

# KNOW-HOW TRANSFER OF PUBLIC SUPPORT PROGRAMS FOR SMALL AND MEDIUM-SIZED ENTERPRISES FROM SLOVENIA TO THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

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## Abstract

The need for external business support for small and medium enterprises has been an issue for many governments around the world. Government agencies have developed several initiatives and the scheme presented in this paper is targeted at support in the form of counselling, combined with provision of information and training to small and medium-sized enterprises. The program was started in Slovenia in 2000 and in 2006 the know-how for the system was transferred to the Former Yugoslav Republic of Macedonia. After the pilot phase, the need for its assessment evolved. An opportunity also for the transfer of methodology for its evaluation came clear. Thus, the same approach was used in both countries, which enabled an excellent benchmarking opportunity for further development of the scheme in the two countries. This paper presents the fundamental concept of the voucher system. The assumptions for an effective system are analyzed and comments from evaluations are discussed. The potential for further development of the system in the Former Yugoslav Republic of Macedonia is discussed.

## JEL Classification: M13

**Keywords:** Support for small and medium-sized enterprises, policy measures, government, transition economy, market failure, counselling, consultants, local enterprise centre, small and medium-sized businesses, performance, voucher system, satisfaction level

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## Introduction

Several policy initiatives have been introduced in EU countries by government agencies to compensate for market failure, because the free market mechanism does not adequately support the emergence of new ventures. Many efforts have been made to create an entrepreneurial climate in support of small and medium-sized enterprises (Beaver & Prince, 2004). However, these processes are in constant need of improvements and actualization owing to the fast changing environment in which small and medium-sized enterprises operate (Carland & Carland, 2004) but, seem to be at present the only answer to economic development challenges. Similar government and other public initiatives with the objective of supporting start-up processes and fostering an entrepreneurial climate have been taken in Slovenia, the Former Yugoslav Republic of Macedonia and other Yugoslav successor states (Bateman, 2000) and other emerging economies worldwide.

The importance of entrepreneurship counselling for successful venture creation and growth is widely recognized in the entrepreneurship textbooks; however, its impact on business performance has been so far neglected and poorly demonstrated by academic research (Lambrecht & Pirnay, 2005). Because business advisory, counselling and information services may not be affordable for small and medium-sized enterprises, they can be offered for free and/or for a reduced fee. There is an ongoing debate among policy makers, practitioners and academics on the necessity for provision of low-cost business services for start-ups which would be available in the local environment (Rusten *et al.*, 2005) in which businesses operate. However, this debate is influenced more by individuals' beliefs than significant academic findings.

The voucher counselling scheme (VCS) was developed as a publicly financed support measure for small and medium-sized companies in Slovenia in 2002, being influenced by some similar schemes abroad. The main objective of VCS was to offer consulting services to small and medium-sized enterprises through a number of government supported intermediaries (local enterprise centres - LECs) following the three objectives: (1) subsidized and controlled prices of consulting to small and medium-sized enterprises, (2) recruitment system for consultants in order to ensure quality of services and, (3) decentralized supply in order to make services available throughout the country. After several years of successful operation proved also by scientific research evaluations (Drnovšek, 2005) VCS know-how was transferred to the Former Yugoslav Republic of Macedonia within the bilateral cooperation between the two national support agencies for small and medium-sized companies in both countries. Similarly, like the know-how for VCS operation, also the methodological framework from Slovenia was applied to conduct the first evaluation of VCS after two years of operation of the scheme in the Former Yugoslav Republic of Macedonia in 2008.

The main objective of the paper and motivation for writing it was to directly compare findings from empirical evaluation done in 2006 in Slovenia and the one repeated in the Former Yugoslav Republic of Macedonia and test the assumption that results from the two evaluations, also made in different business environments and within the time frame of about three years one after another, would show certain level of similarity. The issue to be raised is the issue of transferability of a particular public policy measure in the field of small and medium-sized enterprises and entrepreneurship development from one economy to another. Apparently, a lot of new measures being introduced by governments are either inventing what has been already invented or are blind replications of what appeared to be “best practices” somewhere else.

The structure of the paper goes as follows: first the theoretical background of government's assistance to small and medium-sized enterprises is presented. Then, the rationale is discussed along with basic concepts underlying development of VCS; then findings from a service quality survey in Slovenia are briefly presented. The development of VCS in the Former Yugoslav Republic of Macedonia is presented and several comparisons based on qualitative data collected in the two countries are discussed. Some implications and future challenges for development of the system in both countries are discussed. In the end, some possibilities for development of benchmarking-based evaluation methodologies are proposed.

## **Theoretical Framework**

### *The role of government in support for small and medium-sized enterprises*

The role of government in relation to small and medium-sized enterprises appears to vary in economies at different stages of market reform. In more mature market economies, the state is a major factor influencing the nature of development of the small and medium-sized enterprise sector, although more through its influence on the external environment than through direct support measures. At the same time, in countries where market reforms are more advanced, priorities for government with respect to the environment for small and medium-sized enterprises are bringing regulations in compliance with EU standards to prepare for accession, including establishing an effective support infrastructure (Smallbone & Welter, 2001).

Although entrepreneurs and managers develop small companies, governments have certain effects on how, particularly small firms, operate. Government policy and its influence on the institutional environment has become a key focus of efforts to help to improve how small firms develop and economies compete. Thus several countries have active policies for improving the competitiveness of their small and medium-sized enterprises. Unfortunately, these policies are often based on ‘mythical concepts’ and ignore the findings of academic research (Gibb, 2000). The main dimensions of the government role are: (1) regulator (enabling competition fair), (2)

economic agent (assisting in entering new, foreign markets) and, (3) strategic planner and promoter with the objective of having more people interested in pursuing an entrepreneurship career in the longer term (Bennett, 2006). The need for government action for small and medium-sized enterprises has been traditionally justified by three main arguments: (1) the market failure which inhibits small business development, (2) there is a great public interest in small and medium-sized enterprises because they create jobs and, (3) government can develop a strategic vision for the economy which individual small and medium-sized enterprises cannot (Storey, 1993)

#### *Market failure in the provision of services to small and medium-sized enterprises*

In the case of this particular research, market failure should be understood as a gap between the quantity of consulting services supplied by professionals on one side and services demanded by small and medium-sized enterprises on the other side at a given "market" price. Namely, what consultants would regard as a fair price to cover their costs and contribute to expected profits is seldom met by companies who would regard this price as unaffordable (Hall, 2002). One of the common components of the market failure argument has been that small and medium-sized enterprises are less aware of advice, information and other business services that may be supplied on the market (Gibb & Dyson, 1984). They also tend to be sceptical about the value of services and are not willing to pay for them, which leads to an unwillingness to seek external support (Storey & Westhead, 1996). This argument is frequently used to justify government advice and information programs for small and medium-sized enterprises. While this might have been true in the 70's and 80's, there is only meagre evidence that this is still the case in the new millennium (Bennett & Robson, 2000; Ramsden & Bennett, 2005). The cornerstone of the start-up process is support for the entrepreneurial idea which is a basis to create and exploit opportunities and create value (Van der Veen & Wakkee, 2004). By convincing potential employees, customers, suppliers and investors of the legitimacy of the idea, the founder, with possible back-up by outside assistance, is able to mobilise the resources that these stakeholders possess on behalf of the developing firm (Delmar & Shane, 2004) which may be a crucial element of survival probability during the start-up phase.

The co-operation process between small and medium-sized enterprises and external providers of services is often described in terms of lack of market transparency, problems in the search phase, a lack of co-operation targets and evaluation criteria as well as deficits in co-operation during the transfer phase - leading to a considerable number of small and medium enterprises which are disappointed with the services delivered (Kailer & Scheff, 1999).

*Impact of business consultancy services on small and medium enterprises*

The use of business consulting services in the small and medium-sized enterprise sector has not been researched extensively yet. There is some evidence about more general outside assistance (Chrisman & McMullan, 2004); however, the use of various types of business advice is not explored in depth although there are several arguments that show the positive impact of using outside advice and other support services on the survival likelihood of the new ventures (Delmar & Shane, 2004) and positive impact on performance and growth (Berry *et al.*, 2006). Also, the issue of support measures for small and medium-sized enterprises is not very well researched in transition economies, however, with a couple of exceptions of a more descriptive rather than exploratory nature like Bulgaria (Baltov, 2005), Czech Republic (Bohatá & Mládek, 1999), the Former Yugoslav Republic of Macedonia (Nikolovski & Stojčev, 2008) and Lithuania (Urbonavičius & Dikčius, 2005).

One among the modestly addressed research questions has so far been how different types of business consulting services influence a company's growth in terms of sales volume and employment. This is the most common but rather simplified measure of a company's growth and success, but sophisticated measurements have their own imperfections (Abouzeedan & Busler, 2004). Growth represents a complex matter (Keasey *et al.*, 1994) and includes a spectrum of owner-manager ambitions, intentions, and competencies; internal organizational factors; region specific resources and infrastructure; and external influences (Morrison *et al.*, 2003). Many influences are relatively well discussed (Rodríguez *et al.*, 2003), but the possible positive impact of consumption of consulting services on business success is poorly represented in studies.

The impact of the support measures on the performance of small and medium-sized enterprises has been the subject of many pieces of partial research (Huang, 2001) with reasonable concepts reliably tested only in fields like education, training and research (Davidsson & Klofsten, 2002), and hard infrastructure (Heydebreck *et al.*, 2000). But research has fallen short in investigating the possible positive influence of information, advice, counselling and, mentoring (Young & Perrewé, 2000) provided in the form of public policy support measures. Thus, academics, policy makers and practitioners should aim to integrate solutions which serve as evaluation methodologies to assess the various scopes of impact of policy measures (Chandler & Lyon, 2001).

There has been an ongoing debate among policy makers regarding best practice evaluation methods for small and medium-sized enterprise and entrepreneurship policies and programs. Several countries have examined the benefits of evaluation and how best to address common issues that arise when commissioning and undertaking small and medium-sized enterprises and entrepreneurship evaluations. In the OECD (2008) study, one of the key evaluation principles set out is the 'Six

Steps to Heaven' approach, introduced by Storey (1998), dividing the process into two phases of monitoring and evaluation. Monitoring is done through three steps: (1) taking up schemes, (2) collecting recipients' opinions and, (3) checking recipient's views of added-value by the scheme. Monitoring is followed by evaluation which consists of (4) comparison of the performance of the assisted firms and typical firms, (5) comparison with match firms and, (6) taking account of selection bias. Taking into account mostly steps from two to four, which have also been utilized in the design of this particular research, the public policy monitoring programs can be synonymies with the concept of customer satisfaction concept (Čočkalo *et al.*, 2010) assuming that the support measure's recipients are treated as customers of a particular scheme.

### **The Voucher System of Counselling (VCS) in two countries**

#### *Setting-up the scheme in Slovenia*

VCS in Slovenia was inspired by some best practices from other countries (USA, Spain, Austria and UK). It provided basic "soft" support on favourable terms to small and medium enterprises in all localities across the country in order to ensure equality of opportunity to start and develop one's own business. The demand for this measure was clearly supported by research into small and medium-sized enterprise sector development in Slovenia (Drnovšek *et al.*, 2004). The basic idea of VCS was that consultants were assessed and registered by the managing agency. Only accredited consultants could provide services within VCS. In the process of defining the consulting assignment, the objectives and price were negotiated by three parties: client, consultant and LEC. The service was paid for by the client, who was entitled to receive the subsidiary grant of 50%. There was an upper limit of 4,000 EUR per company per year for the subsidiary.

VCS in Slovenia was managed by the national agency for entrepreneurship promotion and delivered locally through a network of local enterprise centres (LEC) which appointed a person called an "organizer", who assisted in enrolment of the clients into the program, made matches between clients and consultants and managed the technical part of the arrangements (administration, payments etc.). Thus, the role of LECs was very important for smooth management of the scheme. VCS in Slovenia was regularly evaluated (Drnovšek, 2005). There has been an on-going debate on viable indicators which would confirm the efficiency of the scheme. However, there is no evidence in the scientific opus that would suggest an adequate methodological approach which would enable a "ceteris paribus" assessment of effectiveness and efficiency of VCS, which is based on a large number of small-amount assistances to small and medium-sized enterprises. Although there have been many small amounts' grants' approaches for start-ups, like micro-credits, the attempts to evaluate those have been very modest (McKernan, 2002). The concept of the clients' satisfaction with the scheme was therefore proposed by Drnovšek (2005).

*Transfer of VCS know-how to the Former Yugoslav Republic of Macedonia*

In the Former Yugoslav Republic of Macedonia, VCS was modelled closely on the Slovenian VCS. It engaged business support organizations on behalf of the Agency for Entrepreneurship in the Former Yugoslav Republic of Macedonia (AEM), which was the managing authority for the implementation of VCS. The delivery system for VCS was established during the pilot phase and entailed the preparation of initial documentation, selection of implementing partners (in the case of the Former Yugoslav Republic of Macedonia, those were eight regional enterprise centres - RECs), design of IT support, recruitment of consultants-counsellors, and promotion of VCS to the target group (Hase & Nanevski, 2006) with support and assistance of the experts from Slovenia. Thus, know-how of the policy measure and experience was directly transferred from one country to another - which is the case that has not so far been researched. Thus, the challenge in doing so appeared to be the use of opportunity for a benchmarking concept (Huggins & Weir, 2007) to evaluate the efficiency of the scheme in the Former Yugoslav Republic of Macedonia. The scheme started to operate throughout the country in 2007.

*Slovenia and the Former Yugoslav Republic of Macedonia*

Slovenia and the Former Yugoslav Republic of Macedonia were two out of six member republics in the state federation named the Socialist Federal Republic of Yugoslavia, which was created in 1945 after World War II, and after long-lasting political crisis fell apart after 1991. Yugoslavia has been a communist party led confederation of autonomous republics which had never assembled for economic reasons but merely to fulfil the ancient political dream that many nations in the territory of Yugoslavia had had: all the people of one nation living in one country (this was mostly the case for Serbians and Slovenes, but also for Macedonians and Croats). The differences in economic development measured by purchasing power were tremendous. In 1985, Slovenia was on the level of Spain while the Former Yugoslav Republic of Macedonia could have been compared to Pakistan. In order to secure sustainable development of the country, substantial capital flows and know-how transfer took place from the richer to the poorer republics. Thus, relationships between Slovenia and the Former Yugoslav Republic of Macedonia were very close, despite one being geographically at the western end and the other at the eastern end of the federation (Borak, 2002).

The differences between the two countries are quite substantial: Slovenia is a full member of the EU, while the Former Yugoslav Republic of Macedonia is among the candidate countries, having a per capita GDP less than half that of Slovenia. According to GEM, the Former Yugoslav Republic of Macedonia has been an efficient economy while Slovenia has already positioned itself among the innovative economies. Total entrepreneurial activity is higher in the Former Yugoslav Republic of Macedonia (7.96% compared to only 4.56% in Slovenia), however, the majority of start-ups in



the Former Yugoslav Republic of Macedonia are from necessity (58.66% compared to only 16.24% in Slovenia). Entrepreneurial aspirations among the population are higher in the Former Yugoslav Republic of Macedonia; however, the perceived respect for entrepreneurs and positive media coverage are more evident in Slovenia (Rebernik *et al.*, 2011). From what has been said it can be concluded that the Former Yugoslav Republic of Macedonia still has several opportunities for effective design and implementation of small and medium-sized enterprises' and entrepreneurship support schemes.

### **Methodology and propositions**

The methodological approach in Slovenia used qualitative and quantitative research techniques. First, face to face structured interviews were conducted with the target groups in the system: entrepreneurs who had already used the services, and local organizers and consultants to small and medium-sized enterprises. The qualitative data provided by key informants were used in developing self-reporting questionnaires which were sent to all small and medium-sized enterprises participating in the system in the past and business consultants who actively participated in the system (Drnovšek, 2005).

The findings of this study are based on the survey done in April 2008 in the Former Yugoslav Republic of Macedonia and compared with findings obtained three years earlier in Slovenia (Drnovšek, 2005). The original questionnaire was translated from Slovenian to Macedonian by a native speaker who spent many years working in Slovenia. The questionnaire was tested on a group of eight entrepreneurs and a small number of, mostly, linguistic changes were made to clarify some questions. In total, there were around 100 questions, the majority using the five-point Likert scale for answering and with no open ended questions except the invitation for possible final comments. The graphic designs of the two questionnaires were very similar (front page, fonts etc.). The survey was mailed to all the clients who had participated in VCS from its launch until the time of the survey and numbered 194 in total. Each sent package contained the cover letter, copy of questionnaire complemented with stamped envelope with the reply address in order to make the process for the respondents as simple as possible. The regional enterprise centres (RECs) served as intermediaries between end users and the managers of the scheme were encouraged to do a follow-up in order to make the number of returned filled-in questionnaires as high as possible. By the proposed deadline 96 questionnaires were returned. A 49.5 % response rate was achieved, which was high, but not surprising, because the questionnaires were well targeted. Apart from the anonymity of respondents promised in the cover letter, there was no other assurance of confidentiality. The following propositions are derived partly from the literature survey but mainly from previous Slovenian experience (Drnovšek, 2005):



- P1.** Entrepreneurs in the Former Yugoslav Republic of Macedonia generally receive their first experience with outside assistance through VCS. The RECs are the most important distribution channel.
- P2.** The level of satisfaction with different aspects of VCS in the Former Yugoslav Republic of Macedonia is significantly higher than in Slovenia.
- P3.** There is a high level of similarity in perceived quality of services and impact of VCS in the Former Yugoslav Republic of Macedonia and Slovenia.
- P4.** The entrepreneurs generally value the services by RECs less than those supplied by consultants.
- P5.** The opportunity for development of benchmarking evaluation methodologies for public policy measures is feasible enough to be further elaborated.

The particularity of listed propositions is that they are not directly based on the presented literature survey but, are derived from experience in Slovenia with basic assumption that the evaluation in Slovenia (Drnovšek, 2005) was designed in a manner that left space for possible replication in other economic and business environments and provided opportunity for benchmarking analysis of results from two or even more countries. One of the ambitions of this paper is therefore to contribute to the extension of knowledge on public policy evaluations with a special commitment to the evaluation of programmes which have been transferred from one economy and business environment to another.

Common statistical tools were used to analyze the possible differences in means (t-test) for variables within the sample in the Former Yugoslav Republic of Macedonia and to compare them with some data from Slovenia, where 97 responses were collected (Drnovšek, 2005) so the sample sizes were comparable. Differences in rankings of importance of different aspects of the scheme between the two samples proved to be a useful measure of comparison and confirmation of importance similarity (Boschma & Wal, 2007) and Kendall's tau ( $\tau$ ) was used to analyze this matter. Internal consistency of the parts of questionnaire comparing findings from Slovenia and the Former Yugoslav Republic of Macedonia was checked using Cronbach's alpha.

## Results and discussion

### *Some demographic data and general observations from the Former Yugoslav Republic of Macedonia*

Young companies (1 to 2 years were represented with 15%, older companies of 10 years and more with 38%, while 3 – 5 years old companies accounted for 23%, and 5 – 10 years old companies for 18% of the total sample) mainly participated in the study. Most respondents were either owners, managers or founders of the company (82%). Most of them were middle-aged (72% in the range between 30 and 50 years). The participants were well educated (49% having university degrees or

higher). Although there is no empirical evidence on the average level of education of entrepreneurs in the Former Yugoslav Republic of Macedonia it may be suspected that, on average, it would be much lower than in the sample. This can be interpreted to indicate that higher educated entrepreneurs would have more interest in seeking useful information and finding assistance for their business challenges. Interestingly, 56% of respondents had most experience in marketing and sales, followed by those with manufacturing experience (26%) and managerial experience (13%). On average, participants had 16 years of working experience.

Two-thirds of the researched companies were dealing with manufacturing (mostly metal, wood and plastic processing) and 28% were in the construction business. Less than half of the companies reported more than one activity they deal with. Close to 60 % of respondents were supplying both households and other businesses. 26% of them were entirely in the business-to-business market while 8% were in the retail market. Unfortunately, there is no comparable comprehensive study on small and medium-sized enterprises in the Former Yugoslav Republic of Macedonia available which would provide comparable and significant data offering an opportunity for an in-depth analysis of possible sample biases.

Participants evaluate most their technical expertise (which is expected, because they are mostly experienced in a technical or engineering background); their customer relationships skills are ranked second in value while they value least their knowledge on European issues and accounting. The European issues can be understood to reflect the wish of the Former Yugoslav Republic of Macedonia to enter the EU at some point, while accounting can probably be linked to the common aim of tax optimisation among small and medium-sized enterprise people.

As far as business performance is concerned, the participants value highest the quality of their products and services and personal freedom and autonomy to which they are entitled by working on their own. While personal freedom and autonomy are classical postulates of entrepreneurship, the quality of products/services is often perceived as a key competitive advantage in transition economies, but unfortunately its importance and real value are often subjectively overestimated. On the other hand, respondents were least happy with profitability and their personal revenues. This may be interpreted as indicating that their expectations about financial gains from the businesses show some tendency to be more ambitious in the future.

#### *Reasons for enrolment in VCS*

The company had a development project and this was the most frequently listed reason for as many as 38% of the companies to get involved in VCS. It can be argued as a positive trend that the majority of the clients joined VCS for some development orientation reasons rather than just operational problem-solving. It was 95% of participants who remembered the consultant's name, which they had to put down

in the survey. This finding may be interpreted as a promising sign of possible future co-operation between the two parties. The consultant was recommended by friends and business colleagues in 28% of cases and in another 28%, the consultants were recommended by the RECs. In 13% the consultant was picked up from the web-based consultants' register and in another 13% consultants approached clients with business proposals. Word-of-mouth and RECs appear to be the most important marketing and distribution channels for VCS in the Former Yugoslav Republic of Macedonia. Regarding the aid from other external sources, 59% of clients have never used any other external assistance to solve their problems besides VCS. Only 23% have already had some experience with outsourcing assistance while 18% are not sure how to answer this question. Out of these opinions it may be concluded that P1, i.e. that entrepreneurs in the Former Yugoslav Republic of Macedonia generally receive their first experience with outside assistance through VCS and that RECs are the most important distribution channel, can be regarded as confirmed.

**Table 1.** Reason for enrolment into VCS (1-highly disagree, 5-highly agree)

Rank	Issue	Overall mean: 3.95	Mean
1 <sup>st</sup>	I enrolled because I believed it would be useful for my business.		4.88
2 <sup>nd</sup>	I wished to prepare a long-term strategic development plan.		4.58
2 <sup>nd</sup> last	I felt the lack of entrepreneurial skills and knowledge.		3.15
Last	I wanted to be ready on time for challenges of e-business.		3.00

*Source:* Own research, 2008

The most frequent demand for different consulting services was for different feasibility studies and business plans (16%) and issues regarding production (13%). The largest proportion of clients received the subsidiary grant of between 330 and 410 Euro. 69% of participants think they know about all the services within VCS, while 10% think they don't. Participants were asked to evaluate 19 different possible reasons for enrolment into VCS. In order to keep the relevant data more transparent it was decided to present only two most and two least important issues in table 1. As shown in table 1, the most frequent reason for getting enrolled into VCS is a general belief that this may generally be useful. However, the preparation of development and business plans was the second most frequent reason.

#### *Satisfaction with consultants and intermediaries*

As shown in table 2, entrepreneurs were most satisfied with the skills and professionalism of consultants and with the content of the consultation, which was sufficiently up-to-date for the need of the company. On the other side, the least two valued issues, which were general impression about the consulting process and the

impact on performance may be interpreted as meaning that clients did not foresee the real direct impact of the consultancy delivered, however, they still believed it was useful. The level of satisfaction with consultants' skills and knowledge has proved to be very high, as shown in table 3. The levels of satisfaction with both VCS and consultants were surprisingly high which can be interpreted as a gratefulness of the respondents, who in the majority of cases received their first state-aid subsidiary through VCS, and so wanted to show their appreciation of this fact by giving higher grades.

**Table 2.** Satisfaction with different views of VCS (1-highly disagree, 5-highly agree)

Rank	Issue	Overall mean: 4.87	Mean
1 <sup>st</sup>	The consultant was very skilled and professional.		4.92
2 <sup>nd</sup>	The content of the consultation was sufficiently up-to-date for the needs of the company.		4.90
2 <sup>nd</sup> last	General impression about the consulting process is positive.		4,84
Last	Consultation had impact on better performance of the company.		4.75

*Source:* Own research, 2008

**Table 3.** Satisfaction with consultants' skills and knowledge (1-highly disagree, 5-highly agree)

Rank	Issue	Overall mean: 4.75	Mean
1 <sup>st</sup>	Having enough time and patience to listen to the client		4.94
2 <sup>nd</sup>	Interpersonal skills		4.92
2 <sup>nd</sup> last	He/she expected the client to use the suggested solutions and recommendations.		4.50
Last	He/she knows how to terminate the cooperation when the assignment is finished.		4.33

*Source:* Own research, 2008

The expectations about the impact of the counselling are quite optimistic: two-thirds of participants believed that benefits would come out very soon – within some months, while 18% thought that they might show within a year. Other respondents expected longer time periods for benefits.

Regarding the performance of REC, the respondents evaluated nine different issues. Their ability to give general advice and information received the highest appreciation together with the advice on procedures to establish new companies. On the other hand, entrepreneurs valued least the information about the financial initiatives for small and medium-sized enterprises (probably because widespread financial assistance is

simply not available and they might have had too high expectations regarding this matter) and office working hours of RECs (table 4). This may be interpreted as a consequence of the possibility that some of the RECs may have already started to introduce unpopular administrative patterns of behaviour which are not appreciated by business people. Comparing to consultants, the overall mean score for RECs is significantly lower than for consultants ( $t=4.18$ ,  $df=9$ ,  $p=0.002$ ) which confirms P4, stating that entrepreneurs generally value less the services by RECs compared to those supplied by consultants.

**Table 4.** Satisfaction with cooperation with REC (1-highly disagree, 5-highly agree)

Rank	Issue	Overall mean: 4.69	Mean
1 <sup>st</sup>	General advice and information received		4.91
2 <sup>nd</sup>	Advise and procedures on establishing a company		4.87
2 <sup>nd</sup> last	Information about financial initiatives for small and medium-sized enterprises		4.54
Last	Availability in official working hours		4.50

*Source:* Own research, 2008

31% of participants claimed to “actually always” use the consultant’s recommendations and 56% used it very often. Only 8% of clients have never used advice from the consultants after the consultation process within VCS had been finished. Almost 90% of the participants promised to come back and to use the services of VCS again while others are not sure. It is important that not a single respondent rejected the possibility of re-entering VCS in the following year. The overall level of satisfaction with VCS is generally high, with many respondents expressing the need to spread the entrepreneurial climate (table 5).

**Table 5.** Satisfaction with service within VCS (1-highly disagree, 5-highly agree)

Rank MK	Issue	Mean MK N=96	Mean SLO N=97	Rank SLO
1	The organizer-consultants are highly trained regarding VCS.	4.90	4.51	1
2	VCS is highly needed to spread an entrepreneurial climate in the country.	4.67	4.42	2
3	VCS makes a positive contribution to local and regional development.	4.67	4.38	3
4	The services within VCS result in better business performance.	4.66	3.98	8
5	For enrolment into VCS the geographical proximity of consultant is of key importance.	4.63	4.17	5
6	In general, I am very satisfied with the service provided within VCS.	4.58	4.20	4
7	Administrative procedures in VCS are short and efficient.	4.38	4.11	6
8	Entrepreneurs in VCS also get access to new contacts and networks.	4.31	4.01	7
9	The entrepreneurs often get opportunities for networking while they are in VCS.	4.31	3.87	9
10	The services within VCS are very well described in official publications.	4.17	3.72	10
	<b>Overall mean</b> ( $t=3.46$ , $df=10$ , $p=0.006$ ) Kendall $\tau=0.78$ , $df=10$ , $p<0.05$	4.61	4.14	

Source: Own research, 2008 and Drnovšek (2005)

Internal consistency of the questionnaire was checked with Cronbah's alpha separately for both sets of variables in Slovenia and the Former Yugoslav Republic of Macedonia in order to check for possibility of identical latent constructs (Zinbarg *et al.*, 2006) having both values higher than 0.7 (Slovenia:  $\alpha=0.8122$ ; the Former Yugoslav Republic of Macedonia:  $\alpha=0.7321$ ). As one can see from table 5, the evaluation given in the Former Yugoslav Republic of Macedonia (columns MK) was significantly different from the one in Slovenia (columns SLO) in 2005 ( $t=3.46$ ,  $df=10$ ,  $p=0.006$ ) and the level of satisfaction was in all aspects higher in the Former Yugoslav Republic of Macedonia compared to Slovenia. This can be interpreted as the consequence of two facts: most of the participants from the Former Yugoslav Republic of Macedonia received their first state-aid grant in this context and might have wanted to show a certain level of gratefulness, while more Slovenian companies

have already been used to certain opportunities for state grants and as such might have developed a more critical view of these. Thus P2, stating that the level of satisfaction with different aspects of VCS is significantly higher in the Former Yugoslav Republic of Macedonia than in Slovenia, can be regarded as confirmed.

On the other hand the comparison of rankings of importance reveals a high level of correlation between the rankings of level of satisfaction with different services (Kendall  $\tau=0.78$ ,  $df=10$ ,  $p<0.05$ ). This may be interpreted as a possibility that VCS was in a way successfully mirrored from one economy to another, which partly confirms propositions P3 postulating that there is a high level of similarity in perceived quality of services and impact of VCS in the Former Yugoslav Republic of Macedonia and Slovenia, and P5 stating that the opportunity for development of benchmarking evaluation methodologies for public policy measures is feasible enough to be further elaborated.

### *Perceived impact of counselling*

**Table 6.** Impact of counselling (1-not useful, 5-very useful)

Rank MK	Issue	Mean MK N=96	Mean SLO N=97	Rank SLO
1	Increase of practical experience in entrepreneurship	4.64	3.54	6
2	Better possibility to grow the business	4.57	3.61	5
3	Increased quality of products	4.31	3.25	8
4	Faster responding to changes in environment	4.26	3.87	1
5	Increased theoretical knowledge in the business	4.25	3.84	2
6	Access to new orders and customers	4.21	3.11	10
7	Companies which cooperate with consultants enjoy higher level of reputation within society	4.20	3.18	9
8	Access to new contacts and networks	4.18	3.64	4
9	Improved financial performance	4.03	3.32	7
10	Easier hiring of key employees	3.91	2.87	11
11	Successful tender applications	3.76	3.73	3
12	Counselling does not bring in direct financial impact	3.03	2.45	12
	Overall mean ( $t=5.51$ , $df=12$ , $p=0.0001$ ) Kendall $\tau=0.21$ , $df=12$ , $p=0.3753$	4.11	3.37	

Source: Own research, 2008 and Drnovšek (2005)



As in table 6, the expectations of possible impact from VCS were significantly different in the Former Yugoslav Republic of Macedonia (columns MK) from those in Slovenia (columns SLO) ( $t=5.51$ ,  $df=12$ ,  $p=0.0001$ ). Internal consistency of this set of variables was again checked with Cronbach's alpha separately for Slovenia and the Former Yugoslav Republic of Macedonia (Slovenia:  $\alpha=0.8394$ ; the Former Yugoslav Republic of Macedonia:  $\alpha=0.7669$ ). Again, the perceived impact and influence was higher in the Former Yugoslav Republic of Macedonia where entrepreneurs may be more enthusiastic over the new opportunity to receive some business assistance, while small and medium-sized enterprises in Slovenia were in a way sceptical regarding the possible output of the scheme. However, the comparison of rankings of impact expectations reveals a low level of correlation between the rankings in the two countries (Kendall  $\tau=0.21$ ,  $df=12$ ,  $p=0.3753$ ). The possible interpretation of this finding may be that because of the different levels of entrepreneurship and small and medium-sized enterprise sector development in the two countries, the level of expectations about the outcome and longer-term impact of business support processes are also different. However, these differences cannot contribute to the confirmation of the proposition P5. On the other hand, from the discussion below, P3 - stating that there is a high level of similarity in perceived quality of services and impact of VCS in the Former Yugoslav Republic of Macedonia and Slovenia - cannot be confirmed.

## Conclusions and implications

### *Feasibility of international transfer of know-how in public support measures for small and medium-sized enterprises*

One of the possible shortcomings of this study is that no contingency analyses were carried out to explore the impact of context factors like size of company, age of company, gender of entrepreneur on satisfaction indicators. This has been a rational decision for two main reasons: (1) relatively small sample which makes sub-samples even smaller and difficult to compare and (2) the main objective of the paper, which was finding the answer to the question whether the replicated study on VCS would bring similar and comparable results. There is also no systematic comparison between the successes of the scheme in the two countries analysed, because of the mentioned lack of adopted common methodology to evaluate this type of public policy scheme. Thus it is also difficult to provide evidence of success of the scheme in the Former Yugoslav Republic of Macedonia and the level of satisfaction of beneficiary is the only realistic measure that is available. Therefore, the statement that VCS has been successfully transferred is based on subjective and anecdotal evidence to a certain extent.

*Implications for further development of VCS in the Former Yugoslav Republic of Macedonia*

The most likely sign-in sources into VCS were formal channels such as chambers and local entrepreneurship centres, creating opportunities for popularization through both the more credible channel of personal networks and the more efficient channel of the Internet. By joining the program, entrepreneurs mostly expected help in achieving practical goals such as winning public tenders, getting loans, standards certificates etc. The program is hence currently more oriented to consulting than educational training, which is primarily determined by the approach of individual consultants. Instead of such a one-course-menu service, a more proactive and long-term stance would do better for small and medium enterprises. Evidence from the past shows there is more demand for consulting services that would meet the short-term objectives of a company, for instance the preparation of business plans and investment plans, designing applications for public tenders, meeting standards required by new legislation, financial restructuring etc.

Only a small proportion of the services have focused on the long-term development of companies. Strategic and marketing plans, human resources development plans, business plans to attract equity capital, feasibility studies for inventing a new product or services have so far been rare. Therefore, a mechanism should be introduced to attract companies to become more involved in long-term thinking. One possibility is, of course, to stimulate the supply side of the consulting service market in the Former Yugoslav Republic of Macedonia.

The survey among existing customers of VCS shows that the current contents of offered services meet entrepreneurs' expectations. However, in the future the system should more actively involve programs to support a shift from the traditional technical orientation of entrepreneurs to a more conscious marketing orientation. This can only be done through the more active implementation of practical education programs and workshops. This is also very closely tied to the quality of service offered in the system.

Finally, on the demand side customer re-targeting is an important objective. So far, in both studied countries, the system has been used more by micro companies, lifestyle businesses, small family businesses and the like rather than companies that should be by definition responsible for economic growth: fast growing dynamic enterprises, hi-tech companies, spin-offs from research institutions etc. Certainly, one reason for this is that the annual grant ceiling is reasonably low therefore, an increase in that amount should be considered in the future. The other reason may be found in the lack of consultants who are truly able to understand the very specific needs of more ambitious and growth-oriented entrepreneurs and their companies - which is again the case for the both studied countries.

*Discussion*

The transfer of the know-how of a best-practice type of business support service is likely to have many important bearings on future activities. (1) Being one of the first cases of this kind, the story of a successful know-how transfer of VCS from Slovenia to the Former Yugoslav Republic of Macedonia may become a role model for future activities of this type. Implementing a well proved and tested business support scheme may directly reduce the development costs and give governments opportunities to allocate more resources for the active phase of the scheme and make more resources available for the final beneficiaries. Governments would in such cases be able to apply measures to reduce the adverse impact of market failure in provision of consulting services. In other words: there is obviously a demand from small and medium-sized companies - however this demand cannot be met by the market-driven supply of consulting services since the pricing ambition of service suppliers is generally higher than the affordability of cost on the side of companies. Thus, with the Keynesian measure which VCS definitely is, governments may be able to at least partially repair the defined market failure. (2) A publicly funded scheme needs a regular system of evaluation. For the case of the Former Yugoslav Republic of Macedonia, this evaluation may be in future partly based on the benchmarking procedure done on the comparison with the evaluation findings, achieved in Slovenia with possible comparative development of the key performance indicators which may become a part of the longitudinal evaluation process. (3) The state of development of VCS in the Former Yugoslav Republic of Macedonia may be estimated as to be three years behind Slovenia, measured in the time framework. However, the speed of the future development of VCS in the Former Yugoslav Republic of Macedonia may be substantially increased by implementation of the already tested protocols from Slovenia. (4) When Slovenia became a full time member of the EU, VCS was one of the very few schemes, focused on small and medium-sized enterprises support which was financed from the EU structural policy measures funds. This may be a good opportunity also for the Former Yugoslav Republic of Macedonia, once this country becomes eligible for this source of EU finance.

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