SECTION 5: GOVERNMENT POLICY ON THE DEVELOPMENT OF SMALL BUSINESS

5.1 MAIN ISSUES

Two fundamental questions may be posed in relation to the above topic: firstly, what role, if any, should or could government play in assisting small businesses and secondly, which institution should be charged with delivering assistance and allied to this, what services should be organised?

On the issue of the government support, arguments based on the crucial role and importance of small businesses in the economy and their real need for support have now been well rehearsed and documented. But what role should government play? While various plausible policy measures have been advocated, and some put into effect, there is a strong case that the first and most important task is to remove or modify as many as possible of the various official regulations, procedures and policies which inadvertently or otherwise damage the interests of small business.

The activities of government in relation to small enterprises are often very ambivalent; while on the one hand government is busily introducing programmes of training, development and other assistance, it is often at the same time pursuing policies and imposing regulations whose negative effects are far more powerful.

Government policies should be examined at two levels, namely general policy and specific regulations. The general policy level environment is in many countries by far the most important and the least easy to change. Over-valued foreign exchange rates, for instance, often make exports totally uneconomic and encourage imports in preference to local products. In some countries, only a misguided entrepreneur would try to start a fundamentally uneconomic manufacturing business; far more profitable opportunities are to be found in importing foreign goods, in hoarding and in acquiring scarce foreign exchange, often through corruption or other illegal means. Similarly, subsidised interest rates encourage excessive capital intensity rather than the employment of labour, and wage costs may also be artificially inflated by inappropriate minimum wage regulations, thus further inhibiting the creation of jobs.

Specific regulations may be rather easier to deal with than the policy environment, although it may be difficult to identify those that actually harm small enterprise, or to decide whether they should be changed to overcome the resistance of the enforcing authorities at all levels who may be profiting substantially from their position, which allows them to overlook infringements of the regulations.

In a number of countries, specific efforts have been made to identify and alleviate burdens of this sort, which may include zoning rules, health and safety regulations, official opening hours, government purchasing procedures, licensing laws and many others. Although liberalisation programmes are in many cases being undertaken as a result of broader changes in government policies, anyone planning training activities, or any other form of positive assistance, should nevertheless first make an attempt to assess and when necessary alleviate those aspects of the environment which damage small enterprises.

Comprehensive answers to the second question may require review or reappraisal of existing institutions and programmes. It has been argued in the literature that the 'correct' institution is not necessarily the one whose title, nominal responsibility and existing activities appear most appropriate for the particular task. Rather, the well-managed institution which is in touch with and responsive to the needs of the small business community is more likely to be effective than the 'correct' one mismanaged. The services to be provided should depend largely on the identified needs of the small business sector coupled with the gaps in the supply sector.

There is generally a far greater need for on-site advice than for classroom training, especially because small business owners regard time spent away from the premises, when they could be working, as time 'lost'. There can also be difficulties in relating what is taught in the classroom to 'urgent' problems to do with the business.

There is a widely-held view that semi-autonomous or autonomous institutions are better, more credible and achieve greater effectiveness and impact than government departments. One role for government is to co-ordinate assistance to the small business sector. This would avoid duplication of effort and also provide linkage of services.

Inappropriate co-ordination can stifle and frustrate the development of genuinely useful services to small enterprise. There is little doubt that the most appropriate institution to serve the needs of a small enterprise is another small enterprise; this may be as suppliers of materials or equipment, as retailers or wholesalers of other enterprises' products, as local banks or as other sources of finance, private training schools or consultants. When such services do not exist, Government can often provide more useful services by encouraging them to start than by trying to provide the necessary services itself.

Competition is as good for those trying to help small enterprises as for those enterprises themselves. Even if it is not possible to fund, promote or subsidise independent providers of finance, training, advice or other services, every attempt should be made to provide entrepreneurs with a choice of services, and to make small enterprise service institutions as similar as possible to the businesses they are trying to help. The ideal institution should therefore be small, locally based, autonomous and as dependent as possible not on regular public funding but on the effective demand for and use of its services.

This may not be totally possible to achieve, but individuals and departments within larger institutions can be stimulated to perform better if they are treated in the same way. Permanent appointments, bureaucratic controls, centralised administration and unwieldy infrastructure should when possible give way to performance-based employment and renumeration, local autonomy and modest facilities. This will not only improve the level of services to small enterprise, but will also reduce their costs.

FURTHER READING ON GOVERNMENT POLICY ON THE DEVELOPMENT OF SMALL BUSINESS

Anderson, D. 1982. **Small industry in developing countries: some issues.** World Bank, Washington D.C.

[A] Anderson, D and F. Khambata. 1982. **Financing small scale industry and agriculture in developing countries: the merits and limitations of commercial policies.** World Bank, Washington, D.C. **[ANNOTATION 1]**

[A] Bromley, R. (ed). 1985. **Planning for small enterprises in third world cities.** Pergammon Press Ltd. **[ANNOTATION 14]**

Chilton, K.W. 1984. **What should government do for small business?** Journal of Small Business Management, 1984, Vol.22 (1), 1-3.

Chrisman, J.L. and F.L. Fry, 1983. **How government regulation affects small business.** Business Forum, 1983, Spring, Vol.8 (1), 25-28.

Chuta, E. and C. Liedholm. **The role of small-scale industries in employment generation and rural development; initial research results from Sierra Leone.** East Lansing, Michigan State Unit, Department of Agricultural Economics, 1975.

[A] Cook, P. and D. Hulme. 1986. **Liberalisation and Regional Development.** Manchester Discussion Papers in Development Studies: International Development Centre, University of Manchester. **[ANNOTATION 30]**

Farooquee, Q.H. 1966. **Impact of recent legislation on entrepreneurial growth of the corporate factor in India.** The Indian Journal of Commerce, K:66, Pt. II, April - June 1966, 133-140.

Ghosh, B. 1980. **Creating a climate for entrepreneurship.** Capital, India, 185: 4615, July 7, 1980, 3-4.

[A] Guroff, G. and F.V. Carstensen. 1983. **Entrepreneurship in Imperial Russia and the Soviet Union.** Princeton Unit Press, Princeton, N.J. **[ANNOTATION 46]**

[A] Harper, M. 1984. **Small business in the third world.** John Wiley and Sons, Chichester, UK. **[ANNOTATION 54]**

[A] International Labour Office. 1972. **Employment, incomes and equality: A strategy for increasing productive employment in Kenya.** Geneva, ILO. **[ANNOTATION 62]**

Irani, J.K. 1973. **Entrepreneur development: fiscal and financial incentives with special reference to developing regions.** India, Indian Manager, 4:2, April - June, 1973, 132-149.

Marsden, K. 1981. **Creating the right environment for small firms,** in Finance and Development, Dec.

Moulik, T.K. 1978. **Developing support systems,** in **Developing Entrepreneurship,** by Rao, T.V. and Pareek, U., New Delhi, Learning Systems, 1978, 325-335.

Neck, P.A. (ed.) 1977. **Small enterprise development: policies and programmes.** Management Development Series, No. 14, ILO, Geneva.

[A] Page, J.M. and W.F. Steel. 1984. **Small enterprise development - economic issues from African experience.** World Bank Technical Paper No. 26. **[ANNOTATION 90]**

Reddy, T.S. and P.L.N. Murthy. 1979. **Strategy for the development of entrepreneurship in backward areas.** SEDME, 6:4, Dec. 1979, 317-323.

Sandesara, J.C. 1982. **Incentives and their impact: some studies on small industry.** Economic and Political weekly, 17:48, Nov. 27, 1982, 1910-1919.

Vesper, K.H. 1983. **Entrepreneurship and national policy.** International Corporation Institute for Small Business, Chicago, Ill.

Watanabe, S. 1979. **Reflections on current policy for promoting small enterprises and sub-contraction.** International Labour Review.

World Bank 1978. **Employment and development of small enterprises.** Sector Policy Paper, World Bank.

Yoga, M. 1971. **Social policy on encouragement and development of entrepreneurs.** India, Productivity, 12:1, April - June 1971, 73-77

5.2 SMALL BUSINESS DEVELOPMENT: SUPPORT INSTITUTIONS

5.2.1 GUIDELINES FOR CREATING AND MANAGING SUPPORT INSTITUTIONS

1. Objectives

The immediate objectives of a small business development institution, be it a business advisory service, an enterprise agency or whatever title the institution goes by, are to help people set up their own business and help established businesses survive and expand by providing 'software' (such as counselling and advice) and/or 'hardware' assistance (such as finance and premises). The overall developmental objectives are the generation of employment and income and, in many cases, the creation of an indigenous business class.

These objectives should be expressed in such a way that they are capable of being translated into operational goals and targets which can be monitored. For example, the institution may seek to promote new market opportunities for local business, either at home or abroad, by organising/participating in trade fairs, setting up group marketing ventures etc. Some of the activities carried out by small business institutions are listed in Exhibit 5 below.

2. Activities

Exhibit 5 contains some of the more common activities and functions of small business institutions.

Exhibit 5. Activities and functions of small business institutions

A. Business Advice

Advising start-ups	All aspects: finance, premises, marketing, production, planning products/services, business plans etc.
Advising existing firms	As above, with greater concentration on how to survive and grow.
Training and education	Courses, seminars, workshops. Liaison with other providers to avoid overlapping and duplication. School and education links to stimulate the enterprise culture.
Extension services	Seeking and reaching out with assistance, with ability to organise specialist services. Emphasis is always on on-site assistance.

B. <u>Common Facilities</u>

Workshops	Containing equipment, often beyond the means/resources of individual businesses, available for production and/or training.

C. <u>Industrial Estates/Property Services</u>

All aspects of management of industrial estates.
Maintaining details of premises/property currently available.
Influencing local development to reflect needs of agency clients.

D. <u>Specialist services</u> required by clients (these may be particular to a locality).

- Innovation and appropriate technology	Panels for product appraisal. Innovation centres. Appropriate technology centres.
- Finance	'Marriage bureaux' matching investors with businesses.
- Local needs	Tourism/Leisure. Exhibitions. Small business clubs. Local industry handbook/business directory.

E. <u>Sub-contracting services and marketing</u>

Joint marketing ventures.

Sub-contracting services between large and small firms.

F. <u>Promotion of agency</u>

Newsletter.

Local networking.

Links with large and small local firms.

G. <u>Feasibility studies</u>

Market studies.

Business appraisals.

Issues and requirements for establishing, developing and managing the institution

H. <u>Technical and other information/publications</u>

Sources:

ILO Study of Extension Services (1986).

Business in the Community (1986).

3 Credibility

The institution has to gain and maintain credibility in the eyes of firstly, the prospective clients, i.e. the entrepreneurs/small businesses as well as secondly, the local community at large and thirdly, government bodies. It must develop an image which attracts sponsors and clients, and build up a network of contacts and resources to back up its general service.

To be sure it is offering an appropriate service, it is important for the institution to find out what services other organisations provide and the ways in which they operate, so as to be able, where the institution itself is unable to help, to refer clients to the right person in the right organisation.

4 Setting objectives

Effective running of the institution or agency depends on precise objectives being set. In addition monitoring and evaluation of operations and activities should take place regularly.

5 Target clientele and area to be covered

In practice, many institutions have found it necessary to define the size and type of firm they are able to assist. There are, of course, no hard and fast rules on this issue, as it is a matter dependent, to a large extent, on the demand and supply of services and, in some cases, price. Similarly, it is operationally useful to determine the geographical area of interest. Distance to the institution's base is important, not least from the viewpoint of coverage and cost.

Many agencies have experienced a decline in use of services the farther the distance they are from potential clients. On the other hand, larger areas of operation have their advantages; for example, the funding base may be greater and more specialist help and promotional schemes may be economically provided.

Transport is often a problem; in many countries vehicles, fuel and spares are expensive and difficult to obtain, and communications with enterprises in remote areas may be difficult or impossible at certain times of the year. In countries of this sort it is usually far more cost-effective to decentralise training and other support services; entrepreneurs themselves usually have to rely on local transport services such as buses, shared taxis, bicycles or even their own feet. Every effort should be made to bring services as close as possible to their target clientele, so that the need for expensive and scarce communication facilities can be minimised.

6 Staffing and attributes of the Director

The issues which arise regarding the attributes of the staff are similar to those discussed under Trainers and Extension Services.

The position of the Director of the institution has been likened to that of "an individual entrepreneur contemplating a new market. They have the important tasks of identifying needs, developing a variety of appropriate services and establishing a resource capability to provide these - all very much on a personalised basis".

Exhibit 6. Attributes of the Director of the institution/agency

Abilities

To listen, talk, diagnose, think quickly on his or her feet, break the ice and generate trust, recognise own limits, get on with a wide range of people from widely different backgrounds, empathise and "lend a shoulder to cry on".

Temperament

Showing enthusiasm being energetic, positive, warm, sincere, using initiative and taking risks; flexible in thinking mature, tactful, capable of absorbing criticism.

Skills

Negotiating, persuading, marketing, selling (but not overselling), assessing good business risks.

Background

A successful middle or senior manager in industry or commerce, with experience in or relevance to small businesses and exposure to local government and property development. Evidence of making things happen, and preferably having a lot of local knowledge.

Source: Business in the Community (1986).

Exhibit 6 presents a list of attributes of the ideal person for the post of enterprise agency Director. The list of attributes is a very tall order but the it is interesting in that it highlights training needs geared to developing the individual's style and potential, as well as to those specifying required technical knowledge.

3.7 Secondment from large industry

An important, yet underutilised, form of sponsorship to small business institutions is secondment from large corporations. Besides the institution (or agency) and the community, the sponsor also benefits through staff development, tax relief and publicity surrounding this form of contribution. Providing the person is matched to the job and that some continuity is ensured, agencies in many countries could benefit from this kind of arrangement.

Experience has shown that existing business people are very often willing to advise and assist newcomers, even if they may appear to be potential competitors. They may allow trainees to work in their businesses, they may act as part-time counsellors, on a voluntary or semi-voluntary basis, and they can also be most effective trainers, since they speak from personal experience and can act as role models to aspiring business people.

8 Financing and attracting resources to the institution

Financing the institution is an issue that needs to be resolved at the outset. Finance could emanate from various sources, the most common being:

- Government - whether federal, state, local authority; or some other public body.
- Private organisations.
- Company sponsorship.
- Fees from clients (although there are so far very few examples in small business development where this is relied upon solely).

Sources of assistance can take many forms apart from finance, such as people (full-time and part-time secondees), equipment, premises and other help in kind.

9 Network of contacts

In building a network of people and organisations to call on for help, the institutions may include the following:

- Professions (such as accountants, lawyers, insurance brokers, engineers);

- Business services (such as marketing and public relations consultants);

- Relevant government departments and state/local authorities;

- Private companies and organisations;

- Financial institutions (especially the clearing banks);

- Educational establishment;

- Politicians;

- Local business organisations (such as Chambers of Commerce/Trade, Rotary club, institutes of management, association of small business persons);

- National and local non-governmental organisations (NGO's).

The above list is by no means exhaustive, and depending on local circumstances, some of the contacts will be more important than others.

10 Promoting the agency

10.1 Image

The following have been identified as key components of the image of successful small business development institutions:

- practical, down-to-earth, and efficient
- approachable, friendly, sympathetic
- not official or formal
- confidential, responsible
- independent, non-partisan
- business-led, business-like.

Furthermore, the atmosphere of the institution's base should be relaxing, non-threatening and helpful.

10.2 Publicity and promotional media

It is essential that the institution draw up a continuous, broad-based programme of publicity.

The best medium of publicity, in the opinion of most experts, is word of mouth. This is, of course, conditional upon providing a good service, not neglecting the part that the network listed on the previous page has to play.

Word of mouth, however, may have to be supplemented by other media such as local newspapers, local radio and TV, agency newsletters, events such as trade fairs, mobile displays and advisory clinics, mailshots etc.

It is particularly important to recognise that "modern" media do not reach many people, particularly in less developed countries, and field contact is essential. Maximum use must be made of local meetings, opinion leaders of all kinds and individual visits; these will also ensure that trainers and advisers are fully familiar with the environment of the small business people whom they are trying to assist.

11 Monitoring and evaluation

Monitoring and evaluation of activities should be carried out to ascertain whether objectives have been attained, to identify the impact of services and to take corrective action where necessary. The institution has to be able to show progress to the public, its supporters and sponsors. Also important is the feedback of results to staff, which is necessary for morale and motivation.

Generally speaking, institutions could record the following information relating to each client:-

(i) type of existing/proposed business;

(ii) state of business at the start of assistance - mainly performance indicators, such as sales and, more importantly, profitability;

(iii) nature of assistance given;

(iv) source of enquiry;

(v) follow-up, if any.

From these records, a number of indicators may be extracted to assess the impact of assistance, the major ones being increased value added by the enterprises assisted and number of jobs created/maintained.

It is also important to attempt to obtain similar data from a "control group" of similar enterprises which have not been assisted, since changes may arise for a number of reasons other than assistance.

The best form of evaluation is of course that which small enterprise themselves are compelled to use, namely their clients' willingness to make use of their services and to pay for them. Although it may not often be possible for small enterprise training to be unsubsidised, it is usually possible to make training and extension more responsive to the market by subsidising small business payment to fees, for instance, rather than by paying subsidies direct to the institution, regardless of the quality of its service.

FURTHER READING ON CREATING AND MANAGING SMALL BUSINESS DEVELOPMENT INSTITUTIONS

Boydell, T. 1985. **Management self-development - A guide for managers, organisations and institutions.** Management Development Series No.21, ILO, Geneva.

Business in the Community (BIC) 1986. **Guidelines for developing managing enterprise agencies.** Business in the Community, London.

Govil, S.P. 1971. **Institutional arrangements for encouraging entrepreneurship .** Productivity, India, 12:1, April-June 1971, 101-104.

[A] Harper, M. 1984. **Small Business in the Third World .** John Wiley & Sons, Chichester. **[ANNOTATION 54]**

Kubr, M. (ed). 1982. **Managing a management development institution.** Management Development Series No.18, Geneva, ILO.

Kubr, M. 1980. **Management consultancy: A guide to the profession.** Geneva, ILO.

Moulik, T.K. 1978. **Developing support systems in developing entrepreneurship: A handbook.** New Delhi, Learning Systems.

[A] National Productivity Council, India; Asian Development Bank, Manila; Asian Productivity Organisation, Tokyo. 1980. **Project management for rural and small industries development, Programme material, Volumes I-III.** New Delhi, India. **[ANNOTATION 86]**

[A] Neck, P.A. (ed). 1977. **Small enterprise development: policies and programmes.** Management Development Series, No.14, Geneva, ILO. **[ANNOTATION 87]**

Paul, S. 1983. **Strategic management of development programmes.** Management Development Series No.19, Geneva, ILO.

Singh, N.P. 1977. **Management of an Entrepreneurship Development Programme: a case study of a voluntary organisation.** Hyderabad, SIET.

USAID 1985. **Searching for benefits.** Aid Evaluation Study No. 28, Washington D.C.

5.2.2 INDUSTRIAL EXTENSION SERVICES

This section raises some of the important issues in the design, operation and evaluation of extension services for small enterprises.

1. Introduction

The classroom is often not the most appropriate place to conduct training for entrepreneurs, as it can be too artificial and alien to the 'culture' of the small business. At worst, it is argued, the trainee can seldom apply the concepts taught in the classroom to the rigours of the market place. Many small business owner/managers are also rightly reluctant to spend too much time away from their place of work.

For the reasons cited above, an extension approach is often favoured for providing management advice and assistance to small businesses.

An extension service for small enterprises has been defined as any proactive service reaching out to small enterprises with advice and assistance, being often the first point of contact between the delivery system and the clients, and emphasising personal delivery.

2. Design and operation

2.1 Institutional base

An important issue is that of the institutional base for small enterprise extension and whether it should be operated from a financial or non-financial institution which may have other goals. The majority view in the literature is that extension services for small enterprises are best entrusted to an agency whose main objective is their delivery and not to be attached to an institution whose main mission lies elsewhere.

2.2 Clients for extension services and their needs

The enterprises served by industrial extension services may be involved in any type of non-farm activity, in rural or urban areas. The major focus in many developing countries, especially in the initial phases of the service, is on small-scale manufacturing activity.

The clients for the services may be existing entrepreneurs with need for modernisation, expansion, or potential entrepreneurs, (i.e. people with certain appropriate attributes and/or wishing to set up in business).

Given large numbers of small businesses, the diversity of needs and constraints on resources, it is clearly wise to concentrate efforts on enterprises with the best prospects for growth and success, rather than on "lame ducks" or "sick industries" as they are sometimes called.

2.3 Management and control

A major issue is the structure of the extension organisation. The general consensus is that extension services are best operated from autonomous, semi-autonomous or private institutions and not public bodies under direct control of government departments. In addition, industrial extension operations should, given the nature of the clients served, be run like industrial enterprises for best results. Two major caveats, however, ought to be served: firstly, the importance of government support cannot be overlooked; secondly, measured accountability should accompany autonomy.

2.4 Financing

There is no common agreement on the financing on small enterprise extension, and, in practice, fees may or may not be charged to clients. Perhaps the only aspect on which there is substantial agreement is that if an extension service is to reach out to the very small-scale enterprises, especially in rural areas, then it will require subsidies, at least in the initial stages.

2.5 Staff qualifications

In the opinion of most experts, formal entrance qualifications for extension officers are usually overstated, and seen as secondary to attitudes, "personality", good training (both initial and regularly on-the-job) and some experience in working in business or in the community. Furthermore Field Extension Officers should ideally be generalists with access to a tier of specialists at regional or headquarters level for specialised expertise.

3. Monitoring and evaluation

Close supervision and monitoring of the performance of Extension Officers are regarded to be essential for any extension activity.

There is not, as yet, an established method of evaluating the impact of extension service programmes. Profitability of clients assisted is often taken as the single best overall measure of assessing the impact of extension services. Where profitability of clients is neither desirable nor feasible as a measure, then other surrogate measures may be used, e.g. value added, number of enterprises assisted, number of recommendations made and implemented.

FURTHER READING ON INDUSTRIAL EXTENSION SERVICES

Benor, D. and M. Baxter. 1984. **Training and Visit Extension.** Washington, World Bank.

Bogaert, 1980. **Training for village entrepreneurs.** Xavier Institute for Social Service, Ranchi.

[A] Harper, M. 1979. **The evaluation of extension for small-scale enterprises.** Washington, World Bank. **[ANNOTATION 52]**

[A] Harper, M. 1977. **Consultancy for small businesses.** London, IT Publications. **[ANNOTATION 51]**

[A] International Labour Office (ILO). 1986. **Study of extension services for small-scale enterprises.** Management Development Branch, Geneva, ILO, due to be published 1987. **[ANNOTATION 66]**

Kahnert, F. and J. Kozlowski. 1979. **Assistance to extension services for small-scale enterprises.** Washington, World Bank.

[A] Technonet Asia. 1985. **Industrial extension manual for small and medium industries in developing countries - Volumes 1 and 2.** Singapore, Technonet Asia. **[ANNOTATION 112]**