventions the large majority of businesses, including most emergent formal and informal businesses that behave largely non-innovatively will find themselves consigned to the periphery dependent upon "trickle-down" benefits alone from economic growth and opportunity. Business development support has hitherto involved essentially *ad hoc* interventions to address skill deficiencies and largely neglected to adopt a life-cycle approach to entrepreneurial development. But increasingly entrepreneurship is seen to be a learned behaviour, the development and nurturing of which throughout the lifetime of the individual or organisation is critical to self-sustaining business sector growth and development. Business development is thus not exclusively about the development of businesses or the provision of services to business *per se*. It must also be concerned over the medium- to longer term with the development of entrepreneurial behaviour as the only real basis for sustained innovation and improved quality of competitiveness and of self-sustaining business- and economic growth.

3. Policy Approaches to Business Development Support (Chapter 3)

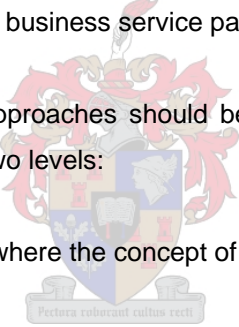
The following main policy principles as determinants of an institutional framework for business support are discussed in Chapter 3:

3.1 Policy principles

- a. Business support interventions should themselves be essentially businesslike - that is, businesslike concerns, skills and values should drive them. They should be essentially demand-led manifesting in:
 - i. Transactional relationships based on:
 - Performance incentives between funders, facilitators and service providers that go beyond merely paying organisations to deliver services;
 - Charging for business services in order to promote a value-based approach to business support;
 - The design, packaging, competitive marketing and delivery of business service products in a manner that addresses real needs. Here the micro-finance sector provides successful precedents in some developing countries;
 - ii. Employment of the "right" people and agencies in the design and delivery of business development services. Historically aid-funded agencies world-wide have filled a market gap but have not been particularly good at adapting to a new "businesslike" approach to business development. In order to develop in the new milieu business service providers themselves should be competitive, necessitating the engagement of people and organisations that are themselves entrepreneurial and accountable. The development of financial- and other relationships that encourage entrepreneurship also in the provision of business development services is therefore of central concern;
 - iii. New institutional arrangements around delivery of business services. Delivery organisations need to have the necessary businesslike attributes in their own structure, management and staffing, systems and status. Whilst they may be NGO's or associations, increasingly it is likely that the most appropriate form will be for-profit businesses of self-employed individuals rather than state or semi-state organisations. International experience suggests that the latter tend themselves to be too far removed from the realities of business and are not optimally capable of developing the necessary productive relationships with business clients and other stakeholders;
- b. Business support interventions should be sustainable. A credible, shared picture of how business development service interventions are to look in the long term is essential. Unlike the case of the micro-finance industry where the more spectacular

successes internationally have been based upon large organisations and high transaction volumes dictated by the nature of the sector, in BDS the picture of sustainability will be far more diverse. With a wide range of smaller-scale players and a varying (transitional- and sustained) role for the state depending upon context and the service concerned. The industrialised First World provides few models suitable for replication in communities in developing nations. The need for sustainability in the face of limited resources has been an important driver of the emerging "good practice" preoccupation with the market approach to the provision of business development services to developing communities;

- c. Interventions should be focussed and strategic. In increasingly complex market- and technological environments business cannot have expertise in all fields. This also applies to business service providers who need to identify the distinctive areas of competence where they are able to add most value, to avoid peripheral activity and to subcontract non-core functions to other better-qualified service providers. The age of the "generic helper" offering integrated support packages to business has, in the emergent thinking, largely passed. This is particularly true of the integration of financial and non-financial business support where experience has suggested institutional separation of the two activities and, at the very minimum, their operational separation. Various business organisations and sectoral interest groups have tended Internationally to want to become involved in training and other specialist support for which they do not have the right skills and which are essentially peripheral to their core business. Experience suggests that this has frequently been to the detriment of cohesion and sustained business development effort;
- d. Approaches to understanding clients' problems should be participative, based on developing enduring relationships with business clients and communities and providing appropriate business service products and -support. An important manifestation of this approach is the recognition of community "ownership" of relevant community organisations and -ideas. In dealings with business service providers there should be due recognition of the need to create space and incentives for individual- and community ownership rather than a preoccupation with the establishment of "donor-created" institutional entities. Funders in the business support field in particular need to model themselves on business investors rather than on charitable donors. Competitive tendering and other means have been usefully employed to stimulate competition in the creation of institutional arrangements and -structures in support of business service delivery;

- e. Business support outreach should be enhanced across the community. This issue is closely related to considerations of sustainability. Where services are dependent upon subsidy outreach is clearly a function of the size of the subsidy.
- i. Successes in the micro-finance field have been achieved essentially by confining subsidy to the areas of pre-delivery product development and organisational / institutional development, leaving service delivery essentially untouched by subsidy. These lessons increasingly are influencing approaches to the subsidisation of non-financial business support;
 - ii. Product design and pricing need to be closely focussed on business needs with no unnecessary and costly frills or over-elaboration of expensive bureaucracy. Approaches to the design of business support packages should concentrate on real issues of relevance to business rather than on less relevant generics;
 - iii. There should be a shift in focus toward the development of market processes and -mechanisms for the delivery of business services rather on the development of institutional providers or the delivery of services *per se*. This will require new skills, insights and disciplines from responsible agencies in establishing a new business service paradigm;
- f. Policy- and institutional approaches should be based on the principle of subsidiarity. Subsidiarity manifests at two levels:
- i. The generic level where the concept of the separation of:
 
 - The regulatory-, policy direction and social equity function;
 - The facilitation function including co-ordination, integration, promotion of market- and institutional development and basic research and product development; and
 - The delivery function

is enjoying increasing currency; and
 - ii. The agency level where the following indicative roles are emerging for various agencies engaged in business support:
 - **The state/government**
 - a) Policy setting;
 - b) Regulation;

- c) Basic research- and product development funding and impact assessment;
- d) Basic information provision;
- e) Co-ordination of key role players and conflict resolution;
- f) Development and management of infrastructure and (certain) public services; and
- g) Delivery subsidies for selected sharply targeted priority groups;

- **For-profit private business service providers**

- a) Delivery at commercial market rates and tariffs;
- b) Product development and -adaptation including market research;
- c) Skills enhancement. Building the skills base of service providers is itself increasingly seen to be the role of specialist private sector providers;

- **The not-for-profit private sector**

This category has traditionally incorporated the NGO's (so-called non-governmental organisations) and relevant academic institutions. The emerging role for this category is:

- a) A social equity function where the traditional role of NGO's suits them to work with disadvantaged communities and to develop and deliver such essentially social equity services to communities on an ongoing basis. This applies particularly to those NGO's that are unable to make the transition to a more commercial "businesslike" approach; and
- b) Basic research and product development in close association with universities and other academic institutions.

The role of these agencies is thus essentially at the facilitation level;

- **Business membership organisations (BMO's)**

This includes representative business organisations (such as Chambers of Commerce and -Industry, etc), sectoral organisations and other business stakeholder interest groups. The emerging view of the roles of such organisations is as follows:

- a) Business and sectoral advocacy. This is a time-honoured role for which such organisations have shown themselves to be well suited;
- b) Growing the market and specialist (sectoral) product development. This applies particularly to sectoral interest groups where their main role should be sectoral advocacy, promotion of sectoral growth, assistance with the development of sector-specific products and -business services, and sectoral mentorship;
- c) Information provision and networking; and
- d) Co-ordination and development of common cause and common purpose.

The role of business membership- and sectoral organisations is seen to be largely at the facilitative level.

- **Informal networks**

These are mainly facilitative vehicles for the operation of the market for business services and as facilitators of formal and informal collaboration. Networks are important both at the facilitative and delivery levels.

- ***Donors (including the state/government operating in a donor capacity)***

Donors should not form a permanent feature of the business support system. The donor function is essentially facilitative and transient but should be so directed as to assist the establishment of the necessary sustainable institutional- and other capacity to provide relevant business support on an ongoing basis. It is increasingly considered invalid practice in developing countries to create business service delivery systems with the donor function at their core;

- g. Performance management should be tight and businesslike. Performance measurement of business service delivery systems has two dimensions:
 - i. Operational performance management relating to system efficiency in converting resources into service delivery. This is particularly critical where public- or donor funding is at issue. Financial discipline and control is seen increasingly to lie at the heart of the issue of operational efficiency; and

- ii. Developmental effectiveness in the sense of the actual impact that policy- and other BDS approaches are having on the achievement of stated programme objectives or desired outcomes.

Clear objectives are vital as a point of departure for performance measurement.

3.2 Key Intervention Options

Currently the following main options emerge for the promotion of market development for business services:

a. Matching Grants

Matching grants are in widespread use as a mechanism for encouraging both the demand for and supply of business consultancy- and other services particularly, though not exclusively, amongst small- and medium-sized industrial enterprises. In this approach local government generally conditionally accepts responsibility for a proportion (up to 50%) of the fee for certain innovative activities. Little objective analysis exists of the actual success of the approach;

b. Vouchers

Voucher systems particularly for business training allow discretion on the part of the recipient as to the acquisition of business services. Successful systems internationally are currently operative in Latin America. Voucher systems imply a subsidy and there should thus be clear parameters established regarding their duration. They should be of finite duration and have clear objectives related to the development of the market for business development services. They are essentially a demand-side measure and should generally not be implemented in an *ad hoc* manner in isolation of other measures to ensure appropriate product development, diversity of choice and competitiveness;

c. Business Centres/Enterprise Centres

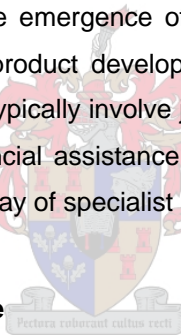
The essence of the policy approach here is to concentrate on institutional interventions that are able to stimulate and facilitate market growth in a way that focuses attention on community dynamics and community ownership of development processes that are relevant to local communities. Such interventions should achieve community-based facilitation of business development to encourage greater market orientation upon

business service providers and upon business clients across the spectrum. The emerging view is that business centres should themselves operate on business lines, should be community-based and thus accessible and readily identifiable with communities, should be "owned" by the communities they serve, and should be lean and provide essentially one-stop referral services to businesses within the communities they serve. Whilst business centres may provide business services in some approaches, in other variants they increasingly play a facilitative role within communities, encouraging the emergence of local business service providers and the realisation of demand for the business services they provide;

d. Product Transfer and Development

SMME business and SMME business service providers alike experience the problem of insufficient resources or -incentive to assume the risk of basic new product development. Although technology diffusion programmes primarily in the industrial sectors are in place in many countries and regions throughout the world, internationally there is no equivalent in the area of business service product development. This is seen to constitute a brake on the emergence of commercial business service providers in many circumstances. The product development process falls within the ambit of the facilitation function and will typically involve joint design, testing and refinement provided through technical- and financial assistance, generally from government or established business- and industry, by way of specialist staff and -services;

e. Other Financial Assistance



There is an emerging view that the most optimal supply-side financial interventions in business support are at the pre-delivery stage and focus most directly upon the creation of institutional capacity through an "investment approach" to the financing of business service product development, -skills, equipment and facilities. There is thus an increasing inclination toward the "front-loading" of financial assistance, its curtailment to the creation of (initial) capacity, and a clear (up-front) exit strategy on the part of the funding agency. Where core funding of operations may be necessary for example in the creation of community-based facilitative structures this must be clearly linked to measures of performance and a specific appropriately limited time horizon.

f. Co-ordination and Integration

Government at all levels remains largely responsible for promoting the creation of the policy- and infrastructure environment conducive to appropriate business cluster formation, the genesis of entrepreneurship and the consequent growth of business activity. Increasingly business development is seen as integral with local economic

development (LED) requiring co-ordination between organisations engaged in a variety of activities impacting upon business activity, and the integration of policy and approach. Rather than being a (limited) objective in its own right, business development in an integrated community-based development approach is a self-sustaining means of contributing to the achievement of more comprehensive socio-economic. Government has an important role to play as active promoter, mediator and co-ordinator in this process.

4. Institutional Arrangements for Business Support (Chapter 4)

New wave approaches to local and regional economic development have increasingly seen the genesis of a variety of community-based institutional arrangements. These range from public-assisted and -funded arrangements that still predominate in a number of developed countries, through a variety of intermediate forms to private, community-based corporate structures such as those encountered in the United States that mobilise a variety of forms of "community capital" to achieve local economic development. In most instances the upsurge of interest in local economic development as an inclusive community-driven imperative has naturally embraced business development as an integral component. Where local economic development (LED) initiatives have sought to build community-based coalitions, business development and business support tend to have benefited from the broader and more inclusive approach. New wave thinking on local economic development (LED) has brought with it an inclination toward greater integration of business and business support into the overall local economic development picture. The emerging experience of Eastern Europe provides merely one instance of this. The emphasis with business development as with economic development has thus shifted from an organisational approach preoccupied with the creation of state-, parastatal or para-municipal organisations to drive or to undertake developmental functions, to an institutional approach with a focus on networking between specialised institutions within broader community development coalitions. The challenge in designing appropriate business development support mechanisms in support of the new wave approach to local economic development therefore lies less with the creation of new organisations than with bringing into being interactive systems of organisations and agencies capable collectively of delivering appropriate services to business on a competitive basis within a more comprehensive concept of community-based local economic development.

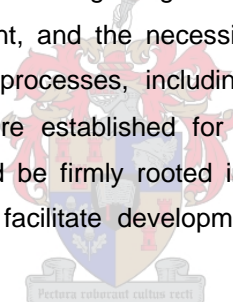
Whilst as yet far removed from the ideal of positive best practice the following central themes emerge in the development of institutional arrangements for business support as a component of integrated local economic development (LED) initiatives as discussed in Chapter 4:

4.1 Coalitions

The formation of broad and inclusive community-based coalitions is increasingly seen to be decisive in the determination of a shared vision of local economic development, of the role of business in that vision, and of the obligations of all sectors of the community to achieving that vision. The emergence of coalitions of essentially autonomous interests working voluntarily in unison has ushered in a new era of co-operative governance defining a sphere of joint activity that transcends that of formal government or of governance authority. Business support in this context then becomes the remit not of specific agencies, but of the entire community as part of an integrated approach to the development of local community economies. The promotion of such coalitions and joint governance structures is an important element of the institutional approach to local economic development and to business development as an element of LED;

4.2 Decentralisation

The theme of decentralisation is universal with the more successful approaches at local community and municipal level recognising the need to mobilise local communities in support of their own upliftment, and the necessity to provide the means for community "ownership" of development processes, including business development and business support. Where institutions are established for local economic development, including business support, they should be firmly rooted in individual target communities with the broad task of intervening to facilitate development processes rather than to "develop" communities;



4.3 Subsidiarity

The days of the single development agency serving as a sole proprietary formal channel for rendering broad-spectrum development support are past. The emerging approach is not necessarily to discard development agencies, and particularly so agencies promoted by government or donor organisations, as agents of positive change, but rather to refocus them and to redefine their role from one of "doing" (an operational role) to one of "promoting", "steering", "networking" and "enabling" (a facilitative role). Emerging institutional approaches internationally suggest a secondary (essentially transitional) operational role for such agencies but superseded by a new primary process orientation, and with a (limited) exceptional permanent operational role only in those areas where better-qualified agencies are unable or unwilling to provide necessary development services. In principle the role of facilitative institutions in the ideal world is generally seen as a transitory one. It is in fact increasingly the view that facilitative intermediary development vehicles and institutions, to the extent that their main role is to address market imperfections, far from being permanent features of the development landscape, should in fact if successful be the agents of their

own demise. This has fundamental medium- to longer-term implications for their institutional structure, staffing, funding and strategic focus.

4.4 Separation of Functions

Having contributed to the upsurge of interest in business development support, the successful precedent set by the micro-finance industry in some developing countries continues to have a fundamental influence on approaches to non-financial business support. However, the view is current that the interests of neither are best served by the operational integration of the financial- and non-financial functions. Where such functions are not institutionally separate, they should at least be operationally separate. This should not preclude arrangements for non-financial business support initiatives from being "piggy-backed" onto financial support systems where the latter are particularly well developed in terms of outreach and impact into target communities.

5. Conclusion

Business support policy and the institutions serving it form part of the arsenal of local economic development and cannot be determined or developed in isolation of broader local economic development concerns and imperatives. Whereas a more structured and "businesslike" approach is required to business development within this overall context than arguably to other areas of socio-economic upliftment, nevertheless business development must form part of a comprehensive and inclusive view of the way forward for the local economy and of the roles of the various players comprising it. To this extent it needs in the ideal to be driven by a broadly based community coalition(s) for local economic development. Policy- and institutional arrangements for business development support should therefore be such as to promote its integration into the mainstream of local economic development within communities.

The approach to systematic business support as encapsulated in the new paradigm represents a significant change in emphasis. The finding substantiates the working research hypothesis established in Chapter 1, namely that a paradigm shift has occurred in the approach to systematic business development support involving a realignment particularly of associated institutional arrangements for the purpose and a significant change in the emerging role of government *vis-à-vis* other key role players.

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