The Impact of Business Support Institutions on the Development of the SME Sector

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Keywords: Entrepreneurship; Business ecosystem; SME Policies

Abstract: The aim of this paper is to critically review and map the network of business support institutions in Croatia and their impact on the development of the small and medium-sized enterprises (SME) sector. There are many research findings in the literature that link the development of the SME sector to the level of institutional development, but rarely articles that link business support institutions to the improvement of the business ecosystem (reduction of barriers). Through in-depth interviews with the heads of business support institutions, this paper aims to explore the impact of business support institutions on reducing barriers that hinder the establishment and development of SMEs. The results show that business support institutions do not have enough resources (time, money, knowledge, etc.) to provide the necessary assistance to SMEs, but also to fulfill other tasks and obligations for which they are responsible. The results of the study can be used for the development of better SME policies, but also for the development of services that better meet the needs of SMEs.

1. INTRODUCTION

Business support institutions (BSIs) are an important component of any enterprise ecosystem. According to Hall and Jones (1999), the business ecosystem includes "institutions and government policies that determine the economic environment in which individuals acquire capabilities and firms accumulate capital and produce products" (p. 84). The role of BSIs in the business ecosystem is to "create a high-quality, user-oriented entrepreneurial environment by implementing programs focused on the development of the SME sector" through the provision of a wide range of services: Business advice, information, workspace, co-working space, infrastructure, more favorable land prices, legal advice, organization of networking events, etc. Armbruster (2006) identifies three reasons for hiring external experts: consulting, problem-solving, and business improvement. BSIs provide both operational and strategic services (Mole, 2016). The use of BSI services leads to an increase in strategic knowledge that provides competitive advantages (Mole, 2016). Fincham (1999) points out that external help, i.e., BSI help, is particularly valued in dynamic environments, in times of increasing turbulence in global markets, and due to rapid changes in information and communication technology (ICT). External help is needed when adapting to change, but also to take advantage of existing opportunities in the market. In any business ecosystem, BSIs help SMEs overcome obstacles that affect their growth and development.

The Croatian government supports the establishment of BSI with financial grants to promote the creation and growth of SMEs. The Croatian network of BSI is growing every year. According to the Unified Register of Entrepreneurial Infrastructure, there were 496 different BSIs in Croatia in 2020.

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Table 1. Business support institutions in Croatia in 2020.

<table>
<thead>
<tr>
<th>Type of the Business Support Institution</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrepreneurial zones</td>
<td>293</td>
</tr>
<tr>
<td>Development agencies</td>
<td>76</td>
</tr>
<tr>
<td>Business incubators</td>
<td>54</td>
</tr>
<tr>
<td>Business accelerators</td>
<td>12</td>
</tr>
<tr>
<td>Science parks</td>
<td>2</td>
</tr>
<tr>
<td>Business or entrepreneurship centers</td>
<td>48</td>
</tr>
<tr>
<td>Competencies centers</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: Alpeza et al., 2022

Although the network is growing every year, the results of the Global Entrepreneurship Monitor (GEM) data show that the number of business support institutions is no guarantee of the quality of external assistance. In the study GEM for 2020, Croatia scores the worst among 18 countries in terms of entrepreneurial infrastructure. Entrepreneurial infrastructure in Croatia acts more as a barrier than as a supporting factor (Singer et al., 2017).

To identify the reasons for the poor quality of external assistance provided by BSIs, in-depth interviews were conducted with managers from different BSIs. The data collected helped to look at the problem from a different perspective and also to formulate policy recommendations for effective solutions.

2. THE ROLE OF BUSINESS SUPPORT INSTITUTIONS IN THE DEVELOPMENT OF SMALL AND MEDIUM-SIZED ENTERPRISES

BSI's main role is to provide business advice and support to SMEs in the early stages of their development. According to Bateman (2000), BSIs in Eastern European countries should have been "the main local engine for SME development" (p. 279). Their role is to help develop a business ecosystem that enables SMEs to grow. Cravo and Piza (2016) demonstrated that BSI services have a positive impact on business performance indicators: new jobs, labor productivity, exports, and investment. SMEs have a weak resource base and can benefit greatly from external assistance (Boter & Lundstrom, 2005). Government assistance provided through BSI is important to the success of any SME (Yusuf, 1995). External help can enhance strategic knowledge and improve competitiveness (Bennett & Robson, 2003). Chrisman and McMullan (2004) emphasized that BSIs can help SMEs to overcome information and knowledge gaps, which are particularly prevalent in the early stages of SME development. External advice usually targets specific needs or provides a strategic view of the organizational potential for future development (Ramsden & Bennett, 2005).

The benefits of seeking external help and support are numerous. Data from developed countries (such as the United Kingdom) show that the number of SMEs seeking advice in their early stages of development is steadily increasing, while the number of existing SMEs seeking external help is very low (Mole, 2016). SME owners are generally unaware that external advice and services exist and are unsure of the value that external help can bring (Ramsden & Bennett, 2005). They do not have enough information about the cost and availability of consulting and are therefore reluctant to use it. Obeng and Blundel (2015) identified the most common reasons for not seeking external advice or services. Their research findings showed that SME owners were unaware of services or service providers. SMEs reported a lack of public information about the existence of BSIs and the services they provide.
Government programmes are often standardized and usually divided into packages aimed at supporting specific groups of entrepreneurs (young entrepreneurs, women entrepreneurs, etc.), industries, or sectors. They do not meet the specific needs of SMEs (Boter & Lundstrom, 2005), are too broad in scope, and cannot solve the specific problems of SMEs (Turok & Raco, 2000). All these reasons lead to poor experiences of using external help or advice and to a lack of trust, which hinders the future use of BSI services.

3. THE NETWORK OF BUSINESS SUPPORT INSTITUTIONS IN CROATIA

To increase the use of external professional help, many government agencies have been established (Bennett & Robson, 2003). In Croatia, the government has followed the same idea in creating a large network of business support institutions. BSIs are usually established by the local, regional, or national government, which also provides financial support for their work. One of their main tasks is to implement government programmes created to support SMEs. Business support institutions provide various services to their users, i.e. the SME sector: Business consulting, information, workspace, co-working space, infrastructure, cheaper land prices, legal advice, organization of networking events, etc. For every 8,880 inhabitants, there is one business support institution offering free advice to SMEs. Although BSIs are numerous, they are concentrated in large cities (especially the capital) and more developed regions (districts), while underdeveloped districts such as Lika - Senj have the smallest number of BSIs.

The tasks of each BSI are defined in the Law on Support for Entrepreneurial Infrastructure (Official Gazette 57/18, 41/14, 114/13 and 93/13).

According to the report BOND (2018), the majority of BSI is registered as a limited liability company and has several tasks: Advice on the establishment and management of SMEs, market research, ICT, education, advertising and marketing, publishing, promotion of business cooperation, organization of seminars, presentations and trade fairs, accounting, provision of accommodation services, renting, management of real estate, etc. BSIs are not all the same size. Some of them have no employees, while others have up to 67 employees. Their activities are financed mainly from the state or county budget, but also from EU projects and services sold on the market. The number of their users is also not comparable. Some BSIs have no users of their services, while others have more than 2000 users in their database. According to the report of BOND (2018), most users of their services seek advice on sources of financing (66.13%), preparation of EU projects and project monitoring (56.45%), management of companies (64.52%), preparation of business plans and investment studies (52.42%). Although there is a demand, BSIs cannot provide advice on internalization, quality standards, commercialization of innovations, and legal and tax advice.

BSIs do not research the needs of their users. Only 37.2% of BSIs tried to find out what kind of service their users need.

The results of the survey on the satisfaction of SMEs in Croatia with BSI services are in line with the results of other developing countries. SMEs do not have enough information about BSI and the services they offer (assistance). The price of the service, although only the preparation and monitoring of EU funds and the preparation of business plans are not free of charge, is also one of the reasons for dissatisfaction. SMEs are also looking for sector-specific advice which BSIs do not provide.
Figure 1. Type of advice that business support institutions do not provide and SME owners would like to obtain


Figure 2. Reasons for dissatisfaction with BSIs services


4. METHODOLOGY

In the social sciences, interviews are often used as a qualitative method with the goal of "obtaining a detailed picture of human behaviors and beliefs in the context in which they occur." (Alshenqeeti, 2014, p. 39). An interview is a conversation to collect descriptions from the interviewee and his or her interpretations of the phenomena (Kvale, 1996). Since the research method in social sciences determines the success, validity, and reliability of the research (Alshenqeeti, 2014), an in-depth interview was a more powerful tool for exploring people's views in greater depth compared to the questionnaire (Cohen et al., 2007; Kvale, 1996). Interviews allow for the exploration of people's behaviors, experiences, and understandings (Brown, 2005). Interviews also allow for linking people's actions to their beliefs.
This paper aims to critically review the impact of BSI on the SME sector in Croatia. BSIs were supposed to create an environment in which SMEs can grow, but the research results of the two main reports on the SME sector in Croatia (GEM and SME Report) show that the obstacles hindering the growth and development of SMEs are equally high and that the innovativeness and competitiveness of Croatian SMEs are low. To identify the needs of the Croatian SME sector, data from the Croatian Agency for SMEs, Innovation and Investment (HAMAG-BICRO) was used. The data was collected in 2018 through focus groups (70 entrepreneurs from different parts of Croatia) and questionnaires completed by 124 BSIs across Croatia. The data was analyzed in the BOND report, which served as a source of secondary data for this study (along with GEM and the SME report).

Primary BSI data, opinions, and attitudes were collected through in-depth interviews with BSI managers. Interviews were conducted via telephone or Zoom platform in September 2022. The sample consisted of managers from business incubators, entrepreneurship centers, development agencies, and county-level economic administrators. Their opinions and attitudes were compared with the needs of SMEs in order to identify the gap that could indicate a lack of activities necessary for the development of the SME sector in Croatia. Since enterprise zone managers were not included in the sample in the BOND report, their views were also not analyzed in this paper.

Table 2. Type of Business support institution in the sample

<table>
<thead>
<tr>
<th>Type of the Business support institutions</th>
<th>Number of interviewed managers from Business support institutions in Croatia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business incubators</td>
<td>3</td>
</tr>
<tr>
<td>Center for Entrepreneurship</td>
<td>2</td>
</tr>
<tr>
<td>Development agencies</td>
<td>2</td>
</tr>
<tr>
<td>Administrative department for economy on a county level</td>
<td>1</td>
</tr>
<tr>
<td>Competencies centers</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: Author's data

All managers interviewed had more than 15 years of experience working in BSI, advising SME owners, as well as creating various programmes and packages of subsidies and external assistance. Male and female respondents were equally represented in the sample. BSIs in the sample cover the needs of the SME sector on the entire territory of Croatia. They are registered as limited liability companies, local government entities, but also as non-profit organizations.

5. RESULTS

All managers interviewed have experience working with entrepreneurs and in BSIs, they understand the obstacles SMEs face in their development. Although they are managers in their organizations, they do not make independent decisions. Depending on the legal form of their organization, they have to consult with their founders - city or county - when making decisions. Only one BSI in the sample, incorporated as a nonprofit organization, is able to operate independently.

*We are able to make independent decisions and organize our BSI according to our plans, but this "freedom" means that we cannot count on constant financial support from the city, county, or government (as other BSIs do).*
In developing programs and services for SMEs, BSI managers are guided by the needs of their clients, listen to them, but must also implement programs and provide services that are mandated by the local government or ministry.

Most of the services we provide are determined by the law, but some activities we carry out jointly with local authorities. We try to meet the needs of our users, but we do not have all the required expertise. In addition to the activities we perform for SMEs, there are also activities we perform for our founders.

BSI leaders in the sample carry out a wide range of activities for SMEs: Providing premises, organizing seminars and training, providing advice and information, preparing business plans or investment studies, developing new activities that meet the needs of SMEs, etc. In addition to these regular activities, they also have tasks that are not related to their main activity. The head of a BSI is also responsible for the management of a children's resort on the Adriatic coast, but also for the local cinema. The administrative department designs projects and activities for SMEs, but also designs and implements activities for the local fair.

All BSIs in the sample, except the one organized as a non-profit organization, receive regular subsidies for their activities. Their wages are funded by the municipal or county budget.

Since we have to pay not only for our wages but also for financing activities that cannot be charged to entrepreneurs, especially start-ups, we have to prepare and implement EU projects. We prepare projects for our activities, but also prepare and manage projects for other (mostly public) organizations. This activity slowly became our main activity.

Since local authorities fund the services that most BSIs provide, they are heavily involved in the management of these organizations. Every time there is an election, there is a change in the leadership of the organization. The new leadership brings in new ideas and perspectives, while the previous leader is promoted to advisor to the organization.

Entrepreneurs seek various assistance from BSIs, usually advice on the choice of the legal form of the business, on the preparation of the business plan, on the drafting or analysis of various contracts, but also on the development of business models. None of the BSIs in the sample provide legal advice, although they are aware of the importance of such advice for their users.

We do not have resources (or permission) to employ individuals who could provide such advice. SME owners seek different legal advice, and we are not sure that one person can cover all their needs. Moreover, who takes responsibility for advice that does not meet their expectations?

SME owners seek different types of advice in BSIs. Some of them do not have enough knowledge, but also do not have enough resources to train employees.

In my opinion, SME owners feel that BSIs should provide all kinds of help and support they need.

Owners of SMEs in Croatia seek advice from BSIs, but also from their accountants. On the other side, they do not trust and do not use the services of consultants (Delić & Alpeza, 2017).
SME owners in Croatia needed advice and guidance during the crisis COVID-19, but BSI was not able to design activities that would help SMEs in these chaotic times.

*We would really like to help and advise SMEs, but we do not have the knowledge and time to prepare, but also SMEs rarely turn to us and ask for this kind of help.*

In the answers of the interviewees, the most important problems are mentioned and explained.

6. CONCLUSION

BSIs in Croatia are predominantly organized as limited liability companies owned by the local government. Their main "funder" is the local government, which regularly provides them with financial support (salaries for employees, subsidies for SMEs, etc.). The management of BSI is under the direct control of the local government, as the organization's CEO must be approved by the local government. The scope of BSIs' activities is prescribed by law, and these activities are its core business. Because BSIs are funded by the local government, other activities, sometimes not even related to their core business, must be performed and managed by the BSI. The focus on these activities leaves very little room for the development of new activities that cover all the needs of SMEs in the market.

On the other hand, BSIs, which are independent in their decisions, are constantly in search of financial sources that can cover their salaries and the costs of the activities they carry out. This quest forces them to be more oriented to funders and the preparation of projects, and less oriented to their clients and their needs.

It seems that both types of organizations focus more on internal challenges than on building trust with SMEs and developing activities for them that are tailored to their needs.

Knowledge gaps can be filled through regular education and training of BSI staff, while services and specific advice can be provided through networking and better collaboration between BSIs.

Specialization and collaboration can be a solution to the gap between supply and demand in the management consulting market.

7. FUTURE RESEARCH DIRECTION

Examining the impact of BSI on the development of the SME sector is only a first step toward better understanding the needs of SMEs and the actions that can accelerate their competitiveness and growth.

To better understand how they operate and how large and rich the network of BSIs is, they should be mapped and analyzed in detail.

Since the research method leads and drives the researcher to the results and recommendations, the limitations of this method could be avoided by quantitative methods. Although the respondents remained anonymous, they gave socially accepted answers. Sometimes, when they were unsure of the words to use, they skipped the question or steered the conversation in another direction.
Future research should explore the role of accountants in advising SMEs, as they have closer relationships with SME owners, but also have fewer problems with asymmetric information. Since entrepreneurs tend to learn from each other, the role of SME networking in finding the advice they need is also worth exploring.

References


