ASSESSING MOVING TARGETS: THE IMPACT OF TRANSITION STAGES ON ENTREPRENEURSHIP DEVELOPMENT[1]

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An issue that has recently gained in importance in transitional literature is the need to develop a thriving small and medium-sized enterprise (SME) sector since it can contribute significantly to innovation, job creation and economic growth. However, the specific characteristics of SMEs make them especially vulnerable to changes in the legal, social and environmental context. In this paper we are interested in the barriers that SME development encounters during different stages in the transition process. There is no consensus regarding 'transition stages', yet various indicators measuring certain aspects of transition progress have been developed. For this paper, we apply a selection of indicators proposed in previous research to approximate three transitional stages that would make sense from an entrepreneurship development perspective. We utilise these indicators to categorise 23 transition countries into transitional stages. On the basis of that utilisation we develop a framework in which we can identify SME development trends based on our analysis of the 25 empirical studies on constraints facing SMEs in transition countries. Our preliminary results indicate that more fundamental barriers related to legal issues are more characteristic of the early stages of transition, while more specific constraints related to human resources and skill development characterise later transition stages.

Keywords: transition countries, SMEs, transition stages, business barriers

Introduction

Entrepreneurship and small and medium size enterprise (SME) activities are generally viewed as contributing positively to economic growth. Though diverse in their argumentation and analysis, there is a growing consensus that SME development is important in advanced western economies for its job creation and innovative possibilities. SMEs are also of

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special interest to transition countries for a number of reasons. Firstly, they are able to provide economic benefits beyond the boundary of an individual enterprise in terms of experimentation, learning and adaptability. These characteristics are especially important in economies undergoing radical transformation. Secondly, in most transition countries the SME sector was largely neglected and even discriminated against, with the focus being placed on the rapid privatization of large scale enterprises and not on the development of the SME sector, especially in the early phase of transition. Furthermore, research in transition countries shows that even if SMEs do not generate net new jobs, they reduce the erosion of human capital by providing alternative employment opportunities for relatively skilled workers (EBRD 1995). Though it is often argued that SME development is especially crucial for the early phases of transition (EBRD, 1995, Smallbone and Welter, 2001), it is in fact just as important for the advanced and final stages of transition as exemplified by the important role SMEs play in advanced western countries. As Porter (1990) has argued, invention and entrepreneurship are at the heart of national advantage and country competitiveness.

In the last 10 years, governments have introduced a number of policies in different transition countries aiming to promote SMEs. The main argument for this 'intervention' is the specific characteristics of the SME sector. It is argued that though the SME sector can be much more responsive to changes in the marketplace, it is also much less able to influence such developments. Limited access to the finance, low degree of professionalism, difficulties in recruiting qualified staff, dependency on clients and suppliers and the absence of economies of scale are identified as weaknesses of the SME sector and point to the fact that SMEs require special attention (Burns, 2001). In this respect, understanding the problems faced by SMEs in specific environmental settings could provide the necessary background to develop policies for SME support.

One of the most important findings in the small business entrepreneurship literature is that context matters, as it shapes not only the role of small firms but also their structure and performance (Karlsson & Dahlberg, 2003:1). The transition countries of Central and Eastern Europe and the former Soviet Union seem particularly suited for our study for several reasons. Though transition countries have chosen different paths of development, they have all undergone a tremendous amount of economic and social change, an important aspect of which has been the development of a new private sector. In addition, it can be argued that the unprecedented degree of institutional change experienced by transition countries has been largely moving in a similar direction: the switch from a system based on state planning and allocation of resources dictated by the government to a system characterized by decentralized market allocation, which in itself necessitates a substantial change in laws and regulations as well as norms and expectations (Raiser et al., 2001:2). Of specific interest to our study is the emergence and development of a legal SME sector, which under the central planning system was severely restricted.

A number of authors have identified the distinct characteristics of entrepreneurship and SME activities in transition countries where the environment is undergoing quite dramatic changes (Dallago, 1997; Scase, 2000; Chilosi, 2001; Smallbone & Welter, 2001; Aidis, 2003). In addition, it is important to distinguish between countries at different stages of market reform (Kolodko, 1999; Smallbone and Welter, 2001).

Although there is no consensus on 'transition stages', different means of categorising the transition process have been developed. Campos and Coricelli (2002), for example, created seven stylised facts describing the transition process[2]. Though interesting, the stylised facts proposed by Campos and Coricelli are not useful from an entrepreneurship development point of view. More suitable for this purpose seems to be the transition indicators developed by the European Bank of Reconstruction and Development (EBRD), which plot the progression of transition according to macroeconomic as well as institutional variables. Smallbone and Welter (2001), for example, in an empirical study on SME development in Ukraine, Belarus and Moldova, use selected EBRD indicators in order to distinguish between transition countries where market reforms have been slow or not properly installed and countries where they are more advanced. In addition, the three transition stages based on a new institutional theory proposed by Van de Mortel (2002) provide considerations for the categorisation of barriers useful for the analysis of SME constraints. Some authors such as Surdej (2003) have shown an interlinkage between market and institutional changes and the number of start-ups in Poland. Little work, however, has been done specifically attempting to classify the effects of transition stages on SME development across countries during the transition process.

In a novel way, we apply the selection of indicators proposed in previous research to approximate transitional stages that would make sense from an entrepreneurship development perspective. We utilise these indicators to categorise 23 transition countries into transitional stages. The distinction of transition stages is then used to develop a framework in which we can identify SME development trends based on our analysis of the 25 empirical studies on the constraints faced by SMEs in transition countries. The primary objective of our analysis is to identify which SME barriers are of 'main' importance at different transition stages.

Our analysis contributes to the existing literature by providing insights into the dynamic relationship between barriers and SME development during distinct stages of the transition process. Specifically, our preliminary results indicate that more fundamental barriers related to legal issues are more characteristic of the early stages of transition, while more specific constraints related to human resources and skill development characterise the later transition stages. In addition, our results indicate a number of policy implications for entrepreneurial development at specific stages of transition.

The paper is structured as follows: Section Two presents the conceptual background including a discussion of the classification of transition stages; Section Three discusses the methodology used, and Section Four presents characteristics of the data used. The results are discussed in Section Five, and the paper concludes with policy recommendations presented in Section Six.

2. Conceptual background

In this section we describe and analyse the main concepts used in the context of our study. Those include transition, the stages of transition and SME barriers. A review of existing theoretical and empirical studies is used as the main method to achieve this aim.

[2] The seven stylised facts proposed by Campos and Coricelli (2002) describe the main characteristics of the transition process. They are: 1) output fell, 2) capital shrank, 3) labour moved, 4) trade reoriented, 5) structure changed, 6) institutions collapsed, and 7) costs were high.

2.1. Defining and understanding the transitional context

For the 23 countries in our sample, transition denotes the process of change from a centrally planned system to a well-functioning market-oriented system. According to the definition introduced by the EBRD (1994), transition is an institutional change involving not only the advance of the private sector but also a fundamental transformation of the role of the state, in particular in the economic, financial and legal institutions underpinning the market economy. It is the institutional arrangements for the allocation and generation of goods and resources, and the ownership incentive and rewards structures that institutions embody, that characterise the differences between a market and a command economy. It may also be regarded as an ultimate objective in itself as well as an end in itself (EBRD 1994:3).

However, it should be noted that while there are core features that a market economy possesses, there is no unique destination for the transition process (EBRD 1995). Given the different starting points and initial conditions of the transition countries, there cannot be a single, unique route for transition. A priori a large number of variables could influence the transition paths and the resulting patterns of institutional change. Three main issues stand out: geographical factors, cultural factors, and the institutional legacy of central planning, representing a set of initial conditions for the given country (Raiser, 2000).

Not all authors agree about the influence of initial conditions. A literature review by Merlvede (2000) based on growth in transition countries has found that though more unfavorable initial conditions lead to a larger output fall, the effects fade over time and can be offset by stabilization and reform policies. He also found that inflation stabilization, which is facilitated by sustainable government balances, is a prerequisite for the recovery of growth. A fixed exchange regime is also important for stabilizing inflation, but the empirical evidence is mixed. Stabilization is not a sufficient condition for output recovery since structural reform is also necessary.

Our analysis would be greatly simplified should the transition process follow a simple, linear progression. Unfortunately it does not. Rather it is a complex process involving a multitude of influences and factors. Though certain fundamentals of market economies identified by EBRD indicators should be part of any successful transition, the 'end of transition' remains a contestable issue[3].

2.2 Transition stages identified

In this section we explore some of the ways transition stages have been classified. Two main methods are highlighted: EBRD transition indicators and Mortel's (2002) three-stage approach. Alternative indicators for measuring transition progress are also discussed.

EBRD transition indicators

In order to understand the development of EBRD's transition indicators, it is important to understand the motivation behind their creation. EBRD's analysis of reform patterns in transition countries since 1989 suggests that three factors are crucial for a sustaining reform

[3] Though the answer to this question is beyond the scope of this paper, it is perhaps of interest to mention that no single indicator or definition currently exists to describe accurately the end of transition. A number of authors have suggested that the end of transition is achieved by reaching the level of an 'advanced market economy'. Unfortunately, there exists no generally accepted definition of what precisely characterizes an 'advanced market economy'. For further discussion, see Brown 1999).

Table 1: EBRD's classification of transition phases and requirements

Phase	*Initial phase*	*Next phase*
Main requirements	Privatisation of assets, market liberalisation and macroeconomic stability	The development of policies, institutions and behaviour that accelerates growth
Specific indicators of progress	• Small scale privatisation	• Large scale privatisation
	• Price liberalisation	• Governance and enterprise restructuring
	• Foreign exchange and trade liberalisation	• Competition policy
		• Infrastructure reforms
		• Banking and interest rate liberalisation and non-banking financial institutions

Source: EBRD (2002)

progress: (1) comprehensive economic liberalization to create market competition and generate demand for market-supporting institutions; (2) market liberalization is more effective if combined with political competition; (3) the process of transition is facilitated by international integration (EBRD 2002).

According to the EBRD, the first or initial phase of transition was dominated by the structure of the inheritance from the communist system and the political repercussions following the collapse of this regime. The main reforms characterising this period include: the privatisation of assets (small-scale privatisation), the liberalisation of markets (through price liberalisation and foreign exchange and trade liberalisation) and the establishment of a degree of macroeconomic stability (EBRD 1997).

The next phase of transitional reforms requires policies, institutions and behaviours that can foster and accelerate economic growth. The second transition phase reforms include a continuation of the privatisation of assets (through large-scale privatisation), improving enterprise performance through governance and enterprise restructuring, the further liberalisation of markets (through competition policy), the development and maintenance of infrastructure (through infrastructure reform) and reform to financial institutions (banking and interest rate liberalisation and the creation of non-banking financial institutions). The main challenge in this phase is developing and providing market-oriented governance, i.e. building and deepening of the institutions and behaviour that are at the heart of a well-functioning market economy (ibid.).

The EBRD transition indicators are based on annual scores indicating transitional progress and are calculated based on an average score of nine separate indicators grouped into four categories[4]: enterprises, markets and trade, financial institutions and infrastructure. As shown in Table 2, the 'Enterprises' category includes separate indicators for progress in large-scale privatization, small-scale privatization

[4] For a more detailed description please refer to EBRD (2003:17).

*Table 2: **EBRD transition indicator classification***

Enterprises	***Markets and trade***	***Financial institutions***	***Infrastructure***
Large-scale privatisation	Price liberalisation	Banking reform & interest rate liberalisation	Infrastructure reform
Small-scale privatisation	Trade & foreign exchange system	Securities markets & non-bank financial institutions	
Governance & enterprise restructuring	Competition policy		

Source: EBRD (2003)

and governance and enterprise restructuring. 'Markets and trade' includes three separate indicators measuring price liberalisation, trade and foreign exchange system and competition policy. Financial institutions include two separate indicators measuring banking reform and interest rate liberalisation and securities markets and non-bank financial institutions. Infrastructure includes only one indicator measuring infrastructure reform.

In brief, the 'enterprises' category measure indicates the process of large-scale privatisation; the implementation of reforms to cut production subsidies; the introduction of effective bankruptcy procedures; and sound corporate governance practices (EBRD 2001). The 'markets and trade' category indicates the extent and effectiveness of competition policy in combating the abuses of market dominance and anti-competitive practices. With regards to 'financial institutions', this indicator measures the extent to which interest rates have been liberalised; the establishment of two-tier banking; and the creation of securities markets. In addition, 'financial institutions' also assesses the extent to which prudential regulations have been raised towards international standards, whether they have been enforced effectively and if procedures exist for resolving the failure of financial institutions. Finally, the infrastructure indicator measures the extent of tariff reform; the commercialisation of enterprises; and the extent of regulatory and institutional development (ibid.).

Scores for transition progress are measured from a minimum score of 1 to a maximum score of 4+. Scores are given with decimal points to provide a more accurate differentiation. In general, a score of 1 indicates little progress; 2 indicates some progress; 3 indicates substantial, comprehensive progress; 4 indicates a level of progress approaching international standards; and a 4+ score indicates the standards and performance typical of advanced industrial economies.

As shown in Table 3, according to EBRD indicators, as of 2003, two CIS countries were still in the primary stage (Belarus, Turkmenistan); nine countries were in the secondary stage (Albania, Azerbaijan, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, Ukraine and Uzbekistan); and thirteen countries were in the advanced stages of transition (Armenia, Bulgaria, Czech Republic, Estonia, Georgia, Hungary, Latvia, Lithuania, Poland, Romania, Russia, Slovak Republic and Slovenia).

*Table 3: **EBRD transition indicators***

country	***Primary stage****	***Secondary*****	***Advanced******
Albania	1989–1993	1994–2003	-
Armenia	1989–1994	1995–2001	2002–2003
Azerbaijan	1989–1996	1997–2003	-
Belarus	1989–2003	-	-
Bulgaria	1989–1992	1993–1998	1999–2003
Czech Republic	1989–1990	1991–1992	1993–2003
Estonia	1989–1992	1993	1994–2003
Georgia	1989–1994	1995–1999	2000–2003
Hungary	1989–1990	1991–1992	1993–2003
Kazakhstan	1989–1994	1995–2003	-
Kyrgyzstan	1989–1993	1994–2003	-
Latvia	1989–1991	1992–1995	1996–2003
Lithuania	1989–1992	1993–1995	1996–2003
Moldova	1989–1993	1994–2003	-
Poland	1989	1990–1992	1993–2003
Romania	1989–1993	1994–1998	1999–2003
Russia	1989–1992	1993–2002	2003
Slovak Republic	1989–1990	1991–1993	1994–2003
Slovenia	1989–1991	1992–1994	1995–2003
Tajikistan	1989–1997	1998–2003	-
Turkmenistan	1989–2003	-	-
Ukraine	1989–1994	1995–2003	-
Uzbekistan	1989–1993	1994–2003	-

* = Indicator rating from 1–1.9; ** = Indicator rating from 1.9–2.9; *** = Indicator rating from 2.9–4.

Mortel's three-stage model

E. van de Mortel (2002) classifies three stages of transitional progress using a framework based on institutional theory as developed by D. North (1990). According to Mortel, the first stage of transition starts when a country has the freedom or desire to reform, or when it is forced to start transforming its economy. For the countries willing to transform, this stage is usually very short. However, countries forced to transform may have difficulties determining the general transition strategy. Transition starts with the collapse of the former institutional framework, e.g., a total vacuum of legislation, rules, etc. In this stage of transition it is crucial for the countries to develop their main transition strategies. However, this step can only be taken if a suitable political structure is in place; a clear and duly endorsed power distribution between the president, government and parliament. The first stage of transition tends to be more successful in the countries where there are more stable constitutional institutions able to make decisions about the direction and speed of strategic processes. But then again the ability of a transition country to develop such institutions depends mainly on its past experience. A considerable impact comes from factors we understand as national identity, such as common language, recognition of similar values, etc. During the first period it is still too early to speak about property rights and privatisation. The first stage ends when the decision-making process related to the new laws and regulations begins.

The second stage of transition is mainly shaped by formal (e.g., introduction of legislation and rules) institutional reforms. An important precondition has to be met before an economy arrives at this stage, i.e. a start must have been made with privatization and decentralization of economic decisions. Instead of being superficial, privatisation has to be structurally and decidedly focused towards the shift in decision-making power. Decentralisation, on the other hand, should mean that owners or managers of firms can decide about selling prices, about where to buy input, which goods will be produced, and so on. During the second stage of the transition, legislation and rules are reassessed and replaced, namely the legal framework is shaped. For instance, banking laws, protection of private property, competition, law and bankruptcy laws are to be introduced. Even if slowly, informal institutions, like personal attitudes, economic behaviour and culture have to change during the second stage as well. However, as long as the formal institutions have not taken shape and framework uncertainty persists, there can be no harmony between the formal and informal institutions.

The third stage of transition starts when the introduction of legal framework is roughly completed. Marginal changes remain possible, but they mainly concern a refinement of the newly implemented institutions. During the third stage the main focus is on the change of economic behaviour of agents. Economic actors experiment in order to see which economic decisions lead to better results in the context of the new economic order. Furthermore, it is crucial that people accept the new formal institutional framework. This stage can last rather long and can be completed successfully only if harmony between the formal and informal institutions has arisen. Without this harmony the new institutions are unlikely to persist, and, if they do, they probably are not effective and the transition process may regress to the previous stage. The probability that harmony will develop between two kinds of institutions depends, among other factors, on the duration and the hardship suffered during the second stage of transition. When people see their incomes decline and have to live in poverty for a prolonged period of time, they are likely to blame the new economic and political order for their difficulties and will have little inclination to accept the new order and adapt to it (Van de Mortel, 2002: 23). Transition stages according to Mortel (2002) are shown in Figure 1.

When we compare Mortel's three transition stages with the EBRD indicators we find a general agreement as to the formal institutional changes that need to take place during Stages One and Two. Mortel's transition stages go a step further by including the more 'fuzzy' category of informal institutional influence such as attitudes, values and culture. She

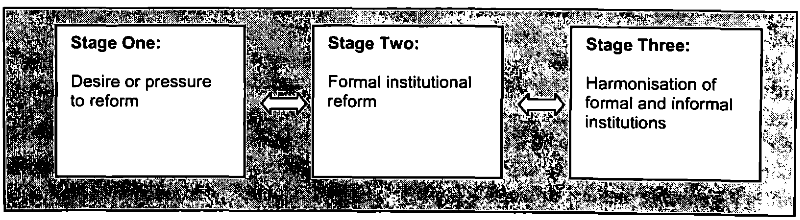


Figure 1: Three transition stages

Table 4: Estimated GDP level of real GDP in 2002 (1989 = 100)

Country	*Estimated GDP 2002*	*Country*	*Estimated GDP 2002*
Albania	121	Lithuania	77
Armenia	78	Moldova	39
Azerbaijan	64	Poland	130
Belarus	93	Romania	87
Bulgaria	80	Russia	71
Czech Republic	105	Slovak Republic	109
Estonia	93	Slovenia	118
Georgia	38	Tajikistan	57
Hungary	112	Turkmenistan	91
Kazakhstan	86	Ukraine	47
Kyrgyzstan	70	Uzbekistan	106
Latvia	77		

Source: EBRD 2003

argues that they play a crucial role in allowing the more formal reforms in the transition process to progress.

Alternative indicators

A seemingly obvious indication of transition progress would be the GDP growth figures. Though all transition countries experienced a decline in output, a number of countries have been able to record high levels of GDP growth especially in the mid to late 1990s. Table 4 presents the estimated level of real GDP in 2002 as compared to pre-transition GDP rates measured in 1989. Seven out of twenty-three countries have surpassed their 1989 GDP levels. However, the arbitrariness of this development and incongruity with other EBRD transition indicators seriously question its explanatory value. Hungary and Poland's high degree of economic recovery corresponds to their economic and political reforms, however, Albania's high score is matched by only a secondary level of transition. Closer inspection of Albania's GDP level shows high levels of international aid which has resulted in increasing its GDP figures to an artificially high level.

Unfortunately, when searching for other possible indicators, substantial data problems were encountered. A study by Raiser et al. (2001) investigated the relevance of a number of factors to institutional change in 25 transition countries. They developed a structural model of institutional change using both time series and cross-sectional data on transition countries. In their results, Raiser et al. find strong evidence that economic reforms and political liberalisation are more powerful forces influencing institutional change than changes in economic structures induced by such reforms. Hence the importance of political liberalisation for economic transition. The results of the study by Raiser et al. (2001) indicating the political liberalisation as an important determinant of institutional change inspired us to refer to measures of political liberalization. Therefore we consulted the surveys conducted by Freedom House, measuring the levels of civil liberties and political freedom . We were able to find data for our entire country sample, however, the earliest observation year is 1993. According to our estimates using the EBRD transition indicators, by 1993 ten countries had already entered the second stage of transition. Therefore, if we were to use the Freedom House data, we would miss four crucial observation years.

Another possibility was to use data on levels of corruption such as those presented in the corruption index by Transparency International. Measures of corruption can provide an indication of a harmonisation of informal and formal institutions. However, here we run into even greater data problems, since the earliest observation year is 1995 and then only for Hungary. Most countries are contained in the sample by 1999, however, even by 2003 not all countries are represented.

We also consulted the measurement of informal markets in the Index for Economic Freedom compiled by the Heritage Foundation. The level of informal markets can indicate the level of compliance with formal rules. In this index, the earliest observation year for most of the transition countries is 1995; however, not all of them are included.

In addition, we referred to the Heritage Foundation's index for government intervention. Decreasing rates of governmental intervention could serve as an indication of a shift of economic power from government control to private economic agents. However, the Heritage Foundation's index for most transition countries begins in 1995. Besides, using this index for evaluating transition seems highly suspect given the fact that some advanced Western countries exhibit very high levels of governmental intervention such as France (score = 5) and Norway (score = 3.5) and seem to be able to combine it with an efficient market economy. The score for Belarus is the same as for Norway (score = 3.5) in 2003, which tells us very little about the actual transition progress, since according to EBRD indicators Belarus is only at the primary stage of transition (EBRD 2003).

Another alternative measure would be to look at human development related indicators such as poverty, income distribution, years of schooling and mortality rates. Here once again data is limited and only available in the mid 1990s and late 1990s for most transition countries. We also consulted various macroeconomic indicators in order to assess the transition stages such as inflation levels, exchange rate regimes, current account balance and percentage of GDP created by the private sector. But for each one of these indicators, we found quite serious inconsistencies in terms of their relation to the actual transition progress measured by the EBRD.

2.3. SME barriers

In light of both the EBRD's transition indicators and Mortel's three transition stages, we find that both formal and informal institutions play a role in the reform process. But do these two factors reflect the various influences on private business development? Acs and Karlsson (2002) raise a critical voice against focusing solely on institutional influences to private enterprise development since they only present a limited part of the overall economic milieu within which entrepreneurship may develop. Other important conditions include demand and supply conditions, the degree of competition in various markets, the state of the infrastructure, the supply and skill level of the labour force, the entrepreneurial climate and access to knowledge.

We agree with Acs and Karlsson's view that environmental factors must also be included in our analysis of influences to entrepreneurial development. We also feel that an additional category should be included to capture factors not included in the other three categories. As a result, our analysis identifies four influ-

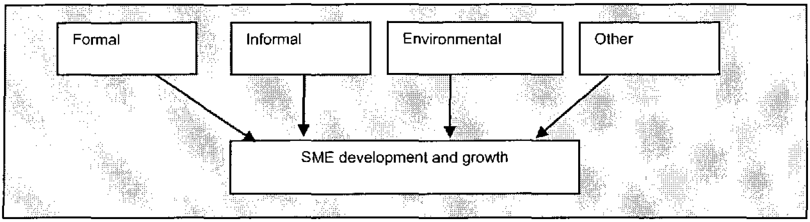


*Figure 2: **Four categories of constraints to SME development and growth***

ences on business development and growth: formal, informal, environmental and other constraints (Figure 2). The specific classification of the barriers affecting SME development and growth are presented in Appendix 2.

3. Method

As is highlighted in the previous sections of the paper, transition process itself is not only a complicated phenomenon but also a non-linear process. Thus one would expect the indicators capturing the progress of the transition process, which make sense from the entrepreneurship development viewpoint, to be complex as well. Among other factors, transition indicators would need to consider differences among various transition countries in terms of historical influences, both long- and short-term, affecting the starting points as well as the speed and path of transition. Informal influences on the transition process, such as culture and the norms of different actors, including government, regulating (tax inspection, etc.) and business promotion organisation representatives, the general population and, of course, SME owners and managers themselves, should be also taken into consideration.

In light of these factors, we chose EBRD's average indicator (see Table 3 and Appendix 1) as the most suitable option for approximating the transition stages. There are several reasons for this choice. Firstly, they cover all 23 transition countries we are interested in throughout the transition process (data are available starting in 1989). Secondly, the impact of the long- and short-term history, namely differences in the starting points of transition countries are considered by these indicators. Thirdly, the common measurement scale ensures that the speed, e.g., progress of transition, regardless of the path taken is measured uniformly for all transition countries.

However, there are several limitations of using EBRD indicators. One of the main limitations of this approach is the limited scale (from 1 to a maximum score of 4) of change provided by the EBRD indicators. This small scale provides a very limited range of variance that can be measured for our analysis. Another limitation is based on the fact that the transition process is not a linear one and so some countries such as Russia and Belarus exhibit outlier years. In 1995, Belarus had a total transition indicator score of 2.00 which would place it in the secondary transition stage for that year. However, in subsequent years the score decreased to under 1.9. In Russia a similar situation occurred in 1997 when the indicator score was 2.96, though in the following years it decreased back to below 2.9, until 2003 when Russia once again reached the advanced level of transition. Though not presented in Table 3,

*Table 5: **Criteria for the measurement of SME barriers***

(1) If the importance of a barrier was measured as a percentage of total respondents considering it to be important (in some studies most important, or that a barrier was a problem that must be improved). In these cases, the barrier was considered to be important if at least 30 percent of the total respondents considered it as important.
(2) If the importance of a barrier was measured by the mean (average) score using different scales, the following method was used:
➢ Scale from 1 to 5, where 5 is the most problematic barrier. In this case, we considered the most important barriers to be those where the mean is more than 3.0
➢ Scale from 1 to 4, where 1 is the most problematic barrier. In this case, we considered the most important barriers to be those where the mean is less than 2.0
➢ Scale from 1 to 8, where 8 is the most important problem. In this case, we considered the most important barriers to be those evaluated with 5 and more.
(3) There were also some surveys where authors did not provide any quantifiable measurement scales. In these cases we rely on the author's judgement and consider the barriers as most important which are mentioned to be such by the authors themselves.

these outliers can be seen in Appendix 1 and, whenever possible, we will take these outliers into account while analyzing our data.

In this paper, we use 25 existing empirical studies on constraints SMEs face in transition countries as a backbone to analyse the impact of transition stages on SME development. To ensure the quality of the surveys analyzed, most surveys were obtained from papers published in high quality academic journals. Additionally, other sources such as country reports were used to provide a broader picture of constraints faced by SMEs in transition. Since our main aim is to identify which SME barriers (e.g., formal, informal, environmental or others) are of 'main' importance at different transition stages, we first classified all 25 studies according to transition stage. Then we classified the barriers identified as 'important' by the studies into formal, informal, environmental and 'other' categories. Finally we compared and summarised the main barriers and barrier groups identified at different transition stages. For further information on the classification of SME barriers, see Appendices 2 and 3. A list of all the 25 surveys utilised is presented in Appendix 4.

A problem faced while analysing these studies was the different methodology and mesurement scales used to analyse SME constraints. To evaluate the importance of a specific SME barrier, we devised a scale to evaluate barrier 'importance' as described in Table 5.

Most of the surveys used focused on SMEs with up to 250 employees, however, this was not always the case. Definitions for SMEs can range from under 50 employees to up to 500 employees. Given our limited access to the raw data used in the surveys analyzed, this presented a definitional problem. This is not a problem specific to the transition context, but it does affect our ability to analyze across studies[5].

[5] This is the main reason why at this stage we did not employ any quantitative estimation methods that could provide with a more accurate picture of the importance of different barriers in distinctive transition stages. This is the main challenge for further research on this topic.

4. Data

The selected 25 studies on constraints faced by SMEs cover various transition stages in 23 different countries of transition. To ensure a high quality of analysis, most of the surveys used were published in high quality academic journals. Additionally, other sources like country reports, etc. which provided a broader picture of the constraints faced by SME were included. The main focus of our analysis was on the surveys of SME growth barriers. One half of all studies used were single country surveys, while the other studies included two or more countries. Most of the studies including two or more countries analysed SME constraints within a single transition stage. The vast majority of the studies used cover the main SME sectors in a particular country. The unit of analysis used in the studies was SMEs in transition countries. As already mentioned, SMEs were defined rather differently in various studies. The most common classification was less than 50 employees, less than 200 employees or less than 250 employees. In terms of sample sizes, the studies ranged from 50 to 2000 respondents. The number of barriers examined in an individual study ranged from 6 to 65. The data were mainly collected using mail survey methods, while personal interviews were used less extensively. A number of studies employ both methods. The respondents in most cases were managers and owners of SMEs. For a more detailed description of studies on constraints faced by SMEs in transition, see Appendix 4.

5. Results

Our aggregated barriers for the three transition stages point to a number of interesting observations. As is shown in Figure 3, a number of formal and environmental constraints affected SME owners throughout the three transition stages. This was not true for informal or other constraints. Constraints specific to each transition stage are listed separately under formal, informal, environmental and other categories. In addition, a number of similar barriers were identified in both stages 2 and 3 and these are listed separately in a column located between Stages 2 and 3. Given the exploratory character of our analysis, it is more useful to focus on the general nature and trends that can be derived from our results and save a more specific analysis for later research.

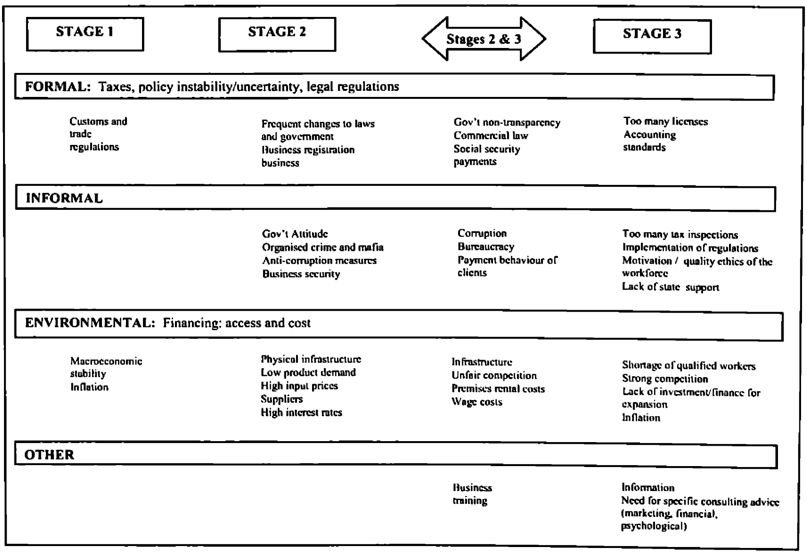
Our results indicate the following three trends. First of all, we can identify a general trend of more fundamental barriers to more specific constraints being identified as transition progresses from Stage One to Stage Three. Furthermore, as the transition process moves to Stage Three and beyond, SME owners become increasingly more concerned with human resources (labour) and skill development (training) than at the initial stages. This changed ultimately to the increased need to develop internal business capabilities to deal with the increasing competition as well as business growth such as specific consulting and advice and business training programmes. Evidence for the need for business training programmes has been identified in more advanced transition countries such as Hungary (Acs et al., 2001). Secondly, we find that three formal constraints, taxes, policy instability and legal regulations, form a barrier for business development throughout the transition stages. Though taxes are a constraint faced by businesses worldwide, policy instability and uncertainty seems more specifically related to the transition process and indicates the effect of the difficulties of adopting a new legal framework on SME owners. Thirdly, we find that access to and the cost of financing continues to be a barrier to businesses throughout the three transition stages. Though access to financing is a constraint to many western businesses, this result draws special attention to the difficulties of developing an adequate independent banking sector that would serve the capital needs of SMEs in the transition context.

Are informal barriers 'irrelevant' at Stage One?

Our results certainly point to this unlikely conclusion. But we believe there may be some other reasons for this seemingly incongruous result. First of all, it may be the case of missing data because of the few studies available with data on barriers to SMEs in transition countries at Stage One. However, it may also be possible that these results illustrate a situation in which SME owners may be less aware of the informal constraints, because these constraints 'stayed constant' and exemplify a situation of 'the fish don't talk about the water'. In this instance other constraints such as formal and environmental barriers would seem more important, because they are undergoing dramatic changes and put additional demands on SME owners to adapt to the changing conditions.

In addition, business owners in later transition stages may become more vocal about informal barriers such as corruption, as they become more accustomed to the formal and informal environment and become more aware of the fact that informal barriers such as corruption are fundamentally detrimental to their business development.

Figure 3: Main barriers facing SMEs in different transition stages



6. Policy recommendations

Our results indicate that a number of constraints experienced by SMEs change as the transition process progresses. Correspondingly, the types of policies and programmes offered to business owners should also be sensitive to these developments. SME owners in Stages One and 2 seem much more affected by fundamental formal constraints, and so at these stages the policies that would diminish this barrier, such as information on taxes and simplified tax policies would be most appropriate. Businesses in Stage Three may profit more greatly from specific business training programmes to improve their skills in marketing, obtaining specific forms of financing and growing their business into new markets. Given the fact that access to and cost of financing continued to be a constraint to SMEs throughout the transition stages, it is a fundamental issue that should be seriously addressed at the beginning of the transition process in order to foster the growth and development of SMEs.

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NEPASTOVIŲ TIKSLŲ VERTINIMAS: VIRSMO PROCESO ETAPŲ POVEIKIS VERSLUMUI UGDYTI

Ruta Aidis, Arnis Sauka

Santrauka

Darbe nagrinėjama verslumo ugdymo pereinamosiose rinkose problematika: smulkios ir vidutinės įmonės yra ypač jautrios išorinės aplinkos pokyčiams, todėl joms reikia išskirtinio dėmesio. Darbe analizuojamos kliūtys, kylančios įmonėms skirtingais virsmo proceso etapais. Pateikiami virsmo procesą apibūdinantys indikatoriai, kurie turi įtaką verslumo perspektyvai. Autoriai naudoja šiuos indikatorius virsmo proceso analizei 23 šalyse. Remdamiesi tyrimo rezultatais, autoriai pateikia modelį, kuris gali būti naudojamas smulkių ir vidutinių įmonių raidos tendencijoms nustatyti. Šiame modelyje taip pat identifikuojamos kliūtys ir problemos, su kuriomis susiduria smulkios ir vidutinės įmonės skirtingais virsmo proceso etapais. Tyrimo rezultatai leidžia formuluoti patarimus įmonėms, veikiančioms skirtingais virsmo proceso etapais.

Įteikta 2004 m. spalio mėn.

Albania	1.00	1.00	1.11	1.63	1.89	2.07	2.33	2.48	2.48	2.48	2.48	2.63	2.67	2.67	2.67
Armenia	1.00	1.00	1.00	1.48	1.52	1.59	2.11	2.44	2.52	2.67	2.70	2.70	2.85	2.92	2.96
Azerbaijan	1.00	1.00	1.00	1.19	1.30	1.30	1.70	1.85	2.15	2.33	2.33	2.41	2.48	2.56	2.59
Belarus	1.00	1.00	1.00	1.26	1.56	1.59	2.00	1.82	1.67	1.52	1.52	1.59	1.67	1.78	1.81
Bulgaria	1.00	1.11	1.70	1.85	2.04	2.26	2.33	2.37	2.81	2.81	2.92	3.11	3.15	3.22	3.26
Czech Republic	1.00	1.00	2.11	2.63	3.07	3.30	3.30	3.41	3.48	3.52	3.55	3.59	3.67	3.67	3.67
Estonia	1.00	1.18	1.37	1.85	2.63	2.96	3.11	3.18	3.33	3.41	3.52	3.59	3.63	3.67	3.67
Georgia	1.00	1.00	1.00	1.26	1.41	1.41	1.96	2.44	2.70	2.78	2.81	2.92	2.92	2.92	2.92
Hungary	1.30	1.78	2.37	2.59	2.96	3.22	3.48	3.52	3.70	3.78	3.81	3.85	3.85	3.85	3.85
Kazakhstan	1.00	1.00	1.00	1.30	1.52	1.74	2.26	2.67	2.78	2.81	2.70	2.78	2.85	2.85	2.89
Kyrgyzstan	1.00	1.00	1.00	1.48	1.74	2.52	2.70	2.74	2.81	2.81	2.81	2.81	2.81	2.81	2.81
Latvia	1.00	1.00	1.19	2.00	2.26	2.81	2.81	3.07	3.11	3.11	3.18	3.22	3.26	3.41	3.48
Lithuania	1.00	1.15	1.19	1.59	2.44	2.67	2.85	2.96	3.04	3.07	3.15	3.26	3.37	3.48	3.48
Moldova	1.00	1.00	1.00	1.44	1.70	2.04	2.52	2.56	2.63	2.70	2.70	2.70	2.74	2.74	2.70
Poland	1.26	2.26	2.41	2.56	3.00	3.11	3.26	3.37	3.44	3.55	3.55	3.63	3.66	3.66	3.66
Romania	1.00	1.00	1.26	1.59	1.85	2.26	2.41	2.41	2.74	2.85	2.93	3.00	3.04	3.04	3.04
Russia	1.00	1.00	1.11	1.89	2.19	2.41	2.59	2.85	2.96	2.55	2.48	2.59	2.67	2.85	2.92
Slovak Republic	1.00	1.00	2.11	2.52	2.85	3.04	3.11	3.19	3.19	3.22	3.30	3.33	3.41	3.44	3.48
Slovenia	1.52	1.74	1.89	2.04	2.70	2.85	2.93	3.04	3.07	3.22	3.30	3.33	3.33	3.37	3.37
Tajikistan	1.00	1.00	1.00	1.30	1.37	1.37	1.70	1.74	1.78	2.00	2.04	2.15	2.15	2.22	2.26
Turkmenistan	1.00	1.00	1.00	1.00	1.00	1.15	1.26	1.26	1.48	1.45	1.45	1.37	1.30	1.30	1.30
Ukraine	1.00	1.00	1.00	1.19	1.30	1.48	2.19	2.30	2.52	2.44	2.48	2.59	2.63	2.70	2.74
Uzbekistan	1.00	1.00	1.00	1.19	1.41	1.96	2.22	2.22	2.15	2.11	2.04	2.00	2.11	2.11	2.08

Appendix 2. Classification of barriers influencing SME development and growth

- Barriers
  - Formal
    - High taxes
    - Policy instability/uncertainty
    - Business registration
    - Accounting standards
    - Poorly functioning state
    - Government intervention in economy
    - Laws and reguations (frequent changes, non- ransperancy, unpredictability, operation)
    - Business inspections
    - Customs and trade regulations
    - High social security payments
  - Informal
    - Attitude of the government
    - Organised crime and mafia
    - Inadequate measures against corruption
    - Business security
    - Bureaucracy
    - Payment behaviour of clients
    - Corruption
    - Preferential treatment
    - Dishonest competition
    - Too many tax inspections
    - Implementation of business regulations
    - Motivation of the workforce/quality ethics in the workforce
    - Lack of state support
  - Environmental
    - Lack of financing
    - Cost of loans, interest rates, colletarial requirements
    - Loan application
    - Macroeconomic stability
    - Shortage of qualified workers
    - Inflation
    - Unfair competition
    - Physical infrastructure – old unreliable equipment
    - Low product demand
    - Unfair competition
    - Strong competition
    - High input prices
    - Suppliers not ready to deliver
  - Other
    - Business training
    - Information provision to small firm employees
    - Need for specific consulting advice (marketing, financial, psychological)
    - Lack of SME policies
    - Procurement problems
    - Inability to grow into new markets

→ SME development and growth

	Formal	Informal	Environmental	Other
All stages	• High taxes/ tax rate • Policy instability/uncertainty Legal issues / regulations		• Financing problems • Access to finance/credit • Cost of finance/credit	
Stage 1	Customs and trade regulations		Macroeconomic stability Inflation	
Stage 2	Frequent changes to laws/gov't Time to register business	Attitude of the gov't Organised crime and mafia Inadequate measures against corruption Business security	Physical infrastructure – old unreliable equipment Low product demand High input prices Suppliers not ready to deliver High interest rates	
Stage 2&3	Gov't non-transparency Operation of commercial law High social security payments	Bureaucracy Payment behaviour of clients corruption	Unfair competition Premises rental costs Wage costs Infrastructure – lack of telephone connections	Business training
Stage 3	Too many licenses Accounting standards Unpredictability of economic regulations	Preferential treatment Dishonest competition Too many tax inspections Implementation of business regulations Motivation of the workforce/quality ethics in the workforce Lack of state support	Shortage of qualified workers/labour Strong competition Lack of investment/finance for expansion Inflation	Information provision to small firm employees Need for specific consulting advice (marketing, financial, psychological) Inability to grow into new markets

Transition stage (data collected)	Country(ies)	Sectors covered	Sample size	Definition of SME	Method used	Key informants	Number of barriers examined	Author(s), title and source
III (2000)	Slovenia	All sectors except agriculture	173	Less than 250 employees	Personal interviews. Random sample	SMEs owners and managers	51	Barlett, W. and V.Bukvič. 2001. Barriers to SME Growth in Slovenia. MOCT-MOST 11: 177- 195, 2001
II (1997)	Albania	Manufacturing, construction, trade and service sectors	50	Less than 200 employees	Complete questionnaire (nearly 400 questions) and face to face interview	SMEs owners and managers	15	Hashi, I. 2001. Financial and Institutional Barriers to SME Growth in Albania: Results of an Enterprise Survey. MOCT-MOST 11: 221- 238, 2001
III (1997)	The Czech Republic	Manufacturing, construction, trade and services	100	Less than 200 employees	Interviews	SMEs owners and managers	40	Bohata, M. and J.Mladek. 1999. The Developmnet of the Czech SME Sector. Journal of Business Venturing 14, 461-473, 1999
III (1999)	Hungary	Small- scale manufacturing or production, services	280	na	Mail surveys and telephone interviews	Small business owners and operators	12	Fogel, G. An Analysis of Entrepreneurial Environment and Enterprise Development in Hungary. 2001. Journal of Small Business Management 2001 39(1), pp. 103- 109
II (1996 and 1997)	Kyrgiz Republic	Concentrated on service activities	1996: 160 1997: 219	na	Mail questionnaire Descriptive statistics and logit analysis	Owners of small non-farm household businesses	12	Anderson, K. and R.Pomfret. 2001. Challenges Facing Small and Medium- Sized Enterprises in the Kyrgyz Republic, 1996-97. MOCT-MOST 11:205-219, 2001
II (1993, 1996 and 1998)	Russia	All sectors	1993: 277 and 281 1996: 887 1998: 227	According to Russian Federation federal law of 14 June, 1995	Standardized survey	SMEs owners and managers	8	Radaev, V. 2001. The Development of Small Entrepreneurship in Russia. WIDER Discussion Paper No. 2001/135

III (1993)	Poland	na	na	na	Interviews	Small business owners and managers	11	Robson, G. 1993. The problems facing small firms in Poland. Discussion Paper No 93-4 School of Business Management, University of Newcastle upon Tyne, UK.
II (1995)	Russia and Bulgaria	All sectors	Russia: 216 Bulgaria: 221	Less than 200 employees	Interviews. Random samples. Tabulation of responses Multinominal regression analysis. Regionally stratified random samples	SMEs owners and/ or chief executive officers	11	Pissarides, F., Singer, M. and Svejnar, J. 2003. Objectives and Constraints of Entrepreneurs: Evidence from Small and Medium Size Enterprises in Russia and Bulgaria. Journal of Comparative Economics (2003) 13, 503–531
II (1993-1996)	Bulgaria	All sectors	120	Less than 50 employees	Mail questionnaire	Small business owners and managers	13	Dmitrov, M. and Todorov, K. 1995. Small Business Development in Bulgaria. In Fogel, et al. 1995 (eds). Moving to Sustainability. How to Keep Small Business Development Centers Alive. Averbury. England, USA
III (1999)	Poland	All sectors	320	Less than 50 employees	Mail questionnaire	Small business owners	10	Matusiak, K. 1999. Entrepreneurial Attitudes and Innovations of Small and Medium- Sized Enterprises in Poland. Unpublished
III and II (1993)	Poland, Hungary, the Czech Republic (III) and Slovak Republic (II)	All sectors	140 in each country	Less than 500 employees	Mail questionnaire	SMEs owners and managers	16	OECD working papers, vol. IV. Small Business in Transition Economies, 1996

II (1999)	Albania	All sectors	101	Less than 250 employees	Mail questionnaire	SMEs owners and managers	9	Muent, H. 2001. Taxes, Competition and Finance for Albanian Enterprises: Evidence from a Field Study. MOCT- MOST 11: 239–251, 2001
II (1996)	Russia and Poland	Shops	55 in Russia (Moscow) 50 in Poland (Warsaw)	Less than 50 employees	Survey	Owners	6	Frye, T. and A. Shleifer. 1997. The Invisible Hand and the Grabbing Hand. American Economic Review, 1997, 87/2, 354–358
I, II and III (1997)	All 23 countries	All sectors	Different sample size in different countries	Less than 200 employees	Mail questionnaire	Owners and mangers	31	World Development Report 1997. World Bank
I, II and III (1999)	All 23 countries	All sectors	Different sample size in various countries	Less than 200	Mail questionnaires	SMEs owners and managers	65	BEEPS 1999, EBRD and World Bank
I, II and III (2002)	All 23 countries	All sectors	Different sample size in various countries	Less than 250	Mail questionnaires	SMEs owners and managers	25	BEEPS 2002, EBRD and World Bank
I and II (1997)	Ukraine (II) and Belarus (I)	All sectors	343 in Ukraine 200 in Belarus	Less than 200	Quantitative survey and in-depth case studies	SMEs owners and managers	17	Smallbone, D. et al. 2001. The contribution of Small and Medium Enterprises to Economic Development in Ukraine and Belarus: Some Policy Perspectives.. MOCT-MOST 11: 253–273, 2001

III (2000)	Lithuania	All sectors	1500	Less than 50 employees	Mail questionnaire	SMEs owners and managers	11	Survey by the Employer's House, the Lithuanian Business Employers' Confederation and SIC Market Research. Lithuania, 2000
III (1998)	Latvia	All sectors	295	Less than 250 employees	Interviews	SMEs owners and managers	16	Tisenkopfs, et al. 1998. How does small entrepreneur feel? Report to the Government of Latvia. Philosophy and Sociology Institute of the University of Latvia. (In Latvian)
III (1997)	Latvia	All sectors	180	Less than 250 employees	Mail questionnaires and interviews	SMEs owners and managers	9	Kuzmina, I. 1999. Socially economical aspects of entrepreneurship in Latvia during transition period to market economy. PhD Thesis, University of Latvia. (In Latvian)
III (2001)	Latvia	All sectors	541	Less than 250 employees	Interviews	Top managers of SMEs	12	Latvian Development Agency and the World Bank Foreign Investment Advisory Service. 2001
III (2002)	Latvia	All sectors	300	Less than 250	Face to face Interviews or questionnaire	SMEs owners and managers	16	SKDS. 2002. Environment of small and medium size entrepreneurship in Latvia. Results of enterprise survey. (In Latvian)
III (1997-1999)	Lithuania	All sectors	1750	Not only SMEs but only 3 percent of the respondents had more than 49 employees	Face to face administration of the questionnaire	owners and managers	14	Jancauskas, E. 2000. Verslo Plėtra Lietuvoje ir vidurio Europoje, Statistikos Tyrimai, Vilnius. (In Lithuanian)