

Internal Use Only

**Survey
of
Economic Restructuring & Competitiveness
of Manufacturing Industries,
Armenia, Manizales and Pereira, Colombia
1993-1996**

Research Report

A.H.J. (Bert) Helmsing

Urban Economic Restructuring and Local Institutional Response

Research project

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1.0 Presentation

Many countries are undergoing processes of economic restructuring which are shaped, amongst others, by processes of globalisation of economic activity and policies of liberalisation and adjustment. Globalisation of economic activity finds its origin in the growing mobility of capital, information and technology. National adjustment policies generally imply withdrawal from direct government intervention, protection and support, and rapidly advancing liberalisation of the economy. Though firmer integration into the world economy provides new economic opportunities, it also makes local urban economies increasingly vulnerable. Impacts of economic restructuring may be highly concentrated, posing severe economic and social strains at the level of individual cities or regions. Efforts to benefit from the new economic opportunities meet with growing international competition and require concerted efforts to create appropriate basic conditions for their internalisation. Relatively little is known about these localised issues, neither at enterprise nor at city level.

Changes in the local economy become increasingly consequential for local authorities. As a result of decentralisation processes within the government sector, local government is expected to play a more pro-active role in stimulating local economic development. Local governments can rely less on higher levels of government for local investment and employment creation. Increased vulnerability and economic competition between cities and more local political accountability push local governments to develop local economic development policies to promote employment and income generation.

In 1996 researchers of the Institute of Social Studies (ISS), and the Institute of Housing & Urban Development (IHS) launched a collaborative research effort into urban economic restructuring and local institutional response.

While there has been a considerable research effort to study processes of macro-economic adjustment there is relatively little understanding of restructuring at city level. The research has the following particular aims:

- to improve understanding of the nature and dynamics of economic restructuring processes, in particular economic, institutional and physical processes;
- to improve understanding of appropriate policy responses that may be undertaken by local institutions, incl. local governments to promote local economic development.

The joint research effort consisted of several research projects on economic and urban management aspects of restructuring and was implemented with research partners in Colombia, India and Zimbabwe. The programme was financed by the Co-operation between the International Education Institutes and the Agricultural University (SAIL).

One of these is a project on examining processes of economic restructuring in Armenia, Manizales and Pereira, Colombia and concrete actions that may be taken by local firms, business interest associations, government agencies and the local and departmental governments to improve the capacity of local firms to respond to competitive challenges and to strengthen the capacity of local institutions to cope with future economic challenges.

Given the amount of resources available, the research project was originally intended to take place only in Pereira. However, thanks to additional research funds obtained from the Regional Development Corporation of Western Colombia (CORPES), the research could be extended to include Armenia and Manizales. These three cities are administrative capitals of three centrally located departments, namely, Caldas, Quindio and Risaralda.

This research is part of a longer standing collaborative effort between researchers of the Institute of Social Studies, and of the Interdisciplinary Center for Regional Studies, University of the Andes, Santa Fe de Bogota, Colombia.

This document reports on a *Survey of Economic Restructuring & Competitiveness of Manufacturing Industries in Armenia, Manizales and Pereira, Colombia*.

This study analyses and brings out first results on:

- the relative importance of various kinds of external shocks that were and are experienced by local firms
- the type of competition that the firms are facing under these conditions
- the type of strategies and actions managers and entrepreneurs have adopted to cope with competition and the problems they face therein
- the local enterprise support system, its demands and institutional modalities
- the local demand for and supply of producer services
- the contact patterns of managers and entrepreneurs in relation to development of the firm.

The principal researcher would like to acknowledge the assistance of Camilo Villa, of CIDER who led a team of field researchers who undertook the field interview: Gonzalo Arango and Luis Rueda, of the Technological University of Pereira, Isabel Patricia Orozco, Foundation for the Development of Quindio, Carlos Ariel Garcia, Regional Centre for Coffee Studies (CRECE), Manizales, and Patricia Rojas, independent consultant. All commented on the design of the survey and made very valuable suggestions to improve the survey instrument, especially Luis Rueda and Gonzalo Arango.

Furthermore, I would like to acknowledge the financial and technical support obtained from CORPES de Occidente and the support rendered by the Chambers of Commerce of Armenia, Manizales, Pereira, Disquebradas and Santa Rosa. Finally my sincere thanks to the continued and very valuable assistance by Gonzalo Vargas, also researcher at CIDER.

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2. Firms, international competitiveness and new competition

2.1 *Introduction: from macro economic adjustment to industrial restructuring*

Many countries, rich and poor have been undergoing economic restructuring processes which, amongst others, are shaped by processes of globalisation of economic activity and in which policies of economic adjustment and liberalisation figure prominently. While public policies of adjustment found their origin in and were primarily shaped by international development co-operation, governments and international lending institutions and by growing concerns to cope with debts, restore macro-economic balances and national economic growth (e.g. World Bank, 1987, Van der Hoeven & Van der Kraaij, 1994), the processes of globalisation of economic activity and international competitiveness find their origin in the growing mobility of capital, information and multinational enterprise and in rapid changes in technology and in intra-firm and supra-firm level industrial organisation (e.g. Dickens, 1992, Best, 1990; Porter, 1990; Humphrey, 1994; Bennett et al, 1993; Scott & Storper, 1992).

Policies of adjustment in the 80s and early 90s have increased exposure of national and local economies and their firms to these globalisation processes, without paying sufficient attention to the need to create appropriate institutions which would enable firms to make use of new opportunities and cope with the new competitive threats. Adjustment not only calls for an unwinding of 'old' institutions but must also focus on the active creation of new ones as these do not necessarily create themselves spontaneously but arise out of national, and meso level processes of deliberate private, collective and public action.

It is important to observe that 'adjustment' refers, implicitly or explicitly, to developing and transitional economies, the processes of globalisation and restructuring of industries are a phenomena that affect all countries and, unless international trade is restricted, they are likely to be a permanent feature of economic development. Restructuring is world wide, both passively, as a phenomenon affecting people, places and sectors, and, actively, as policy interventions. Feyter defined economic restructuring as a "collection of interventions, by those whose interests are connected with the perspective of an industry, that are directed towards re-organising an industry's economic and technological capabilities, so that the industry may meet international competition, whilst coping with generally accepted social considerations at the same time" (Feyter, 1986). Others argue that in view of the changing nature of competition, restructuring concerns not only sectors of industry but essentially concerns the advancement of the productive potential of particular local economies and societies (i.e. territories). Hence not only refers to firms existing today in a particular sector of industry but also to the utilisation and development of the productive potential of the population both in enterprise development, new firm formation and development of the human labour resources and related infrastructures (Bennett & McCoshan, 1994). Third generation policies should, in my view, depart from the latter and wider perception.

2.2 *International competitiveness and new competition*

International competitiveness is changing as result of the rapid globalisation of industry, which took place over the last 25 years. The world's exports have been growing over this period with rates between 11 and 20%. At the same time, foreign direct investment has been expanding at unprecedented rates in the last 10 years between OECD countries (31% p.a.), a great part of which concerns services industries (OECD, 1993). Also, the composition of world trade has, according to the same source, been changing with a declining share of resource intensive industries, stable shares of labour intensive industries and rising shares of scale intensive (e.g. paper, cars), differentiated (e.g. electrical & non-elec. machinery) and science based industries (e.g. computers, professional equipment).

A range of global technology factors drives changes in international competitiveness. Among these are: increasing rate of technological innovation, broader applicability of new technologies

(NT), shorter process and product life cycles with faster replication, decreases in the proportion of direct unskilled and semi-skilled labour in total production costs. Quality and speed of delivery has improved dramatically thanks to new technologies (NT). Substantial savings have been generated in the use of inputs (increased energy efficiency, savings in material, less wastage and scrap, new lighter, stronger materials). As a result, direct production costs have declined as share of total costs while development and transaction costs have risen. Furthermore, NT has made possible changes in the organisation of production improvement and competition, which has both qualitative and quantitative effects on competition (Dahlman, 1993, Dickens, 1992, OECD, 1993). New dimensions of competitiveness include: quality of product, short delivery times, after sales service, responsiveness to customers, product differentiation, innovative product design, aggressive marketing and efficient distribution and logistic networks

As a result of these above trends, competition is not just a question of cheaper factors but above all better management of these factors, both within firms, between firms and within and between communities and nations. With regard to firms, Dahlman phrased it as follows: "the speed of technical change and the greater emphasis on product design, development, marketing and service means that being a low cost producer is no longer a sufficient condition for competitiveness ...[It depends on].. speedy and reliable delivery, high quality and ability to expand the range of production and services to fit customer's changing needs" (Dahlman, 1993:13). A firm has to deal, internally, with more areas of concern in order to remain competitive. Furthermore, the competitiveness of a firm is increasingly determined by the competitiveness of its suppliers, and servicing firms and factors in the business environment (Porter, 1990).

New competition

Michael Best has given a powerful interpretation of the changing nature of competition, with his theory of 'new competition' (Best, 1990). New competition distinguishes itself from 'old' competition in four dimensions. Firstly, and at the centre of his theory is the entrepreneurial firm, which is "an enterprise that is organised, from top to bottom to pursue continuous improvement in methods, products and processes" (ibid:2). The latter constitutes the basis of strategic advantage, rather than lower production costs per se. Best rejects the notion of the product cycle, according to which technological innovation passes through a sequential process, ultimately leading to a low cost mass production technology. In stead, a firm would have to pursue continuous improvements, something that has organisational requirements and demands attention to detail. The second dimension is the importance of the production or commodity chain. Competitiveness depends as much on the firm itself as on that of its suppliers. Suppliers are an important source of innovation and improvement. Under new competition conditions supplier and buyer invest in long term relationships, consult and jointly establish quality norms and standards. The third dimension concerns the importance of so-called 'sector institutions': "A sector can include a variety of inter-firm practices and extra-firm agencies such as trade associations, apprenticeship programmes, labour education facilities, joint marketing arrangements and regulatory commissions, each of which facilitates inter-firm co-operation" (ibid:17). In other words, "firms not only compete, but they can also co-operate to provide common services, to shape 'the rules of the game' and to shape complementary investment strategies" (ibid). The fourth aspect is a strategic industrial policy on the part of government which would need to have a production rather than a distribution focus, seeking to shape markets, stimulating and undertaking complementary investments in support systems, and encouraging firms to develop strategic alliances.

Factors of competitiveness can be identified at three levels. Firstly, at the level of the firm, competitiveness stretches into all major functional areas: choice of product, choice of technology, plant and equipment, organisation of production, purchasing, R&D, product design, quality control, hiring, training and management of labour, marketing & distribution,

finance, costing and accounting (Porter, 1985, 1990; Reid, 1993). Secondly, at the level of inter-firm relations, the crucial factor concerns the efficiency of supporting and supplier firms providing inputs and services. Many different aspects may be distinguished under the broad heading of network based competition. Most attention has been paid to production subcontracting, in either a hierarchical or co-operative horizontal network form (e.g. Sverrisson et.al. 1993). Less attention has been given to producer services. Another area of inter-firm relations concerns firm level collective action as part of competitive strategies. Firms may seek to co-operate with each other in market development, R&D, process and product design in an effort to create economies of scale and reduce indivisibility's, both contribute to reduce costs and cost risks for each participating firms. The theory of collective action suggests that such co-operation doesn't come about automatically, but depends on a number of factors concerning the type of (semi-)collective good, the number of participating firms and the organisation of the action (Olson, 1960; Popkin, 1981). Thirdly, at the level of the business environment, the factors contributing towards competitiveness, may be grouped in the following 4 main areas (Dahlman, 1993, Bennett & McCoshan, 1994): - physical infrastructure (esp. transport and communication); - human infrastructure (quality & productivity of the labour force); - institutional (economic) infrastructure (legal, finance & financial services, export support institutions, technology support institutions (norms & standards, testing, quality control, R&D); and, finally, the macro economic environment

Overseeing the three levels, one can argue that the first level consists of factors which are under the control of the firms themselves. As regards the second level, firms have (varying degrees of) indirect control: much depends on how they relate to other firms and whether firms agree to engage in various forms of inter-firm co-operation. Finally, firms have little if any direct control over third level factors. These are either in the public domain or in part provided by (large) business interest associations.

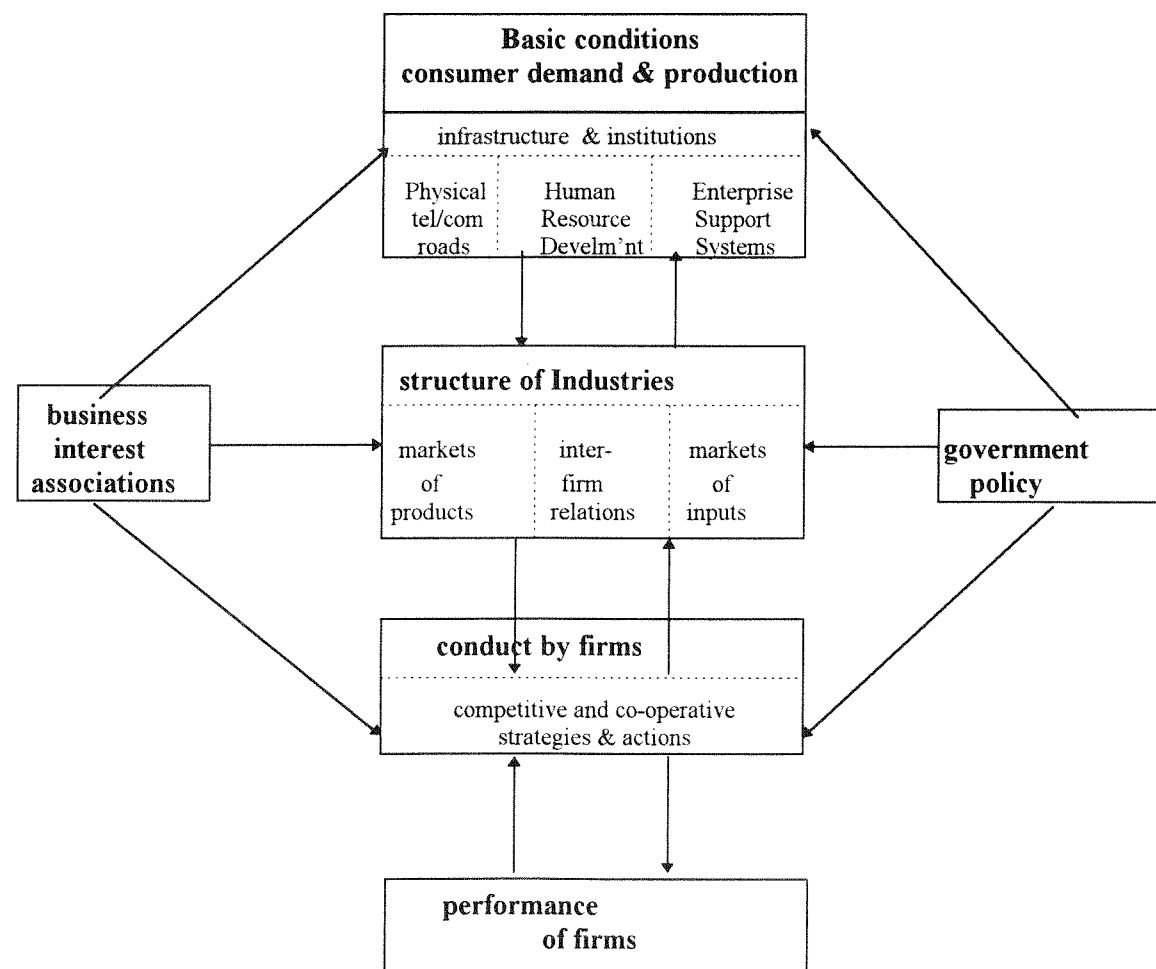
2.3 Expanded framework of Structure, Conduct & Performance

Strategic conceptions concerning firm behaviour have replaced the neo-classical theory of the firm, and they have two basic notions in common. The first is that a firm faces certain given's in its environment, these may be grouped in basic conditions and in (market) structure. Basic conditions refer to consumer demand (elasticity, seasonality, substitutes, location etc) and to production (technology, materials and substitutes etc.), while (market) structure refers to barriers to entry and exit, numbers of buyers and sellers, product differentiation, etc. The kind of product sectors the firm is active, the different sources of competition (from substitutes, from rival firms, from suppliers or buyers) all are part of structure. The second basic notion is that within basic parameters the firm is able to shape its own actions assume a certain stance or adopt a certain competitive strategy. The manner, in which the firm behaves and implements a certain deliberate series of actions, will ultimately shape its performance. That performance may then be measured in terms of profits, market share etc. These are the features of the Structure, Conduct Performance (SCP) model, which has its roots in the industrial organisation literature of the 50s (Carlton & Perloff, 1987: 4).

Below we have expanded the SCP model in order to capture the changing nature of international competitiveness and principal elements of new competition, which were discussed above (see figure 1). The 'basic conditions' have been broadened to included physical and economic infrastructure and transaction, regulatory and business support institutions. The 'structure' is widened to include not just market structure but the inter-industry structure and inter-firm relations. The 'conduct of firms' not only refers to competition but also co-operation between firms. Firm level strategies form the basis through which 'conduct' is analysed. 'Performance' remains as originally defined in the model. Finally, with regard to government policy, one could say that the international trend is that policies of industrialisation are moving away from direct government intervention (in firm's behaviour), particularly withdrawing policies that selectively affect conduct and performance of firms (e.g. via foreign exchange

allocations, price controls and project approvals). Governments shift towards facilitating changes in structure, leave most actions to firms and business associations (include public-private partnerships) and concentrate attention on basic conditions (physical, economic and institutional infrastructures and the macro economic environment). Given the general climate of reducing role of government and raising government's own responsiveness to its clients, emphasis has been shifting towards improving government's performance and raising 'systemic rationality' of enterprise support systems. (Bennett & McCoshan, 1994). Last but not least, 'business associations' have been added to stress their importance of in market governance structures.

Figure 1



3.0 Research design

3.1 Introduction

The leading questions guiding this research may be summarised as follows:

1. What are the types of economic factors/shocks, affecting the competitiveness of firms in Bulawayo during the past 3 years and what is the relative importance of each?
2. What is the type of competition faced by firms and what have been the principal changes therein during the last 3 years?
3. What have been the strategic responses and actions of firms and how effective have these been?
4. What is the local demand for support services and how do changes relate to the competitive process examined in the earlier questions?
5. What is the demand for business services and are processes of externalisation taking place?
6. What are the contact patterns of firms in relation to the development of the firm?

In terms of the expanded SCP model, lead question 1 concerns exogenous factors. The second lead question refers to 'Structure' while lead question 3 concerns 'Conduct' and 'Performance'. The fifth leadquestion relates to a particular aspect of inter-industry 'Structure' while leadquestion 4 essentially concerns a range of 'Basic Conditions'. Lastly, leadquestion 6 can only partially be easily classified in the SCP model as it refers to 'background' interaction patterns between firms and principal actors and agents. Below each leadquestion will be elaborated on.

The research will concentrate on firms active in manufacturing, and will try to cover the wide spectrum of firms sizes (from large formal to small informal) and will concentrate on the largest industrial sectors of Bulawayo so as to facilitate inter- and intra sectoral comparisons.

3.2 Nature of external threats affecting firms

The leadquestion seeks to establish the relative importance of different types of external threats experienced by firms in Bulawayo. There is no intention to measure for example the impact of ESAP measures. Rather this question is primarily contextual. The types of threats may come from among the following or additional ones:

- increased domestic competition (from rival firms)
- increased competition arising from lower switching costs/better informed, more critical clients
- competition from buyers (backward integrating firms)
- competition from suppliers (forward integrating firms)
- increased competition from competing imports (for similar products)
- competition from imported substitutes
- contraction of domestic demand (for similar products)
- contraction of domestic demand because of domestic substitutes
- reduction of export demand cq greater competition in export markets
- stepped up inflation
- increases in interest rate for borrowing
- availability of inputs
- costs of inputs
- government policies (incl. uncertainty about direction)

In addition non-economic factors have been included. These are political instability, natural disasters (like recurrent droughts) and personal security.

It would be interesting to establish the relative importance of threats, typically emanating from ESAP policies and compare these with other non-ESAP related events and factors. It is

expected that differences will emerge between firms of different size and between different sectors and market orientation of firms. Differences are likely to emerge related to personal attributes of the entrepreneur (level of education, background; i.e. greater awareness of complex environment). Some external threats emanate from 'structure' while others are related to changes in basic conditions over which firms have no control or influence. This is likely to affect their strategic responses and actions by firms.

3.3 Nature of competition faced

The terms of competition between firms are often difficult to establish empirically. Often certain competitive conditions are assumed a-priori. For example, the pre-ESAP situation is often characterised as an uncompetitive market situation, lacking competition between firms. Some firms were considered monopolists. Liberalisation and adjustment aims at introducing more competition. A particular question here would be to what extent factors of 'new competition' have emerged. The research has put together a set of indicators in order to compose a picture of the terms of competition.

Although firms in Bulawayo may be small, compared to world standards, they have been equally or more 'fordist' and standardised. As a result of ESAP induced liberalisation, markets are less protected and in seeking responses to external threats, firms have to face increased competition, but that competition may have different origins (from new entering firms, from existing rival firms, from firms with committed assets (facing barriers to exit) as well as come from buyers and/or from suppliers). Differences between firms are likely to vary by product and market structure elements and by firm size.

The competition faced by firms may come in different forms of types:

- price/cost based competition
- product (intrinsic) quality based
- customisation of product
- after sales & customer support services
- more effective marketing
- speed of delivery (JIT)
- brand competition

Nature of competitors

- by size (small, medium, large)
- by geographical scale (local, regional, national)
- foreign (subsidiary, representative)

- Barriers of entry and exit

Problems faced in competition

- inefficient lay out of plant, outdated machinery & equipment
- outdated labour skills
- low efficiency product specifications
- outdated product design
- poor environmental properties
- poor quality intermediate material inputs/cost of
- poor producer services/cost of
- lack of information

3.4 Strategic responses

What is the strategic orientation of the responses of firms to the changed competition? In what functional areas of the firms have concrete actions been undertaken by firms? How were these

actions undertaken i.e. what resources were used, what constraints were faced and what roles were played by business support and other agents? and what results have been obtained and what impacts has been achieved in terms of performance (sales, costs, profits, productivity per direct employee)? What factors have contributed or inhibited successful implementation?

Have responses of firms been primarily defensive or offensive? The following may be typical responses:

- adjust (passively) to lower sales volumes (downsizing + retrenchments)
- exit from production and/or switch to or combine with importing
- change market orientation and develop new market segments (domestically or abroad)
- improve marketing and sales efforts
- improve complementary client services
- reduce cost by improved process, by economising
- reduce price (profit margin)
- improve product quality (by design and/or process)
- by subcontracting (upward/downward) in manufacturing
- by outcontracting producer services
- networking & alliances with other firms

These strategic responses may have been given shape via concrete actions. In cases where no explicit strategic response could be formulated by the respondents, this may be derived from the concrete actions undertaken. These may be grouped under the following 'ideal' types:

- Product innovations (improvements, new products, range reduction, diversification, etc.)
- Process innovations (new equipment, redesigned operations, quality controls etc.)
- Management approaches & capabilities (strategic management of change, inventories of materials, works in progress and final products; waste reduction; internal control operations, supervision, decision making processes)
- Human resource development (education & training, specialisation, participation in quality)
- Marketing (market research, advertisement, promotion)
- Networking (subcontracting, outcontracting, franchises, licences, etc.)
- Inter-firm co-operation in domestic/export markets (co-contracting, co-design, co-manufacturing, joint marketing, alliances, associations)

Firms which have undertaken such concrete actions over the last 2 or 3 years, will be interviewed as regards their implementation experiences. What resources were used to realise these actions, what constraints were faced and which external agent or institutions proved crucial and which factors or conditions proved to be contributing, positively or negatively?

A clustering is likely to occur between types of external threats and nature of competition and type of strategic response taken by firm, though some firms are likely to be less alert and/or innovative than others. The type of response taken may reflect underlying internal strengths and weaknesses of the firm. Although, 'structure variables' are likely to be pronounced, other factors such as personal characteristics of managers (age, education) and management style are likely to be significant.

Some firms may have already left the market entirely. Although it would be interesting to interview firms that have withdrawn, this research concentrates on the responses of the surviving firms.

3.5 Enterprise support system: demand and institutional preferences

In chapter 2 it was argued that four sets of factors in the business environment are important in strengthening the competitive capacity of industry, namely:

- physical infrastructure
- human infrastructure
- institutional (economic) infrastructure
- macro economic environment

The research has centred on the question whether and to what extent, the actions undertaken by firms to improve their competitive capacity are being supported by an enterprise support system. The macro-economic environment is clearly outside local control and influence but may have substantial impacts on the actions of firms in the short run.

Physical infrastructure & services

- road infrastructure & transport services
- rail infrastructure & freight services
- electricity
- water
- telephone & communications
- land

Enterprise support services

- enterprise development support services (signposting; business skilling; business advisory; business assistance)
- financial support services (loans, debt conversion, venture/risk capital, credit, guarantees, specialised lending)
- technology & innovation support services (R&D, process & product design, testing & quality control, norms & standards)
- human resource development (different types of skill and management training)
- marketing services (signposting, skilling, advisory & assistance)

In view of the duration of the adjustment process, it is likely that firms are phasing their internal adjustment and restructuring processes, from an initial defensive responses to more long term innovative strategies. An important question to be examined is to what extent do the demands of firms on the enterprise support system change over time? The research has attempted to generate indications in this respect by asking firms to indicate future demands.

In addition, the research has examined institutional options for the delivery of support services. Given the changing role of the state that is so prominent in adjustment policies, one could ask the question whether the institutional preferences of firms have changed? Have the preferences of firms shifted to market based provision of support services, or is there still a demand for collective organised and public support services?

3.6 *Producer services*

There are a number of reasons to believe that firms in early stages of industrialisation and under 'import substituting' industrialisation have internalised many producer services, which have not been operating at optimal levels but for which initially may not have been available in the market. Furthermore, as firms are exposed to increased competition they may seek to externalise these services in an effort to get back to core business, reduce costs, gain flexibility etc. At the same time, responses to increased competition do generate new demands for specialist producer services which the firm may be unable or unwilling to maintain internally (if not strategic) and prefer to acquire in the market (so as to maintain flexibility, or if demand is infrequent or in order to reduce associated costs risk, etc.). What producer services have been externalised and which ones are in demand as new producer services?

An environment in which there is a variety of producer services locally available, is favourable to the development of small enterprises. Putting it differently, a lack of producer services puts a constraint on the expansion and 'graduation' of small firms. Externalisation of producer services by large firms, under pressure of increased competition and liberalisation, may have an unintended positive effect for small firms.

The following producer services will be examined:

- accounting (include. bookkeeping) services
- advertising, promotion & PR services
- banking & financial services (incl. factoring)
- catering services
- cleaning services
- computer services
- design services (product & process)
- employment agency services
- employment recruitment services
- engineering services/repair
- legal services
- maintenance of grounds & buildings
- maintenance of plant & equipment
- management advisory services
- marketing & sales services
- procurement services
- security of premises
- transport, logistics & distribution services
- transport of staff

3.7 *Contact patterns of firms*

The research seeks to establish basic contact patterns of entrepreneurs/CEOs. To whom do they relate/ who do they approach in order to address certain issues/problems in the running of the enterprise? What channels of information do they use? Any policy by collective or public agents (government, BIAs or other agents, like NGOs), would need to be aware of these contact patterns in order to establish the most appropriate communication strategy (Sweeney, 1987). Contact patterns will be examined for different functional areas as well as a set of potential sources. It would be of interest to determine the differences between contact patterns between sectors and between firms of different size categories.

3.8 *Selection of sectors and sampling procedures*

In view of the overall orientation of the research project and its resource limitations, it was decided to restrict the study to a limited number of manufacturing sectors that together constitute the core of the local economies of Armenia, Caldas and Manizales. On the basis of interviews with key informants and data in terms of employment and the number of firms by sector, it was decided to concentrate on the food processing industry (CIU code 31), Clothing (CIU 32), Furniture (codes 33 + 38) and Paper & Printing (CIU 38).

In absence of access to Census of Manufacturing data of the Colombian Department of Statistics (DANE), it was decided to develop a sampling framework on the basis of the company registers of each of the five Chambers of Commerce in the area. The co-operation of each of the Chambers was obtained and considerable effort was spent on creating a unified database. One of the major deficiencies of the Chamber of Commerce company register is that particularly small firms are seriously underrepresented in terms of membership of the Chambers of Commerce. It was decided therefore to exclude the small firms (with an value of assets of less than 20 mln pesos) from the framework. The sample was stratified by firm size (as measured by value of assets). Details of sampling procedure are presented in Appendix 1.

Table 3.1
Final composition of the sample

	Armenia	Manizales	Pereira	Total
Food	2	8	5	15
Clothing	0	3	10	13
Furniture	6	0	6	12
Printing	3	8	8	19
Total	11	19	29	59

3.9 Organisation and the implementation of the research instrument

In order to gain local recognition and support and in order to ensure that the findings of the research are made locally known and are commented upon by local institutions, a series of meetings and presentations were held in Armenia, Manizales and Pereira with business leaders and representatives of industrial and local business and development associations and political leaders. Field team members were selected on the basis of their experience with conducting survey type interviews with business managers and their knowledge of and contacts with local firms. Although originally intended to start in October/November 1995, difficulties with defining the sampling frame (especially establishing one database from the registers of all 5 chambers of commerce) caused considerable delays. It was therefore decided to carry the interviews over the Christmas and holiday period. Effectively they started in February 1996 and took place in a period of 6 months. Interviews varied from 2.5 to 3 hours to more than 5 hours such depending on the interest the survey instrument generated among the interviewees. Several indicated that they considered it a useful diagnostic of their company and company policies.

4. Socio-economic profile of the area

4.1 Demographic situation

The research was done in the metropolitan areas of Pereira - which also includes the municipalities of Dosquebradas and Santa Rosa de Cabal, Manizales - which includes also Villamaria- and the city of Armenia. The total population of these three areas is 1,360,000, half of which is found in the area of Pereira.

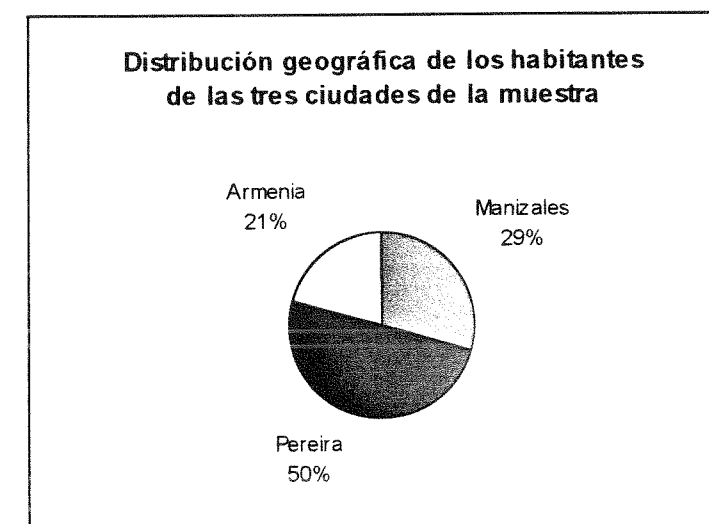
Table 2.1
Population, population growth
Urban population and population by legal entity
Armenia, Manizales and Pereira

City	Population 1997	Growth rate Total	in period 1993- 1997		Urban population as % total
			Municipal centre	Rest of municipality	
Pereira	676 526	2.0	2.4	-0.3	85.5
Manizales	399 634	1.0	1.5	-3.9	92.2
Armenia	283 842	2.3	2.4	-1.4	97.3

Source: DANE

From the above table it can be discerned that Armenia is the city with the greatest population growth. It is also the municipality with the greatest decline in rural population. In accordance with the population estimates of DANE, the cities of Pereira and Armenia have experienced growth rates that were higher than the national average while also their rural population has been declining at higher paces than the rest of the country. Manizales has a population and urban growth rate below the national average.

Graph 1
Distribution of the Population of the three cities



Fuente Dane

4.2 Poverty

A study of the national statistical office of Colombia, DANE, of 1993 showed that there were approximately 222 000 poor persons in the three urban areas, most of whom are living in Pereira, as is shown in the next table.

Table 2.2
Population in conditions of poverty (1993)

City	Percentage of the population in condition of poverty			Poor population
	Total	Head of Municipality	Rest	
Pereira	23,0%	22,3%	35,0%	125.887
Manizales	15,9%	14,4%	30,5%	56.894
Armenia	17,9%	17,7%	25,0%	39.296

(*) Number of "persons".
Source: DANE.

4.3 Regional output

Taking into account that Colombia does not have estimates of output of its main cities, data of the three corresponding departments were used to give an idea of the size and structure of the local economies. The next table shows the value of gross domestic product of three departments in 1993, as well as its share in the national GDP. The per capita gross product shows considerable variation between the three departments. The per capita product of Pereira is rather high, especially if one recalls that the national per capita product in the same year was Col \$ 21 884.

Table 2.3
Departmental gross product (DGDP), 1993

Department	DGDP 1993*	percentage distribution	DGDP/ as % of national GDP	Per capita DGDP 1993*
Risaralda (Pereira)	\$20.531	38,6%	2,50%	\$32.937
Caldas (Manizales)	\$20.437	38,5%	2,49%	\$19.841
Quindío (Armenia)	\$12.174	22,9%	1,48%	\$24.583
Regional total	\$53.142	100,0%	6,47%	

* Constant prices of 1975

The table below shows that agriculture is the most important economic sector of the regional economy of the three departments, followed by manufacturing. At the level of the departments it is clear that Caldas is heavily relying on agriculture, while manufacturing is the mainstay of Risaralda. Quindío finds itself in an intermediate situation where the two sectors are almost of equal importance. Services, such as trade, banking & finance and government are relatively underrepresented in the three departments and the regional economy as a whole.

Table 2.4
Sectoral composition of DGDP, 1993

Department	Caldas	Quindío	Risaralda	Total
Agriculture	38,8%	29,5%	24,4%	31,1%
Manufacturing	17,2%	27,3%	31,8%	25,2%
Commerce	8,4%	9,3%	9,4%	9,0%
Transport	5,7%	6,0%	4,3%	5,2%
Banking & financial services	6,4%	6,6%	7,3%	6,8%
Government	8,7%	7,9%	6,3%	7,6%
Housing	4,9%	4,6%	4,6%	4,7%
Other	9,9%	8,8%	11,9%	10,4%
Total	100%	100%	100%	100%

5. General characteristics of the firms

5.1 Sectors

As was indicated earlier, the research concentrated on a sample of 59 firms in the following sectors of the regional economy, namely, food products; clothing; furniture industry and printing. The region is one of the principal coffee producing regions of the country and a number of the food processing firms are engaged in the processing of coffee, manufacturing powder, decaffeinated and instant coffee. Other important agro-processing and agro-related activities concern the manufacture of lactic products, processing of fruit juices and fruit concentrates, processing of maize and manufacturing of sweets, biscuits and bakery products. The clothing manufacturers are largely concentrated in Pereira, and manufacture both men's wear and ladies wear. The majority are engaged in the manufacture of a range of products, and only a few are very specialised e.g. manufacture of men's shirts or sports wear. The furniture firms in the sample are both wood and metal furniture manufacturers. There is a variable degree of product specialisation. Some are more general furniture manufacturers, carrying a range of product groups. Often firms have main product lines which are responsible for a mayor part of their turnover (see below). There are a few firms that are strongly specialised, like in furniture with tube frames, dining tables, bed and bedroom furniture, doors and cupboards. The furniture manufacturers are located in Armenia and Pereira. Lastly, the printing industry is primarily dedicated to lithographic and typographic and general printing products. Firms are located in all three urban centres.

The size structure of the firms as measured in value of their assets is summarised in table 5.1.

Table 5.1
Value of assets of surveyed firms

Size*	Frequency	%
0-100	6	10,2%
101-1.000	23	39,0%
1.001-10.000	15	25,4%
10.001-100.000	4	6,8%
nk/nr	11	18,0%
Total	59	100,0%

*millions of pesos of 1995

5.2 Characteristics of the firms and their owner/managers

The great majority of the firms (93%) are independent companies. There are only 4 subsidiaries of other companies (two of these are Colombian companies, while the other two are part of foreign companies). It is of interest to mention that one third of the firms was established in the nineteen eighties, something which reflects the regional economic dynamism of that period. The number of firms established in the nineteen nineties is proportionally much smaller.

About 60% of the firms is still in the hands of the original owner founder. More than 75% of the owner managers have a university degree. This shows the high level of education of this region. Some 80% of the owner/managers was born in the region itself and the average age is 45 years.

Only 22% of the firms has the judicial form of natural person or individual proprietor. The latter is most predominant in the paper industry. The majority are limited companies (45%) or publicly quoted companies (30%). This shows the relatively high level of development of the local financial structures. However, it is important to mention as well that the most important sources with which the firm was established were own resources (49%), bank loans (20%) and resources obtained from relatives and friends (18%).

5.3 Employment and employment change

The table below summarised the employment changes that took place in the surveyed firms. Full time employment in the surveyed firms has grown between 1992 and 1995 at an average annual rate of 9.6% which is much higher than the national average. Part time employment in the surveyed firm grew even faster, at an average annual growth rate of 19.3%. However, the relative importance of the number of part time jobs in the total employment is still very small. It was 3.3% in 1992 and went up to 4.2% in 1995. In other words, although part time employment grew much faster than full time employment, flexibilization of the labour has as yet not become a major feature.

Table 5.2
Employment, full time and part time, 1992 and 1995, by sector

Sector	Full time			Part time		
	1992	1995	var. %	1992	1995	var. %
Food	819	1109	35,4%	3	38	1167%
Clothing	2328	3184	36,7%	81	109	34,6%
Furniture	535	705	31,7%	0	2	-
Printing	596	632	6%	61	97	59%
Total	4278	5630	31,6%	145	246	69,6%

The high employment growth among the surveyed firms is somewhat unexpected. There may be several explanations. One is the bias generated by the sample, it is restricted to surviving firms in 1996 i.e. firms that collapsed during the period, as result of the economic shocks of the 90s are not taken into account. A second factor would be the relatively high coffee prices in 1994 and 1995 which coupled to good harvests may have contributed to a local coffee bonanza, which may have mitigated the negative effects of the macro-economic policies.

5.3 Composition of output

About 47% of the firms have between two and five product groups, while 36% has one product group only. Only a small group of firms has a wide range of product groups. Especially the firms in the clothing sector tend to be specialist producers, having only one product group, while firms in the other three sectors are predominantly in the 2 - 5 product groups range.

Furthermore, it is important to look at the importance of particular product groups for sales and profit of a firm. Almost two thirds (64%) of the interviewed firms, depend for more than 80% of their sales on their principal product group. The median value for the entire sample is 75%. Not surprisingly, particularly clothing firms are highly dependent on one product group while the other sectors show a more varied pattern.

This specialisation in a reduced number of product groups is also reflected in the number of products that a firm manufactures. Some 29% of the firms has manufactures 5 products or less. There is a relatively low level of product diversification, except in the food sector which has the highest number of product.

This pattern has not changed very much in the past three years. For two thirds of the firms, the number of product groups did not change and for half of them also not the number of products either. Only 30% of the firms increased the number of products they are producing.

The capacity utilisation of the firms in the survey is on average considerably below their projected maximum, namely at 65% of the installed annual capacity. The food industry has been operating under the most favourable conditions as two thirds of its firms are operating at more than 90% of capacity. Firms in the clothing sector and especially those oriented towards external markets have been most affected with capacity utilisation levels below 50%.

Two third of the firms indicate that they operate with a cost function that is best represented by a function with decreasing marginal costs, indicating economies of scale while 19% indicated to operate with constant marginal costs. The latter group can in principle more easily adjust to changing levels of output. The former group may benefit from economies of scale when output grows but in periods of contraction would be faced with rising average costs. The latter would induce the managers to be bent on achieving sales targets.

5.5 Performance

The survey generated some performance indicators. Generally manager/owners are quite reluctant to divulge financial information about their companies. It was therefore decided to approach the matter in a qualitative manner, that would at least indicate an order of magnitude and sense of direction.

Of the total of 59 firms, only 13 reported that they were making profits. The remaining 75% was making losses in 1995. More than half of the firms indicated that the situation had deteriorated in the past three years.

The gearing ratio, measuring the indebtedness of a company relative to equity is on average 45.4% which is higher than at the time the companies started (33%). There is however considerable sectoral variation. The lowest average gearing ratio is found in the food sector - 26.7% - while the ratio in the other sectors oscillates between 81% and 87%. The rate went up in the last three years in the furniture and paper industry. The principal reasons for these increments in debt levels were to finance the acquisition of plant and equipment (59%), solve cash flow problems (46%) and to finance increases in inventories (34%).

Almost seventy per cent of the firms (69%) experienced cash flow problems in the past three years which were caused principally by defaulting debtors (42%) and other factors such as too much customer credit and excess investments.

6. Markets and competition

6.1 Introduction

According to Porter there are 4 main forces of competition, clients, rival firms, suppliers and substitutes¹. In this chapter we examine the first three forces. We begin by briefly describing the market areas in which firms operate and the pricing methods that firm use and contrast this with perceived aggregate price relationships as perceived by the firms. This sets the stage for examining in some depth the relationships between suppliers and clients. Attention is focused on the existence and the relative importance of regular clients. This helps to establish the extent to which one may speak of close relationships between firms and their clients. Any transaction or bargaining between firms and their clients would depend, among others, on the knowledge held by clients. The levels of knowledge held by the client are assessed. Subsequently we look into measures taken by firms to increase customer loyalty. After this analysis, attention shifts to rival firms as the second competitive force. First we examine the situation in terms of the number of major and minor competitors and the changes that have taken place in the last three years. Then we look as price reactions of rival firms and the price margins that exist in the short run. Lastly, barriers to entry and of exit are examined. We then move to the third competitive force, namely suppliers. Firstly we examine the situation with regard to the (minimum desirable) number of suppliers of key raw materials and the factors that are involved in supplier selection. Finally we look at the issue of forward integration by suppliers.

6.2 Market areas

With regard to the principal markets and the changes therein over the past three years, several conclusions may be drawn (see table 6.1). For more than half of all firms the local and regional markets are their principal markets. The importance of the local regional markets appears to have declined somewhat, and within the category there has been a notable shift towards market area enlargement. Secondly there is some degree of internationalisation, as markets of particular other countries (especially USA) and the international market generally have become more important to firms in the region.

Table 6.1
Principal market areas

Principal markets	1992		1995	
	Frec.	%	Frec.	%
Local community	17	31,5%	12	20,3%
Region	14	26,0%	20	33,9%
Whole country	14	25,9%	14	23,7%
Particular other countries	3	5,6%	6	10,2%
International market	6	11,1%	7	11,9%
Total	54	100%	59	100%

Source: survey

The food sector is most diversified in this respect as its firms are serving all types of markets without any particular concentration. In contrast the clothing industry is concentrating on national and international markets, while the furniture making industry is principally oriented towards local and regional markets. Finally the printing sector is oriented towards the domestic market without any significant focus on export markets.

Table 6.2
Principal market areas, by sector

Principal market	1995 percentages			
	Food	Clothing	Furniture	Paper
Local community	13%	8%	23%	33%
Region	33%	8%	53%	33%

¹ Porter, 1984

Whole country	13%	33%	23%	27%
Other countries	40%	50%	-	7%
Total	100%	100%	100%	100%

Source: survey

During the period analysed two interesting trends took place. The first is that firms that previously were primarily oriented towards local markets expanded their horizon and started to orient themselves towards regional markets. This applies in particular to paper and furniture making. Secondly the proportion of firms that indicated exports as their principal markets also increased, especially in the food and clothing sector. As a matter of fact, 35% of the firms that indicated that they are exporting, did so for the first time in the present decade. The latter seems to indicate that firms in the region are working towards 'apertura economica'.

6.3 Pricing

With regard to pricing behaviour a number of issues have been examined. Firstly we examine how prices are determined. Then price reactions are examined, of both client and rival firms and we examine the margin of price changes that firms have without triggering a reaction from rival firms. Finally, non-price factors, and the recent evolution, are examined.

Table 6.3
price determination

Pricing method	Total	Food	Clothing	Furniture	Paper & print
fixed mark-up over direct costs	41%	26%	47%	45%	39%
variable mark-up	27%	26%	13%	24%	39%
<i>fixed & variable mark up pricing</i>	<i>68%</i>	<i>52%</i>	<i>60%</i>	<i>69%</i>	<i>78%</i>
highest level market can bear	8%	16%	7%	3%	6%
principal customer	3%	0%	7%	3%	0%
strong competitor or oligopolist	14%	10%	27%	10%	10%
<i>market based pricing</i>	<i>25%</i>	<i>26%</i>	<i>41%</i>	<i>16%</i>	<i>16%</i>
regulatory agency	1%	5%	0%	0%	0%
other ways	6%	16%	0%	3%	5%

Source: survey

The results are quite surprising. In spite of a half a decade of deregulation, more than two-thirds of the companies, continue to rely on inward looking mark up pricing as a basis for price determination. Market based pricing is adopted by only one-quarter of the firms.

Do entrepreneurs still consider the market to be a 'seller's market' where price changes have little influence on the demand or do they realise that market conditions have changed?

In order to examine the overall price-demand relationship - that is to say, the demand reaction to price changes -, the firms were asked to determine what their demand would do in response to their decision to raise the price of their principal product and reduce their price. Table 6.4 gives some interesting results on short run demand reactions as perceived by the entrepreneurs. Whether defined in terms of a price cut or a price rise, the largest group of firms considers demand not to change in response to such price changes.

According to a large number of respondents, demand does not react to a reduction in the price of the principal product. The information generated by the question doesn't permit us however to calculate a price elasticity. From a sectoral point of view it is interesting to observe that firms in the furniture making industry are confronted most frequently with high price elasticity's (>-1), while the majority of firms in the other three sectors indicate that the demand for their products does not change. It is of interest to add that these conclusions also apply

when examined in terms of firm size. Especially small firms don't expect their demand to change in reaction to price cuts.

Table 6.4
Demand reactions to price changes
(percentage of firms responding)

Price reduction of 5%	% of firms	Price raise of 5%	% of firms
Sales increase more than 5%	27,1%	Sales decline more than 5%	25,4%
Sales increase aprox. 5%	10,2%	Sales decline aprox 5%	8,5%
Sales increase less than 5%	10,2%	Sales decline less than 5%	13,6%
Sales do not change	44,1%	Sales do not change	39,0%
Donit know/no response	6,8%	Donit know/no response	10,2%

Source: survey

In terms of price increases, the tendencies are similar and the largest group of respondents (39%) maintains that their sales do not change. From a sectoral point of view it is again worth noting that a majority of firms in the furniture making industry face high price elasticity's (> 1). Also a significant group of firms in the printing industry experience a high price elasticity. The general tendency is also reproduced by firm size, except that the largest firms recognise that their sales may decrease with a proportion less than one.

Examining these price reactions it is striking that the largest group of responses is found in the 'sales don't change' category and that there is in both instances also a not insignificant group of entrepreneurs that does not know what will happen to their sales in response to price changes.

6.4 Clients

Very often, competition takes place in the context of close relationships between the firm and its clients. Several indicators have been used in the field instrument to examine various aspects of such client-firm relationships. One of these is the existence and importance of a permanent client list. The survey confirmed the importance of this phenomenon. A large majority of the firms (81%) has a fixed circle of clients. This applies to all sectors to the same extent, except for furniture. It is quite likely that this exception is related to the characteristics of the sector as a durable consumer good producer. In nearly half of the cases these fixed circle of clients counted with no more than 50 clients. It is interesting to observe as well that there is little variation between firms of different sizes. Only the very large firms depend somewhat less on their fixed circle of clients.

In order to assess the economic importance for the firms the percentage of sales which these clients represent, was calculated. In the sectors of food and clothing the fixed circle of clients represent more than 85% of the annual sales. In the furniture and paper industries the importance of the fixed clients is somewhat less, namely 67%. As we indicated above, the phenomenon of fixed circles of clients is less prevalent among the largest firms. However, in the cases where it did apply, its importance was also greater (>95%).

In times of mayor structural change these close relations between firms and clients can also affect the performance of the firms. In this regard it is of interest to note that firms that reported profits in the last three years depended to a lesser degree on fixed circles of clients that the firms that reported losses during the period considered.

The characteristics of the demand and of the clients are important competitive factors. With regard to clients it is of interest to determine their level of technical knowledge concerning the products they purchase from the firms in the survey. Do clients have high levels of expertise or do they lack technical knowledge? According to the firms in the sample, there are two dominant positions: on the one hand there are expert clients and clients with high levels of technical

knowledge who appreciate differences in quality levels; on the other hand there is a group of clients that is inexpert and unable to observe technical differences between products. The importance of these differences may be better appreciated when looking at different sectors. Expert buyers are found in the food and clothing sector, while inexpert buyers predominate in the paper and furniture industry.

When looked at in terms of firm size, one finds that the smallest firm tend to have relatively inexpert buyers while the largest firms have almost exclusively expert buyers. In the intermediate size categories informed and expert buyers predominate.

In the majority of cases (76%) clients also buy the same product from other firms. This phenomenon applies to all sectors except the paper industry where there appears to be a more exclusive firm-client relationship.

It is interesting to observe also that customer loyalty (defined as exclusive purchasing) varies inversely with firms size. Thirty-seven percent of the small firms states that their clients don't purchase the same product from other firms. This exclusive client - firm relationship is absent among the largest firms.

Table 6.5
Clients buying same product from other firms, by firm size

size category	yes	no	don't know	total
<25	56%	37%	7%	100%
25 - 49	73%	20%	7%	100%
50 - 149	83%	17%	0%	100%
>=150	100%	0%	0%	100%

Source: Survey

The firms try to cultivate the loyalty of their clients in different ways. Customer credit and discounts are the most widely used instruments, especially in the clothing and furniture sectors. The clothing manufacturers also extend clients services and produce to client specifications. In general there has not been a tendency towards long term contracts.

Table 6.6
Measures to cultivate customer loyalty

Measures	%
Client services	59,3%
Adapt product to client specifications	57,6%
Customer credit	49,2%
Discounts	39,0%
Long term contracts	22,0%
Other	5,1%

Source: Survey

It is interesting to observe that the practice of extending customer credit has been most widely adopted by the small firms, while the largest firms opt for providing discounts. The largest firms prefer also not to produce to client specifications something which may be an indication of their more fordist character.

All seems to indicate that the firms seek to establish and maintain close relationships with their clients without having to recur to price competition. The furniture making sector is somewhat an exception to this rule. 83% of the firms offers special prices to some of their clients. This practice is most common in the clothing and furniture sector. The sector that appears least interested in stimulating client loyalty is the food sector. The clothing sector is most interested

in client loyalty. The firms distinguish between clients in their price making, taking into account criteria such as quantity of their purchases, or, simply, use different prices for 'different clients'.

6.5 Competitors

Some 59% of the interviewed firms indicated to have between 2 and 5 mayor competitors. there was little agreement as to whether this number had increased or decreased over the past three years. This lack of agreement on such an important issue may be explained by the relatively high degree of product specialisation of the firms, indicating that in the perception of the respondents find themselves in distinct market segments with distinct tendencies.

These major domestic market competitors are located in the same region or town, as those from the survey, but foreign firms and multinational firms exert growing competition, especially in the furniture and clothing industries. This appears less serious for the clothing sector as it has succeeded to find export markets, but the latter does not apply to the furniture making sector where exports are practically absent. In the export markets, clothing firms compete primarily with foreign firms, while the food exporting firms compete primarily with multinational firms operating in the same export markets.

During the past three years the number of major competitors increased slightly in the paper industry, and to a lesser extent in the furniture making sector, but it declined in the clothing industry. In the food sector the pattern is more varied with some firms indicating an increase while others experienced a reduction in the number of major competitors.

With the exception of the food sector, the number of minor competitors has *not* increased in the past three years. In fact the number of minor competitors has declined in the clothing sector and even more in the furniture making industry. These trends suggest that the region did not experience the pattern found in many other countries, namely a significant increase in competition arising from the entry of many new small and informal enterprises.

In relation to competition in relation to rival firms different aspects were examined. One concerned the degree of price competition between firms. Do competitors respond to price changes initiated by a firm and if so what margin would a manufacturer have without inducing a reaction from competitors? In a price competitive market one would expect a high proportion of rival firms to be quick in following a price cut, in order to avoid loosing clients. Conversely, only a low proportion of rival firms would follow a price raise, in the expectation to gain clients that the firm initiating the price rise would scare away. The following table provides some interesting indications.

Table 6.7
Price competition, by market

	Market	
	Domestic	Export
Reaction by other firms to a price cut		
- the other firms also reduce their prices	39,0%	18,8%
- no reaction by the other firms	49,2%	62,5%
- do not know/no response	11,8%	18,7%
Reaction by other firms to a price raise		
- the other firms also raise their prices	28,8%	6,3%
- no reaction by the other firms	59,3%	62,5%
- do not know/no response	11,9%	31,2%

Source: survey

In general, in case of a price cut, a large proportion of the firms expects its rival firms not to react by changing their prices. Interestingly, in case of a price raise, a larger proportion of firms expects their rivals not to follow suit. Remarkable, is the relatively high degree of uncertainty reflected by the 'don't know/no response' in case of export markets.

The above pattern applies to three of the four sectors. The only exception is the paper & paper industry where if prices are cut, more than half of the interviewed firms expect their rivals to do the same. Apparently, the conditions of competition among rivals is stronger in this sector.

Table 6.8
Price competition in the domestic market

	Sector			
	Food	Clothing	Furniture	Paper
Reaction by other firms to a price cut				
- the other firms also reduce their prices	40%	15,4%	43,8%	53,3%
- no reaction by the other firms	40%	69,2%	50%	40%
- do not know/no response	20%	15,4%	6,3%	6,7%
Reaction by other firms to a price raise				
- the other firms also raise their prices	40%	7,7%	31,3%	33,3%
- no reaction by the other firms	53,3%	76,9%	56,3%	53,3%
- do not know/no response	6,7%	15,4%	12,5%	13,3%

Source Survey

Price competition doesn't appear to be practised a lot, neither in the domestic market nor in the export markets. Factors other than price must be playing an important role. Few firms appear to be willing to engage in price wars with their rivals.

A large majority of firms (73%) can vary their prices *within a certain margin* without causing a reaction by their rival firms. On average, this margin is 8%. More than half of the firms can change their prices up to 9% without generating any reaction by rivals. One fifth of the firms have such a price margin of up to 15%. The firms that have the greatest price discretion find themselves in the clothing sector and to a lesser degree in the furniture making industry.

The five most important competitive factors other than price are, in order of importance:

- product image
- technical quality
- brand name
- the degree to which it has been adapted to client preferences
- speed of delivery

The relative importance of each factor is more or less similar for all four sectors. The following factors have become more important: product being part of a product group; brand name; and client specifications. The three factors that in the view of the responding owner/managers have become less important are: quality of the product, image and speed of delivery. There is some variation by sector but the overall pattern continues to apply to all four sectors. It is important to stress that these views contrast sharply with the received opinion, generated by studies on international competitiveness and referred to in chapter 2. These indicate that quality, image and speed of delivery have become crucial competition factors.

6.6 Suppliers

A majority of firms do not perceive their suppliers to represent any competitive threat to them and are satisfied with the number of suppliers they have. In general, the firms do not seek to enlarge the number of suppliers as a way to increase competitive supply. The criteria that determine preferences for particular suppliers are the extent to which his supplies have the

required specifications and the speed which they are delivered. Price and payment conditions (credit) have a secondary importance.

With respect to barriers of entry it is remarkable that the respondents have divergent views on these. Some 46% of the firms considers barriers of entry to exist while another 42% thinks that they do not. Especially firms in the paper and furniture industry and to a lesser degree in the food sector consider these barriers to exist. In contrast the clothing industry considers these to be absent.

The most important barriers to entry are the initial investment costs to establish oneself (these protect the existing firms in all sectors) and, to a lesser extent, the transport costs (which protect markets from outside competitors). The latter is an important barrier for the food and furniture making industries. Other barriers such as access to production technology or product designs and to crucial material inputs have only marginal importance.

6.7 Conclusions

In conclusion, it can be affirmed that the different indicators all point in the same direction. Clients do not appear to exercise a strong competitive force over the firms. On the contrary, most firms seek to cultivate close relationships with their clients, avoiding price competition, and seeking the loyalty of their clients in order to prevent them from switching supplier. The sector that least conforms itself to this overall pattern is the furniture making industry. The same argument could be made with respect to the largest firms in the region.

The firms in the region appear to avoid price competition. They do not expect their clients to react swiftly and significantly to price changes and are not accustomed to engage their rivals in price wars. The suppliers also don't exercise a strong competitive pressure. In general, the situation may be characterised as one of low levels of competition.

Non-price factors that play a role are product image, technical quality, brand name, client specifications and speed of delivery. When examining the changes in relative importance of these factors in the past, it was shown that views of the owner/managers diverge considerably from international trends.

7. External threats to the firm

7.1 Overview

In the approach taken by this research, firms respond in a strategic manner to changes in their economic environment. Threats may originate in different corners, and the field instrument identified some 40 different issues in domestic and external product markets, in input markets, in relation to macro economic trends and to other non-economic factors. During the interviews respondents were every time given the opportunity to identify other threats.

By way of introduction it may be useful to provide an overview of the different categories of issues identified by the respondents. The overview is presented in table 7.1.

Table 7.1
Importance of competitive threats

Relative frequency by which firms acknowledge	% of firms
Competitive threats in domestic product markets	69,4%
Competitive threats in export markets	*68,8%
Competitive threats arising from macro trends	61,0%
Competitive threats arising from non-economic factors	59,3%
Competitive threats in input markets	57,6%

(*) based on number of exporting firms

Source: Survey

Table 7.2
Importance of competitive threats, by sector

	Food	Clothing	Furniture	Paper
Domestic product markets	66,7%	75,0%	76,5%	66,7%
Product export markets(*)	66,7%	100,0%	0	0
Input markets	60%	30,8%	68,8%	66,7%
Economic trends	53,3%	76,9%	62,5%	53,3%
Non-economic factors	53,3%	61,5%	56,3%	66,7%

(*)based on number of exporting firms

Source: Survey

The three most important threats in domestic product markets were: competition exerted by existing rival firms, by new firms and by imported products - identical or similar -. Few firms meet competition from substitutes to their own products, or exerted by suppliers or by clients themselves while the reduction of demand only occupied the fifth position. The proportion of firms confronting competitive threats in the domestic market is highest in clothing and furniture making.

7.2 Main threats

The importance of competitive threats in the domestic market may be examined by firm size as well. It may be concluded here that these threats apply somewhat less to small firms, while somewhat more to medium sized firms. It is interesting to note that also the largest firms are equally affected by competitive threats in their domestic markets. Previously held market power may have declined as a result of the 'apertura economica'.

The export markets reveal a pattern similar to the domestic markets: new threats have appeared from existing rival firms and from new rival firms. Furthermore, and somewhat differently, clients have become more price sensitive. the latter threats applies in particular to the clothing sector and to a smaller degree to the food industry. Forms in the other two sectors do not export on any significant scale.

The competitive threats most frequently cited in input markets are the increasing availability of inputs, both domestic and imported as well as the price increases. The fact that the improved

availability of inputs is seen as a competitive threat may be explained in the sense that it improves also their availability to competitors. Once more, the clothing sector appears least affected by these competitive threats.

In relation to economic trends, the most important concerns of firms are uncertainty about the direction of economic policy, the high levels of interest rates, the declining purchasing power of their clients - due to inflation-, and the growing macro-economic instability. The clothing sector has been most affected by these factors. The smallest and the largest firms are least affected by competitive threats in input markets than medium sized firms.

With regard to competitive threats arising from non-economic factors it is important to note that more than half of the firms are affected by the political instability in the country. Other important factors are the trafficking in drugs and its associated money laundering and the personal insecurity.

The following are the 10 most cited threats, listed in order of importance:

1. political instability
2. increased competition exerted by existing rival firms
3. drug trafficking and money laundering
4. increasing interest rates
5. declining purchasing power
6. improved availability of material inputs
7. macro-economic instability
8. increased competition exerted by new firms
9. personal insecurity
10. increases in the prices of material inputs

In relation to political instability it is interesting to add that its incidence is correlates with firm size. That is to say, the smaller the firm the greater its importance. The largest firms are least affected by political instability. It is quite likely that the owner managers of small firms have very little power to influence political processes and hence are likely to be more affected by their impacts. On the other hand, large firms can wield more political influence and have more options to influence or neutralise negative impacts. There is also some evidence on differential sectoral incidence: particularly paper and food firms view themselves affected by political instability.

The increased competition exerted by existing rival firms applies in particular to those sectors that are principally oriented towards local and regional markets (furniture and paper) than to sectors that have a clear export orientation. There are no mayor differences between firms of different size categories.

Medium sized firms find themselves most affected by drug trafficking and money laundering than the small and largest firms. The incidence varies also somewhat by sector. That is to say, the food sector finds little if any impact, while more than 50% of the clothing and furniture making firms are affected by this threat.

Some examples of how drug trafficking and associated money laundering affects manufacturing firms are the following: fake front firms export products that are fictitious or overvalued. Alternatively they import manufactured products to be sold at any price on the domestic market, or they smuggle goods to be sold at any price, etc. In one case it proved necessary to replace a firm selected for interviewing as it turned out to be a fictitious company without physical installations and whose manager was not interested at all in the study nor wanted to be object of any kind of research.

Increases in interest rates constituted no particular threat to the largest firms, while firms in all other firm size categories found themselves equally affected (aprox 37%). One possible answer may be that thanks to financial liberalisation the largest firms are able to recur to international sources of finance.

All sectors found themselves to more or less the same degree affected by the declining purchasing power of their clients. However there is a significant variation by firm size as both the largest and the smallest firms are much less affected than the medium sized firms. Possible explanations may be that small firms are operating in either localised or very specialised markets. And according to several observers, local markets were positively influenced by favourable conditions in agriculture (especially good coffee prices). The largest firms may have been able to switch to other markets including to exports.

Competition exercised by new rival firms is most prevalent in the paper industry and to a lesser degree in the food sector. The emergence of new firms in the region may be related to ongoing efforts of economic reconversion in relation to coffee production. Large firms are least affected by competition exerted by new firms.

Personal insecurity is a generalised phenomenon that equally affect all sectors and owner/managers of all firm sizes.

Finally it is of interest to note that competition arising substitutes, from new products or from suppliers switching to own manufacturing have had little mention. Most threats come from existing rivals manufacturing the same products and from new firms.

7.3 Conclusions

Competitive threats have arisen in the past three years, both in the domestic as well as export markets. Firms found it more difficult to maintain their position. The main threat has been exercised by existing rival firms and by new firms. Clients have played less of a role, only in export markets did their increased price sensitivity constitute a concern for the export firms. Suppliers and substitutes do not figure significantly in product market threats.

In inputs markets, the easier availability of inputs (both imported and domestic) as well as price increases constitute a worry for the firms. The easier availability presumably constitutes a threat in the sense that they are also easier available to rival firms (less control over inputs would fuel entry of new firms and competition).

In as far as macro economic issues are concerned, firms are most preoccupied about domestic factors, such as inflation, interest rates, and growing economic instability and much less about international trade issues (import liberalisation), foreign investment and exchange rates.

Non-economic factors weigh heavily in their concerns, notably, political instability, trafficking in drugs and money laundering and personal insecurity. All three are found in the list of 10 most frequently cited threats.

The picture that emerges is quite distinct from that of a typical country in the midst of a process of adjustment. The above mentioned non-economic factors, such as political instability, trafficking in drugs and money laundering and personal insecurity, are fundamental concerns that shape the decision making by the owner/managers.

8. Strategic responses

8.1 Introduction

In this chapter we analyse the responses of firms to the types of competition and competitive threats that have encountered in the period 192-1995. Investigated are the strategic choices that firms made as well as the kind of actions they have undertaken in that period and we will examine the actions firms think desirable to take in the near future.

In principle, one may identify a range of strategic responses. For the purpose of this research, eighteen different strategic responses were identified and presented to the interviewees. They can be grouped into six major categories, namely: 1) market orientation (recovering clients, looking for new clients and improving client services); 2) belt tightening (efficiency measures, economising and accepting lower profit margins); 3) production orientation (improving and reorganising production, subcontracting, outcontracting and networks); 4) product orientation (improved and new products); 5) new markets (new market segments and export markets) and 6) exit (reduce plant size, product lines and switching to trade).

Market oriented responses refer to those where firms step up their sales efforts in order to maintain a market position, increase their efforts to acquire new clients and/or try to retain customers by improving client services. These are typically immediate responses to declining sales i.e. they may be undertaken without radically altering production and management practices of the firm.

'Belt tightening' responses are also immediate ones. One is simply economising. That is to say to reduce costs either by not doing or by postponing cash outlays (skimming). A stepped up version of cost reduction would be the adoption of efficiency measures, whereby the firm critically reviews inputs in relation to outputs. A third belt tightening response would be to accept lower profit margins in an attempt to 'ride out the storm, hoping for better times'. These three responses are primarily responses of a 'status quo' nature. Firms do not radically change what they do and how they do it.

A more radical set of strategic responses concerns rationalisation of the productive processes of the firm. Firms often begin with improving the existing production processes, investing in new equipment so as to improve quality and raise efficiency. Firms that have established themselves in the context of import substitution in small domestic markets, often have taken on the production of parts and components because of the absence of domestic suppliers but also in their attempt to expand their share in the value chain. Foreign exchange scarcities provided an additional stimulus to manufacture these components internally despite the small demand and problems of quality. Lifting domestic trade protection and financial liberalisation therefore often leads to a rationalisation of production processes. Several aspects have been identified. One response may be to subcontract the manufacture of parts and components, or to outcontract producer services or may even refer to development of networks and alliances with other firms.

A close parallel set of responses applies when firms respond by focusing on their products: improvement of product quality may take place by improving the design of the product. Alternatively, the firm may opt to develop entirely new products.

Another category of responses concerns the development of new markets. Specific responses that have been identified, are: A firm may change market orientation by developing new market segments in existing product markets. Alternatively, developing export markets may be another response. Improvement of product quality may take place by improving the design of the product.

Finally, there are several exit responses. One of the more passive ones is that a firm decides to adjust to lower sales volumes, leading to a downsizing of operations and to retrenchments of staff and workers. A firm responding in this way, would accept that the terms and conditions of competition in the market have been changed, and that this would be beyond the control of the firm itself. If the protection of the domestic market is lifted by a radical change in policy regime and a firm may decide to accept a lower sales volume and market share. Another response could be that firms which previously have been active in the end-assembly of imported components and parts, exit wholly or partially from manufacturing and switch to (import) trade. In this case, they recognise the difficulties of competing with superior imports but consider their own distribution networks to be an important asset. Obtaining exclusive distribution rights from mayor international brands is often a complementary strategic action.

8.2 Strategic responses: an overview

85% of the interviewed owner/managers indicated that their firms had discussed problems arising from the competitive threats and had taken certain courses of action to deal with these, seeking to increase their own competitiveness. The remaining 15% either discussed the problems but had not decided on any course of action, or had not discussed the issues, or were subsidiaries which had no authority or competence and which took their cue from head offices located elsewhere. Finally there was a very small proportion of respondents which was established less than three years ago or who was not adequately informed about these issues.

The sectors with the highest proportion of strategic responses were the furniture and paper industry (>90%) while only three fourth of the firms in the food and the clothing industry had developed strategic responses. It appears therefore that firms active in final consumer goods sectors were less preoccupied, while those in the durable consumer and investment goods (furniture) and those active in intermediate goods (paper) were more alert to external changes. There is no strong variation by firm size. That is to say, small firms are as responsive as large or intermediately sized firms. As could be expected all of the largest sized firms have developed a strategic response. Looking from the point of view of market orientation, it is worth noting that a smaller proportion of firms with a local and regional market orientation and a higher proportion of firms with a national or international orientation have developed strategic responses.

The following table summarised what the most frequent of the 18 identified strategic choices have been.

Table 8.1
Dominant strategic choices²

Dominant strategy	% of firms
Looking for new clients & intensifying marketing efforts	13,6%
Reducing costs by efficiency measures	10,2%
Reduce prices and accept lower profit margins	8,5%
Improve client services	6,8%
Downsizing: Adjust to lower sales volume by reducing plant size and personnel	6,8%
Developing new products	5,1%
Improving quality by improving productive processes	5,1%

Source: Survey

² Firms were asked to identify what their strategic choices had been, based on a listing of 17 listed and one open ended option (n=50). Multiple answer were explicitly accepted. After completion of this question, firms were asked to identify what had been their dominant response, selecting one out of all responses identified by the respondent (n=35).

It is possible to change the world - the case of Color7

Color7 is the case of a young entrepreneur, Luis Felipe Molina, who made his first steps in the world of business following traditional paths. He is the son of a self made peasant coffee producer. With a "modest amount of capital, many illusions and an enormous amount of inexperience", he started his career in the business of 'maquilaje', as a subcontractor for several large clothing manufacturers in and around Manizales. He set up his confection operations in Villamaria, a small municipality, neighbouring Manizales, the capital of the Department of Caldas. However, very soon his firm was pushed to the brink of closure by cuts in profit margin imposed by his principal clients due to growing competition, technological difficulties, financial problems and inexperience. The imminent bankruptcy pushed him and his partners to rethink the future of the firm. Nowadays it is a pulsating firm which exports to various countries, which issues franchises and which has gained itself a place in the market for high priced leisure men's wear.

"We are global"

"The best demonstration of what a global firm means, is this corduroy jacket. The wristband are cut and made in India, the leather is from Colombia, the collars of French corduroy, the lining is Colombian manufacture, the buttons are made in the USA and all is brought together and put together here and subsequently exported. To make a first rate product with only domestically made textiles is impossible". The firm develops the design, for which it has trained its people, acquired the equipment and the software and this is what the firm wants to develop further and retain control over.

Global competitiveness means global action.

The most important characteristic of the company is a changed world attitude which guides the managers and the workers. This attitude is complemented with a spirit of openness and willingness to share all the key aspects of the primary process. Luis Felipe is conscious of this and he criticises his colleagues for failing to adopt a similar approach. This is illustrated by his following example. "The other day I went with a fellow entrepreneur to an important fashion design fair in the USA. There, we acquired, amongst others, the best design catalogue well before the start of the season. We both bought a copy, although it was very expensive, but it is the best available. After coming back, I met him again after a couple of weeks. He had taken the catalogue to his house and kept it in closed quarters and only allowed access to a few close collaborators and then still only photocopies of particular pages. In stead I came to my factory and put the catalogue on the table and gave it to my staff. Let's see what we can get out of this. That is a fundamental difference in mentality".

The company exists for the international market and this expresses itself on various fronts: "For example the workers can make a career in the company". He gave the example of a young worker who came as a 16 year old and who began as a cloth cutter. Now he is one of the production supervisors, who speaks English, travels to London and Paris and is studying in the fourth year of the university. This kind of process has generated a sense of belonging and commitment and provides opportunities for many. It also expresses itself on the financial side: "The best vaccine against revaluation of the Colombian peso is to run the company in dollars" and in the expectations: "the money has never worried me, the important thing is to excel. The recognition and victory never materialise in the short run"

The process took 10 years.

"It started as local maquilaje; then we went to international fairs in the USA with the idea to sell there. We were crazy. Then we began to participate in international fairs in Mexico and Venezuela". Between 1982 and 1992 it was a struggle to survive as subcontractor. By 1992 the company exported directly some US \$ 50,000. By 1995 the company exported US \$ 2.5 mln to 20 countries. Since 1995 the company is in a consolidation phase.

The firm is guided by 4 key concepts:

1) outsourcing to get the best inputs at lowest prices; 2) merchandising i.e. working on the basis of the concept of a collection 3) identity of the product and company which is developed in the greatest possible detail, 4) marketing and franchising. The company created its own brandname (Color7). Currently, the company switched from selling in markets of 20 countries to only 6 countries. In these, the firm operates 13 own retail shops and has given out 10 retail franchises.

To achieve this, the firm has received little external support. The support it received however was very important: The Corporacion Financiera de Caldas not only provided critical financial support by buying a minority share, but also rendered management advise. A second key agency was PROEXPO and the national export bank. There was little if any support from local government, universities or business associations.

Note: this case study is based on two interviews with the owner/entrepreneur and was compiled by Camilo Villa

Placing these responses into the classification of responses formulated above, it may be concluded that market orientation and 'belt tightening' have been the two most preferred types of strategic choices. The three most difficult strategic choices - production orientation, product orientation and new markets - have been less frequently adopted.

The overall pattern that emerges is makes a lot of sense: it is typical risk reducing behaviour. Firms will choose those options that are most evident and close to their own possibilities and capacities and will not risk themselves in strategic choices that are more complex and require the involvement of other actors. Putting it differently, most firms acted in a fairly conservative manner and stuck to well known paths.

Firms were also asked to indicate whether they had contemplated certain strategies and rejected these. A significant number of firms had considered and rejected 'exit strategies' such as reducing plant size and retrenching staff, discontinuing certain product lines and/or switching to (import)trade. It is worth noting also that 17% of the firms considered co-operation with other firms - via alliances, production networks, subcontracting and outcontracting - but rejected these in favour of the above mentioned ones. This indicates that there is a potential in the region for more complex strategic responses based on networking and interfirm co-operation, but also that conditions were not 'ripe' for entrepreneurs to commit themselves to these. The most frequently cited reasons for rejecting these options were, in order of importance, economic uncertainty, cashflow problems, unfavourable market conditions, political uncertainty and high levels of indebtedness.

In the table below, all strategic responses are examined and grouped into the main types that were identified above. As is show in the table, there is some sectoral variation in the strategic responses. More than half of the firms in the clothing and furniture industry, and to a lesser extent, firms in the food sector have adopted defensive strategies of belt tightening (involving increasing efficiency and accepting lower profit margins). The other defensive option, namely, market orientation (conserving and attracting new clients and improving client services), has been adopted in all four sectors. The printing industry has had the greatest inclination towards reorganising productive processes, while the food sector finds itself in an intermediate position in this regard. These two sectors most frequently adopted downsizing as an option, involving a reduction of production activities. Downsizing has been used in particular by firms that have a predominant export orientation.

Table 8.2
Strategic choices, by sector

Category of strategic choice	Food	Clothing	Furniture	Paper
Recuperating, find new clients, improving client services	33%	24%	28%	33%
Economising, efficiency and lower profit margins	20%	31%	24%	21%
Improving and reorganising production process	15%	18%	18%	17%
Improving product design & developing new products	19%	11%	11%	15%
Developing new markets (incl. exports)	11%	7%	12%	6%
Downsizing & reducing production lines and/or products	1%	8%	5%	7%

Source: Survey

Firms in the food and paper sectors concentrated more on market oriented strategies, while clothing firms focused more on economising and reorganising production and paid relatively

little attention to new markets. The furniture industry finds itself in an intermediate position, with somewhat more attention towards developing new markets.

From the point of view of firm size there is some major variation. As indicated the majority of firms adopted defensive strategies (market orientation and economising). However the largest firms paid attention to more diverse set of strategic choices than the smallest firms.

From the point of view of product composition no systematic variation was found except that firms with a greater range of products also had adopted a greater range of strategic responses. Firms with a relatively large range of products were more market oriented and less interested in economising while firms with less than 5 products revealed a reverse pattern.

Examining strategic choices from the point of view of market orientation did reveal some interesting patterns. The greater the external market orientation of firms in the region, the greater the number of strategic choices that was adopted. The most active in this regards were firms with a national market orientation and those that were oriented towards export markets. These firms adopted both defensive and offensive strategic options. On the other hand firms with a local or regional market orientation adopted fewer strategic choices and these were more oriented towards defensive options.

8.3 Conclusions

The frequency of response to the question of strategic choices is rather high. 85% of the entrepreneurs had considered external threats and discussed possible strategic choices and defined certain courses of action. One possible contributing factor here may have been the high level of education of the entrepreneurs generally³

On the whole it would appear that the strategic responses by firms have been primarily of a defensive or 'first response' nature. There may be several explanations, one is typical risk reducing behaviour. Firms will choose those options that are most evident and close to their own possibilities and capacities and will not risk themselves in strategic choices that are more complex and require the involvement of other actors. Another may be that the owner/managers of the firms lack information about the changes in the external environment and/or are as yet not convinced about the need to adopt more radical strategies to strengthen competitiveness. Another and complementary factor may be that the impact of international changes have as yet not reached affected firms in the region, as the local economy at the time of the survey was still riding the beneficial wave of high coffee prices.

More complex responses that would be consistent with the propositions of 'new competition', such as reorganisation of production, networking and inter-firm co-operation have been much less practised, and have not been dominant strategies at the level of individual firms. Other strategies such as developing new market segments (incl. export markets) or new products have been of secondary importance.

The overall pattern is reproduced in all four sectors, with some minor variation. The food sector has been more active on the market side, both as a defensive strategy as well as in terms of improving and developing new products. At the same time it engaged less in production reorganisation and in exit strategies. In the clothing sector there has seen less scope for market oriented strategies and firms resorted more to 'belt tightening'.

³ Comparing education of respondents of the entire sample with those that had made explicit strategic choices yielded some differences. Among the latter set there were no respondents with primary education only. At the same time the proportion of entrepreneurs with postgraduate education was higher.

9. Actions undertaken

9.1 General overview

The field instrument identified a series of possible courses of action. These concrete actions were grouped under 9 categories. These are:

1. downsizing involving reduction of manufacturing operations
2. product innovations, which refer to improving, revising and changing the products/services on offer
3. process innovations which lead to a revision and improvement of production processes
4. management which concerns the revision and improvement of management capabilities, management organisation and processes
5. financial restructuring concerning changing ownership structure, debt conversion and rescheduling
6. human resource development involving the strengthening of knowledge, skills and expertise of employees
7. markets and marketing which concerns the revision and improvement of knowledge about current and prospective clients and improving knowledge of current and prospective clients about the firm and its products
8. networking which concerns subcontracting of manufacturing operations, outcontracting of producer services, franchising and manufacture under licence
9. inter-firm co-operation involving mutually agreed joint undertaking of particular activities in domestic/export markets

A detailed enumeration of actions identified under each of the areas is found in appendix 2 to this report.

The most important lines of actions undertaken by the firms are summarised in the following table. Among these the most important have been innovations in production processes, marketing and human resource development. The emphasis on marketing is consistent with the strategic orientation towards recovery of existing and finding new clients and developing client services. As indicated firms concentrate on recovering clients and finding new ones. The emphasis on human resource development is a recognition of the fact that a successful performance of the enterprise depends on its staff. One also finds that management improvement among the actions taken in an intermediate position. The improvement of products is also found in this level. Financial restructuring, interfirm co-operation, including production networks and downsizing are only undertaken by a minority of firms.

Table 9.1

Lines of action

Lines of action adopted by firms to raise their productivity	No. of firms	Average intensity (*)
Process innovations	37	4.7
Marketing	35	4.8
Human resource development	34	4.4
Management improvement	28	4.4
Product innovations	25	4.6
Financial restructuring	17	4.3
Downsizing	10	4.4
Interfirm co-operation	8	1.6
Networking	4	5.2
Other	1	2.3

Source: Survey

* The interviewees were asked to rate the relative importance of each action on a scale of 1 to 6. The average intensity represents the mean value of the importance given to a line of action.

Table 9.2
Lines of action, by sector (percentage of firms)

Lines of action (total)	Total	Food	Clothing	Furniture	Paper
Downsizing	21%	10%	50%	20%	14%
Product innovations	53%	40%	50%	60%	57%
Process innovations	79%	70%	87%	80%	78%
Management	59%	60%	75%	53%	57%
Financial restructuring	36%	40%	50%	40%	21%
Human resource development	72%	90%	75%	60%	71%
Marketing	79%	70%	75%	80%	71%
Networking	8%	10%	12%	7%	7%
Inter-firm co-operation	17%	20%	12%	7%	28%

Source: Survey

The furniture and paper industry approximate closely the general pattern of action. On the other hand, the clothing sector has been more active in downsizing operations, process innovations, management improvement and financial restructuring. The food industry has been less product and process innovation oriented and has concentrated more on the development of human resources. The industry was also more active in networking and inter-firm co-operation. The printing industry has experimented with higher levels of inter-firm co-operation.

When examining lines of action by firm size some variation by firm size is found (see table 9.3). First of all, it is worth noting that the largest firms have been more active than small firms in development of human resources, financial restructuring and management improvement. Especially large firms have undertaken actions of downsizing. The small firms behaviour conforms the general pattern but with less emphasis on marketing, human resource development and product innovations.

Table 9.3
Lines of action by firm size

Lines of action (total)	Size of firm			
	< 25	25 - 49	50 - 149	>=150
Downsizing (21%)	21%	17%	20%	43%
Product innovations (53%)	43%	58%	60%	43%
Process innovations (79%)	78%	50%	93%	71%
Management (59%)	57%	25%	67%	71%
Financial restructuring (36%)	21%	33%	40%	43%
Human resource development (72%)	50%	50%	93%	86%
Marketing (79%)	64%	75%	73%	57%
Networking (8%)	7%	-	20%	-
Inter-firm co-operation (17%)	14%	25%	13%	14%

Source: Survey

Generally, one could argue that the most active firms have been those that operate in national and international markets. A smaller proportion of firms oriented to local markets have been undertaking any type of action in comparison to the other firms in the sample.

Below we will examine in more detail what have been the predominant actions of firms in each of the 9 areas signalled above. The tables presented below will distinguish between predominant action, as the kind of action to which the firm has dedicated most attention, all actions realised in a particular area of action and desirable actions. The latter refer to actions which the firms intend to take in the near future. This will give some indication as to changes taking place.

9.2 Process innovations

The most important area of action on which firms have focused have been process innovations. Within this area of action firms have concentrated above all on updating plant and equipment (replacing old), followed at some distance by other matters such as quality control, improving the quality of material inputs, and redesign of work flow (see table 9.4).

Table 9.4
Actions in the area of process innovation
(frequency of response)

Type of action	Predominant action	Realised actions	Desirable actions
Improvement in quality control processes	6	34	18
Updating of plant and equipment	10	32	14
Improving quality of material inputs	6	28	13
Redesign of physical operations (work flow)	6	26	14
Redesign of the organisation of production	5	21	23
Decentralising production management	2	14	13
Acquiring new plant and equipment	5	13	15
Other	0	3	1
Not applicable	19	4	6
Total	59		

Source: Survey

The firms that have been least active in this area have been firms that are more diversified in terms of products and product groups. Firms oriented towards local markets have engaged less in process innovations than other firms.

As regards the future, it is worth noting that the redesign of production organisation (which has been defined as increasing the participation of workers in production decisions and the adoption of quality circles), improving quality control and the acquisition of new plant and equipment is clearly given priority.

9.3 Marketing

In the area of marketing which is the second mentioned area of action (defined in terms of frequency and in intensity), the efforts have been directed to the development of new markets for existing products, to research on new clients and new products in existing markets and to a lesser degree on promoting the social local image of the firm and general public relations. No particular systematic variation was found in this area with respect to size, market orientation, or performance. These same actions as well as market research on new products and generic advertising are being considered for future action.

Table 9.5
Actions in the area of marketing

Type of action	Predominant action	Realised actions	Desirable actions
Development of existing product markets	6	29	18
Marketing research on clients and products in existing markets	10	28	24
Social and local image of the firm	4	22	12
General PR	3	19	12
Product advertising	5	15	20
Market research new products	3	13	32
Generic advertising	0	11	10
Greening the image of the firm	0	4	11
Other	0	1	1
Not applicable/no response	28	6	4
Total	59		

Source: Survey

9.4 Human resource development

Human resource development is the third most important area of action taken by the firms in the past three years. The emphasis has been on updating skills in the most urgent areas, and personal development programmes and to a lesser degree on delegation of production decision responsibilities to workers. Personal career development is a priority area for the future, followed by management training, worker participation and changes in reward systems.

Table 9.6
Actions in area of human resource development

Type of action	Predominant action	Realised actions	Desirable actions
Personnel career development programmes	9	24	30
Updating of skills in most urgent areas	10	23	13
Worker participation in production management decisions	6	22	18
Delegation of responsibilities to production workers	6	21	17
Management training programmes	2	16	21
Changes in reward systems (performance based)	1	8	16
Participation of workers in management	1	6	10
Other	0	2	3
Not applicable/no response	24	3	5
Total	59		

Source: Survey

9.5 Strengthening of management

One of the more general trends, occasioned by the growing competitiveness of the economic environment in which firms operate, is that the management capacity becomes more important. The development of telecommunications and the massification of information available to firms - as well as to its rivals, clients and suppliers - constitute new challenges to managers, who have to better inform themselves and react more swiftly to these changes.

More than half of the firms in the sample have developed actions to strengthen their management capacity. These actions have focused on:

- strengthening internal control of operations (management of stocks and works in progress)
- integration of production management, sales and marketing
- financial and cost management
- management of quality control of product and processes
- human resource management

Table 9.7
Actions in the area of management

Type of action	Predominant action	Realised actions	Desirable actions
Financial management and cost control	6	34	19
Internal control of operations	10	30	16
Management of quality of products and processes	5	26	13
Integration of production, sales and marketing management	7	25	23
Human resource management	5	24	18
Procurement of inputs and materials	1	22	10
Management of strategic decisions and of change	4	19	20
Management of R&D	1	15	21
Not applicable/no response	20	6	5
Total	59		

Source: Survey

Firms in the printing industry and those oriented towards national markets have been most active in this area.

In respect to the future, firms are shifting priorities towards management of strategic decisions and change, research & development.

9.6 Product innovations

Product innovations constitute the fifth most important area of actions. Most frequently efforts were directed to improve the technical characteristics of the products and adjust the products more to the preferences of clients. A number of firms has made efforts to improve services to their clients and developed new products within existing product groups. The latter however has not (yet) become a predominant activity.

Table 9.8
Actions in the area of product innovations

Type of action	Predominant action	Realised actions	Desirable actions
Improving technical characteristics	14	30	16
Increase/improve client services	5	26	14
Development of new products within existing product groups	1	25	16
Adjust products to individual preferences of clients	11	20	18
Increasing the range of product specifications and purchase options	3	20	12
Changing the physical appearance	1	13	11
Development of the product as part of a wider product group	1	12	9
Development of products as part of in new product groups (diversification)	3	11	16
Other	0	2	2
Reducing the range of specifications and purchase options	3	1	2
Not applicable/no response	17	3	6
Total	59		

Source: Survey

With respect to the future one cannot observe major changes, except that development of new products as part of new product groups is given more attention.

9.7 Financial restructuring

Half of the firms have undertaken actions in the field of financial restructuring, most of which have concerned the conversion of short term into long term debt. The latter often aims to reduce liquidity problems and to liberate resources to reorganise the running operations. A second action has been to raise capital which contributes to reduce the debt or gearing ratio.

Table 9.9
Actions in the area of financial restructuring

Type of action	Predominant action	Realised actions	Desirable actions
Conversion of short term to long term debt	12	19	7
Raising new capital	8	18	21
Reprogramming of debt	5	15	8
Obtaining new domestic partners	2	6	13
Other	1	3	3
Acquiring new foreign partners	1	2	8
Not applicable/no response	30	11	8
Total	59		

Source: Survey

With regard to the future, the firms intend to shift attention away from debt problems and towards raising new capital and new partners.

Firms in the clothing industry and firms oriented towards external markets have been more active in these area of financial restructuring than other firms.

9.8 Downsizing

Actions in this area have been followed by relatively few firms. In total only 17 firms took down sizing actions. The most important ones were to eliminate least profitable products or product groups, and the subcontracting of subprocesses to other firms in the region. These are also the most important actions firms expect to undertake in the near future.

Table 9.10
Actions in area of downsizing

Type of action	Predominant action	Realised actions	Desirable actions
a) Eliminate least profitable products and product groups	10	13	9
b) Subcontracting subprocesses or components or parts to other firms in the region	5	8	12
c) Eliminate certain manufacturing subprocesses or parts and switch to purchasing these	1	5	5
d) as 'a' and also switch to trading in these products	0	4	7
e) Other	0	3	1
f) as 'b' subcontracting to domestic firms from any part of the country	1	1	4
Not applicable/no response	42	20	15
Total	59		

Source: Survey

Some 10 firms actually reduced their operations and retrenched staff between 1992 and 1995. This caused a loss of 181 jobs which is equivalent to 39% of the employment provided by these 10 firms. The most dramatic case was that of a coffee processing and exporting firm which reduced its operations by 64%. However, these actions were relatively isolated, and as was recorded earlier all four sectors increased their total employment.

9.9 Inter-firm co-operation

There is a growing recognition of the notion that inter-firm co-operation may be an important way by which firms can increase their competitive capacity. However, this notion has not yet translated itself into concrete actions by firms in the region. The only important steps taken have concentrated on joint procurement of raw materials and inputs, although some firms have made efforts of joint marketing and jointly developed some products.

Table 9.11
Actions in area of inter-firm co-operation

Type of action	Predominant action	Realised actions	Desirable actions
joint efforts of export marketing	2	3	19
joint efforts of domestic marketing	3	6	16
Joint tendering and or taking of orders	1	6	10
Co-manufacturing agreements for large orders	1	5	11
Sharing assets and facilities	0	3	10
Jointly contracting or developing joint activities of product development and design	2	6	11
Jointly contracting or realising R&D	1	3	18
Joint procurement of raw materials and inputs	5	8	16
Other	0	3	0
Not applicable/no response	44	25	12
Total	59		

Source: Survey

Notwithstanding these observations, a fairly large group of respondents indicated that joint efforts in the area of marketing, R&D and procurement would be desirable in the near future.

9.10 Networking among firms

Subcontracting and the formation of networks of firms oriented towards strengthening the competitive capacity of its member firms has been recognised in many countries as an important avenue of strategic action. Networks are designed to make use of the advantages of individual members and achieve economies of scale and scope for the network as a whole. This is considered an alternative to defensive strategies and those that pertain to the "low road of restructuring" based on extending labour exploitation with 'sweatshop' subcontracting.

Table 9.12
Actions in area of networking

Type of action	Predominant action	Realised actions	Desirable actions
Subcontracting of subprocesses/activities to local firms	6	3	19
Same, subcontracting to any domestic firm	1	6	16
International subcontracting	1	5	10
Subcontracting of components to local firms	1	5	11
Same, subcontracting to any domestic firm	2	3	10
International subcontracting of components or parts	0	6	11
Outcontracting of enterprise services	5	3	17
Acquisition of international franchises for local manufacturing	2	5	13
Acquisition of manufacturing licences	2	8	16
Other	1	3	1
Not applicable/no response	38	25	12
Total	59		

Source: Survey

According to our survey these type of strategic actions have not taken on any significance in the region. The few firms that have undertaken action in this area have focused on subcontracting to local firms and to outcontracting of enterprise services.

Firms consider actions of this kind important for the future however which would then also include more extensive subcontracting and outcontracting of enterprise services as well as manufacture licensing agreements.

9.11 Implementation of strategies and actions

The implementation of the adopted strategies and actions depend in part on their capacities and the resources firms have at their disposal and in part depend on external agents. The next table gives an overview of the relative importance of different types of external agents.

For firms in our survey, the most important external agents were input suppliers, family/friends, domestic clients, and bank managers. The roles played by business associations and equipment supplier firms was somewhat less than expected. On the other hand it is quite revealing that public sector agencies had practically no role to play in the development of the strategies and actions by the firms.

Taking into account differences in firms size, it is interesting to mention that family and friends are the key agents for the small and medium sized firms, followed by banks and domestic clients. The larger firms depend less on external agents. This is understandable in the sense that they have developed their own capacity. In comparison to the overall average these firms tended to depend less on family and friends and business associations but more on banks, foreign clients and firms and management consultants.

Table 9.13
Key external agents in the formulation and/or implementation of strategies and actions

Agent	Frequency
Family and/or friends	24
Firms supplying raw materials and inputs	25
Domestic clients/representatives of client firms	22
Manager of bank or financial institution	21
Equipment suppliers	12
Business associations	11
Foreign clients/representatives of client firms	9
Management consultant	7
Central government agency	1
Local/regional government agency (incl. CORPES)	1
Non-governmental organisation	0
Other	4

Source: Survey

From a sectoral point of view it is worth noting that food industry received proportionally more support from foreign clients and firms. In the same vein, the clothing industry relied proportionally less on equipment suppliers. Firms in the furniture making industry were supported in particular by family and friends, suppliers of materials. Finally the printing industry depended less on family and friends and material suppliers but more on their business associations.

Among the government agencies mentioned were SENA (the national vocational training service) and CORFIDESARROLLO (a national development finance agency). Among the listed business associations were: National federation of Coffee producers, Acopi (National Association of Small Industrialists), ANDI (the national association of industrialists), Andigraf (the national association of the printing industry), Andiaros, Analdex (national association of exporters), Fenalco (national federation of traders), coffee co-operatives and Coimpresores de Occidente. The only regional association that was mentioned was the Departamental Committee of Coffee Growers. It is worth mentioning that the survey instrument explicitly inquired about CORPES, the departmental and municipal governments. The little importance attached to these agencies by the forms is an indication of the absence of public policies in relation of needs and expectations of entrepreneurs in this respect.

Firms were asked to identify which were the principal problems and limitations that they faced in implementing their strategies and actions. The next table provides a summary overview of their responses.

Table 9.14
Limitations and problems encountered in implementation

Type of limitation/problem	Frequency
No limitations/problems were encountered	1
Economic uncertainty	34
Liquidity problems (cash flow)	33
Political uncertainty	27
Unfavourable market situation	26
Time pressure to effectuate change	24
High level of debt	18
Lack of co-operation of supervisory management and workers to implement measures	13
Lack of experience of managers to implement concrete actions	10
Difficulties to acquire or obtain most appropriate material inputs	9
Current location and/or plant inadequate to implement changes	6
Limited capacities and/or experience on part of senior managers or owners	5
Lack of knowledge of owners/managers on possible courses of action	5
Other	0

Source: Survey

Two of three most important constraints are of a general or macro and background character, namely general economic and political uncertainty. Often firms are unprepared for a response, in that they face liquidity problems. Alternatively levels of debt are already high which prevent firms from financing necessary actions through external funds. Other important problems were unfavourable market situation, time pressures to effectuate change. Internal factors were playing, in the view of the managers themselves, of less importance.

Last but not least firms were interviewed on the resources they used to finance the implementation of their strategies. The next table gives an overview.

Table 9.15
Financial resources for strategy implementation

Type of resource	Frequency
Bank loans	16
Internal resources of the firm	15
Risk sharing agreements with a foreign partner	3
Loans from family or friends	2
Issuing new equity	1
Special government programme	1

Source: Survey

Firms relied primarily on only two sources of finance, namely bank loans and internal resources. The important role played by family and friends did not translate itself into financial assistance, as loans from this source are unimportant.

There are notable sectoral differences. The Food and clothing industry used primarily self financing mechanisms, while furniture and printing industry relied more on bank loans. Also the smallest firms relied much more on bank loans than larger firms which used more internal financial resources.

9.12 Conclusions

The actions undertaken by the firms have concentrated above all in process innovations, marketing, HRD, management and, product innovations. There are differences by sector and size. Clothing and food industry which have larger firms had used a wider range of actions. On contrast, firms in the furniture and printing industry are predominantly small and medium-sized generally adopted a smaller range of actions and with lower frequency. Actions in the areas of financial restructuring, downsizing, inter-firm co-operation and networking were not very often selected by the managers.

If one examines each of the areas and compares past actions with actions that are identified as being desirable in the future, one may observe some interesting shifts in the priorities of the entrepreneurs/managers. For example, in the area of process innovation there is a shift from quality control and replacement investment towards organisational re-design and new plant & equipment. In marketing there is a switch observable from marketing efforts in existing product markets towards market research on new products. In management, there is a change away from gaining better control (financial and quality) towards better integration of management processes and more attention to management of strategic change and of R&D. In the area of product innovations there is a shift away from existing product in existing product groups towards new product groups and to more attention to client based specifications. In the area of finance there is more future attention to strengthen the equity base of the firms and finding domestic partners is one of the manners in which this may be achieved. Downsizing changes from exit proper to subcontracting to local firms. This is confirmed under the heading of networking which also emphasises more local subcontracting as well as outcontracting of business services. Finally in the area of inter-firm co-operation firms focus their future attention on export marketing and joint R&D.

The pattern that emerges should be taken caution, after all the 'desired future actions' are only a weak indicator of future entrepreneurial/management decisions. It does however suggest that entrepreneurs are placing their efforts in areas that are consistent with the propositions of 'new competition'

By way of conclusion, the following table is presented which gives an inventory of actions that were desirable by at least one third of the firms in the survey. This provide some kind of direction as to what the priorities are of the managers in the four sectors covered. The most important fields of action are: marketing, human resource development, process innovations, strengthening of management and financial restructuring. Local responses to restructuring that aim to contribute to increase the competitiveness of local firms should consider these as an expression of the priorities of local entrepreneurs.

Table 9.16
Priorities for future action

Field	Action	Frequency
Marketing	research on clients and products in existing markets	24
	research on new products	32
	advertising of product(s)	20
Human resources	career development programmes	30
	management training programmes	21
Innovation in processes	re-design of the organisation of production	23
Management	integration of production, sales and marketing	23
	R&D	21
	strategic decisions and change processes	20
Financial restructuring	raising equity	21

The most important external agents of change were input suppliers, family/friends, domestic clients, and bank managers. The roles played by business associations and equipment supplier firms was somewhat less than expected. Public sector agencies played no role of importance in the formulation or implementation of strategies and actions.

Most constraints that firms faced in implementing actions were related to the external environment, and notably important are general 'background' issues such as political and economic instability. The internal constraints were primarily of a financial nature (liquidity and levels of debt).

10. Basic conditions: enterprise support services, infrastructure and policies

10.1 Introduction

'New competition' emphasises the increasing importance of the business environment as a determinant of competitive capacity. Specific reference is made to the role of enterprise support services, the existence of adequate infrastructure and the importance of the macro-economic conditions and policies. These three aspects of the business environment are part of what we have termed, the 'basic conditions' in the framework of the SCP model. In this chapter we examine the basic conditions of industrial development in Bulawayo. We begin by looking at enterprise support services for the strengthening of competitive capacity of manufacturing firms. These services offer information and specialist knowledge and enable the entrepreneurs to react better and faster to economic, technological, and social changes in their business environment and facilitate the formulation and implementation of actions on the part of the firms. Seen from this angle, one can expect that the better these services are organised the better will be the local response capacity to the challenges facing the local firms. The other two aspects, infrastructure and macro-economic environment are more difficult to analyse with the adopted field instrument. However, a qualitative assessment of infrastructure and government policies are presented below.

10.2 Enterprise support services

The research has made an inventory of enterprise support services and has established which of these have played a key role to the firms for the implementation of their strategic actions. In addition respondents to the survey have been asked to indicate which support services are important for their planned future actions. The comparison of the two gives some indication of the trends in demand for support services. In addition respondents were asked to indicate their institutional preferences. That is to say they were asked to identify which would be the most desirable institutional forms through which particular support services ought to be delivered in the future.

The following support services were identified:

1. general information and enterprise support
2. technological support services
3. marketing support services
4. financial support services
5. training services

The details of the enumerated support services in each of these categories and of the institutional modalities are found in the Appendix 3 of this report.

The table below presents an overview of the support services which according to the respondents have been instrumental in the success of the firm in the past three years.

Several conclusions may be drawn. First of all, training services, especially those organised by SENA, have been quite important to a large number of firms in the region. Secondly, and although marketing has been an important area of action of the firms, there have been relatively few support services in this area. Thirdly, the financial services - especially those concerning investment finance - have been rather well developed in Colombia and they play a relatively important role for the firms. Technological support services are in an intermediate position and have played a role of significance for the firms in the sample.

Table 10.1
Enterprise support services

Category - type of support service	Frequency
General information and enterprise assistance	
• local/regional promotion	18
• general information & promotion	14
• small enterprise promotion	10
• information regulatory policies	7
Technological support services	
• quality control and standards	22
• technical assistance and industrial extension	21
• R&D on manufacturing technologies	13
• design services	11
• databases & technological information services	7
Marketing support services	
• organisation of domestic fairs	27
• information services on export markets	15
• identification of export opportunities	14
• representation in international fairs	12
• identification of buyers abroad	9
• identification of international trading firms	8
• information on design & standards for exports	7
• distribution of publicity material abroad	2
• representation in international tenders etc.	2
Financial support services	
• investment loans	36
• reprogramming of debts	19
• <i>leasing</i>	16
• credit guarantees	13
• credit insurance	5
• venture capital	4
• cofinancing of training projects	3
• cofinancing of technological updating projects	2
• cofinancing of marketing projects	2
• cofinancing of management improvement programmes	1
Training services	
• vocational training	33
• technological updating	27
• management training	26
• training supervisory management	25
• financial management training	19
• training in marketing & exports	15

Source: Survey

Examining the patterns of services by sector, one finds some minor variations. The food industry have used proportionally more training services, technical assistance and industrial extension. The clothing industry relied relatively less on training and more on marketing (domestic fairs) and financial support services (conversion of debt). The furniture industry followed the general pattern but with a greater use of vocational training services. Finally the printing industry used relatively more general promotion services (local/regional promotion), technological services (technological updating) and financial services (investment loans).

As can be expected there are important variations by firm size. More generally, small firms made use of fewer support services than the largest firms, with the exception of vocational training services which they made use of more than proportionally than the overall average. The largest firms drew less on training services, and in general were more selective in the use of support services. The most frequently used ones were investment finance, local/regional promotion and quality control & standards. Medium sized firms draw proportionally more on marketing, training and technological services.

Examining the patterns for variations in terms of market orientation of the firms, a similar polarisation may be discerned. Firms that operate internationally make use of more services and with greater frequency than firms oriented to local markets which use fewer services and with lower frequency. Local firms use primarily investment finance and domestic fairs. Firms that operate nationally made proportionally more use of technological services as compared to marketing and training services.

The 10 most frequently cited support services are the following:

- 1) investment loans
- 2) vocational training
- 3) domestic fairs
- 4) technological updating
- 5) management training
- 6) training of supervisory staff
- 7) quality control
- 8) technical assistance and industrial extension
- 9) financial management training, and
- 10) debt rescheduling

Of these 10 most frequently cited support services, five are in the area of training, 2 concern technological issues, 2 relate to financial matters and only one to marketing. The heavy representation of training services is consistent with the human resource development orientation found earlier with respect to the strategic actions of the firms, but is often getting less attention in literature on industrial policies, which tend to have a technology bias.

10.3 Demand for enterprise support services and institutional preferences

In the past decade or so, enterprise support systems underwent considerable changes in many countries. State or public sector services lost their dominant position due to their performance and to the demand for new types of services. On the whole a greater institutional diversity emerged, where public or parastatal services exist alongside private sector and a great variety of public-private mixed forms. There is a general acceptance of the fact that the historical institutional context in a particular country or region has a considerable influence as to which type of institutional form has greater acceptance than others, but there is relatively little theory to explain what is the most appropriate institutional form in which particular support services can be organised and delivered.

Taking this into account the research approached the matter in an empirical manner and focused on identifying the institutional preferences of the users of these services, the firms in our survey. The following procedure was adopted. First a list of specialist support services was given and respondents were asked to identify which they considered important taking into account the actions they had in mind to strengthen their competitive capacity in the near future. Subsequently, and based on international literature, various institutional delivery options were listed out of which the respondent could make a choice. The answer to our questions varied by type of service. General assistance services ought to be delivered by sector business associations or local or departmental government agencies; respondents had a clear preference for a university of academic or research centre to provide technological support and training services; finally, marketing services should preferably be provided by a public sector agency or sector business association. The next table presents an overall view of the findings.

Various conclusions may be drawn. First of all, it is rather striking that private sector delivery, be it in commercial or on a non-profit basis apparently is not an attractive option according to our respondents. In general, commercial providers and consulting firms have a low preference. The same applies to non-profit foundations. Secondly, the continued preference for public

agencies in the area of financial services, marketing and general enterprise support, is somewhat unexpected. In many other countries, the state withdrew from the provision of (subsidised) financial services and the deregulation of the financial sector contributed to the emergence of new and specialised financial entities. The same happened in the area of general enterprise assistance and marketing.

Table 10.2

Enterprise support services and institutional preferences

Type of Service	Freq.	Preferred institutional modality
General enterprise support services		
• general business advice	46	Local Government or sectoral BIA
• business information centres	45	Sector or general BIA/local government
• local & regional economic development promotion	36	General BIA/local or departmental government
Technological support services		
• R&D on manufacturing technology	47	ARC or University
• data bases and technological information services	41	ARC or University
• technical assistance & industrial extension	40	ARC or sector BIA
• quality control & standards	37	ARC or interfirm co-operation
• product design services	37	ARC or interfirm co-operation
Marketing support services		
• identification of export opportunities	39	Public agency or international trading firm
• information services on export markets	37	Public agency
• organisation of domestic fairs	32	Sector BIA or public agency
• representation in international fairs	28	Public agency or international trading firm
• export insurance	13	Public agency or international trading firm
Financial services		
• investment finance	35	Commercial Banks or National or Local government agency
• cofinancing of technological updating projects	29	Central gov't agency or local government
• rescheduling of debt	28	Commercial Banks or central government agency
• venture capital	26	local government or banks
• cofinancing of management improvement programmes	24	sector BIA/ local government agency
• cofinancing of marketing projects	22	Central gov't agency or local government
• credit guarantees	15	Central gov't agency or local government
• credit insurance	13	Sector BIA/ central government agency
Training services		
• management training	44	ARC or University
• technological updating	43	ARC or University
• training in marketing and export	43	ARC or University
• financial management training	41	ARC or University
• training of supervisory staff	39	ARC or University
• vocational training	37	ARC or University

ARC: academic or research centre; BIA business interest association

Source: Survey

Business associations continue to play an important role in intermediation and the delivery of support services. In many countries, the opening up of the national economy caused shifts in the relative importance of sectoral vis a vis general business associations. The latter played a prominent lobby role with regard to government policies, while the former have a greater capacity to generate and distribute knowledge on technological changes and relevant national economic and international trade issues. As a result of the economic reforms, the sector associations gain greater prominence. It seems that this is also happening in the region of study. sector associations are preferred delivery agent for 5 of the 30 listed support services. Meanwhile, the general business associations are preferred agency for only 2 support services. Notwithstanding these associations continue to play a role as a public platform and for the relationships between state and industry.

A close access to general support services is important in the sense that a lot of information has a public character and it is not surprising that local public agencies are the most preferred agency to deliver these services, more than business associations. With regard to training support services academic institutions are preferred agency. This is a somewhat unexpected finding, given the fact that Colombia in contrast to many other countries, has a national training agency, SENA. One would have expected SENA, as a public agency to continue to be the most preferred institutional form of delivery of training services. This is however not the case even though the agency was mentioned as having played an important role in the recent past. this may constitute a signal given by the entrepreneur about the future direction of SENA.

With regard to marketing services we find a more varied pattern. Alongside relevant central government agencies (e.g. PROEXPO), there are sectoral associations and to a smaller degree international trading firms. There is a certain division of labour among them: the public sector agencies play a role in information, and promotion for export, while the associations play a more prominent role in domestic marketing issues, Finally the international trading firms play a specialised role in intermediation for export markets.

An important issue would be to what extent the demand and institutional preferences vary by firm size. Given the relatively small size of the sample, it would be difficult to establish statistically whether there are clear differences. Below we will review the most important differences for the 15 most important support services.

For a number of support services there is no mayor variation by firm size and the overall pattern discussed above continues to apply. For example in the case of training in financial management, data bases and technological information services. There are a number of support services, for which there is more demand among the small firms and for which the demand declines with larger firm size. The largest firms clearly have also different institutional preferences compared to small firms. An example would be R&D services. The smallest firms have a clear preference for academic research centres, but as firm size increases this preference declines and other modalities come to the fore (in this case inter-firm co-operation). With regard to general support services, small firms had a decidedly clear preference for local government. This preference declines with firm size and the largest firms has a clear preference for general and sector specific business associations. This pattern also applies to general business support services. The preference for local government is inversely related to firm size. This also takes place in the cases of technical assistance and industrial extension and technological updating. The preference for academic research centres is inversely related to firm size. Finally, small firms have a clear preference for government as a provider of training services for marketing, while large firms prefer academic centres and sector associations.

If we look at the 15 most important services, than 6 are training services, 4 are technological support services, three concern marketing and 2 general support. Financial services do not figure among the 15 most important support services. This is somewhat surprising, as the literature on industrial policy financial services usually figure quite dominantly. One explanation may be a bias existing in the literature, another could be that the region is equipped with several financial institutions that provide financial support services, such as the Corporacion Financiera de Caldas.

In the next table a comparison is made of the fifteen support services that played the most important role in the past and the 15 most wanted services for the future.

The new services that have entered the priority listings of the firms are particularly technological support services and general support services. Training services continue to play an important role. In these new services there is likely to be a gap in institutional support. It

would be in the interest of local economic development that the relevant territorial agencies and industry consider these new demands and discuss with business associations and the potential users about ways and means to cater for these.

Table 10.3

Key enterprise support services: past roles and future demand

Key services in past 3 years	Rank	Key services for the future
investment finance	1	R&D on manufacturing technology
vocational training	2	general business advice
organisation of domestic fairs	3	business information centres
technological updating	4	management training
management training	5	technological updating*
training of supervisory staff	6	training in marketing and export*
quality control & standards	7	data bases and technological information services
technical assistance & industrial extension	8	financial management training
training en financial management	9	technical assistance & industrial extension*
rescheduling of debt	10	identification of export opportunities
local & regional economic development promotion	11	training of supervisory staff*
leasing	12	vocational training
training in marketing and export	13	quality control & standards*
information services on export markets	14	product design services
general business promotion	15	information services on export markets*

10.4 Infrastructure

The respondents were interviewed on the type of infrastructure they considered important for the successful implementation of their strategies and the qualification they would attach to each.

The next table presents the overall findings.

Table 10.4

Relative importance and quality rating of existing infrastructure and services

Type	Frequency	Quality(*)
Telecommunications	86,4%	4.5
Electricity	84,7%	4.2
Roads	79,7%	3.4
Water	62,7%	4.4
Industrial & Commercial stands	42,4%	3.4
Trade	40,7%	4.4
Waste disposal	28,8%	3.6
Housing	25,4%	3.0
Other	6,8%	1.0

Source: Survey; (*): Scale 1 to 5.

In the view of the entrepreneurs, the most important infrastructure facilities are telecommunications, uninterrupted supply of electricity and roads to transport inputs and products.

In general the firms were reasonably satisfied with the quality of these basic infrastructure services, with the exception of roads. However, some of other services, such as adequate commercials and industrial stands, waste disposal and housing, which were not considered important by a majority of firms, were found to be of lower quality.

It is worth examining this in more detail for each of the three cities. The next table gives an overview. In general the differences between the three cities are relatively small for those services which fall under the responsibility of the respective municipal administration. The entrepreneurs of Armenia are satisfied with all listed infrastructure except industrial and

respondents have not been able to assess the impact of the new labour legislation, probably due to its recent promulgation.

Also with regard to municipal policies, the general tendency of impact is not positive. The entrepreneurs agree among themselves that local policies on taxation, public security have been neutral in their impact, while policies on public purchases, housing, economic regulation and licences and industrial services and local promotion have had on average a negative impact. Finally there are several services about which entrepreneurs on the whole do not know their respective impact, such as local roads, public sanitation and health services.

It is worth noting that more than 90% of the small firms consider that local economic regulation and licence policies have had a negative impact on their performance. Desegregating views by city, leads to the conclusion that particularly entrepreneurs in Manizales view local policies as having negative impacts while their colleagues in Pereira and Armenia have, on average, a more positive view.

Local economic development: new style

Recently, Manizales has experienced a new process of collaboration between business associations, firms, universities and the municipal government. The process is driven by a group of managers of large firms and civic leaders who are very committed to change the local way of doing business.

An intersectoral committee has been set up in which the various stakeholders are represented and which acts as intermediary and spokesperson to national agencies.

It has established a local economic development foundation with the aim to improve the relations between universities and local firms, co-ordinating projects of training, research and business consultancy. Ten local academic centres are involved in the project and it is sponsored partially by the Corporacion Financiera de Caldas.

The main concerns are:

- training with a long term perspective (not just immediate skills)
- new technologies in education & research, strengthening the capabilities of the universities
- environments as a social and economic priority.

The leaders of the initiative are aware that they are involved in a long term process: though there is willingness to cooperate, many entrepreneurs resist co-operation. there is a lack trust and a lot of jealousy.

Note: this case is based on several interviews held with local company managers and representatives of the Corporacion Financiera de Caldas and was compiled by Camilo Villa

At the departmental level, the overall trends do not vary much and most policies lack a positive impact. Worse still, in 7 of the 9 identified policy areas, have departmental policies had negative impacts on the firms. The most salient in this regard were the negative economic effects of public expenditures, economic regulation & licences, servicing of industrial stands, public health and environmental conservation and control. Disaggregating by department, one finds negative effects to be strongest in the department of Caldas and Risaralda and less so for Quindio.

Finally, the role of CORPES needs to be singled out which, according the majority of respondents, has been negative. It is important to add however, that a significant minority has a

different opinion and considers CORPES to have had a positive role in economic regulation, public health and environmental control, economic promotion & enterprise support.

On the whole the rather critical assessment of the entrepreneurs of public policies is somewhat surprising. All the more so, since at the same time the entrepreneurs consider local and central government as most appropriate institution to deliver certain key enterprise support services.

The criticisms with respect to national policies are perhaps easier to understand, in the sense that the Samper administration has experienced considerable problems in its economic management and faced serious political problems as well as corruption. Departments have on the whole a rather limited capacity to implement public policies and furthermore lack resources. At the municipal level one could have expected more positive effects as the recent decentralisation reforms have generated more resources for the municipalities and greater decision making powers.

10.6 Conclusions

The basic conditions for firms to develop, maintain and renew their competitive capacity refer to the enterprise support system, to physical infrastructure and to central and local public policies. As part of the enterprise support system 5 sets of support services were identified and examined in terms of their relative importance to the firms, namely i) general information and enterprise support; ii) technological support services, iii) marketing support services, iv) financial support services and v) training services.

As regards the role of support services in the past three years, it may be concluded, first of all, that training services played an important role for a large number of firms in the region. Secondly, and although marketing has been an important area of action of the firms, there have been relatively few support services in this area. Thirdly, the financial services - especially those concerning investment finance - have been rather well developed in Colombia and they play a relatively important role for the firms. Technological support services are in an intermediate position and have played a role of significance for the firms in the sample.

There are minor variations between the four sectors. As regards firm size, a general conclusion is that smaller firms make use of fewer support services and with lesser intensity of use than larger firms (except vocational training). Particularly the medium sized firms make use of more services and with greater intensity. The largest firms are more selective in the type of services they used and they drew less on support services in the area of training. A similar pattern may be discerned when looked upon in terms of market orientation. Firms that operate in international markets make use of more services and with greater relative frequency than firms oriented towards local markets.

Firms were asked to indicate future demands for services as well as reveal their preferences as regards institutional modalities of service delivery. As regards future demand it was found that of the 15 most important services, 6 are training services, 4 are technological support services, three concern marketing and 2 general support. Financial services do not figure among the 15 most important support services. This is somewhat surprising, as the literature on industrial policy financial services usually figure quite dominantly. The new services that have entered the priority listings of the firms are particularly technological support services and general support services. Training services continue to play an important role.

When examining the institutional preferences of the firms several conclusions may be drawn. First of all, it is rather striking that private sector delivery, be it in commercial or on a non-profit basis apparently is not an attractive option according to our respondents. In general, commercial providers and consulting firms have a low preference. The same applies to non-profit foundations. Secondly, there is a continued preference for public agencies in the area of

financial services, marketing and general enterprise support, is somewhat unexpected. In many other countries, the state withdrew from the provision of (subsidised) financial services and the deregulation of the financial sector contributed to the emergence of new and specialised financial entities. Thirdly, local governments are seen as a key provider of general business support services. Fourthly, business associations continue to play an important role in intermediation and the delivery of support services. However, sector associations gained greater prominence in comparison to general industry associations. Sector associations are preferred delivery agent for 5 of the 30 listed support services. Meanwhile, the general business associations are preferred agency for only 2 support services. Notwithstanding the latter associations continue to play a role as a public platform and general interest representation vis a vis government. Local firms have high expectations of academic centres in the region, higher than perhaps may be expected on past performance of these centres in the enterprise support system⁴.

As regards infrastructure the firms indicated that telecommunications, uninterrupted supply of electricity and roads are important infrastructure facilities for maintaining and/or strengthening their competitive capacities. Generally, firms are satisfied with the quality of these services in the three cities concerned.

Finally, as regards public policies only a qualitative assessment was made. The general picture that emerged from this assessment is rather negative. One general conclusion is that the entrepreneurs consider national policies to have had little positive impact on the performance of their firms. At best the effects of these policies have been neutral as in the case of credit and interest rate policies, tax reforms, exchange rate and to a lesser degree the liberalisation of imports. National policies that have had a negative impact on the firms were price deregulation, restrictive practices and foreign investment regulation. Also with regard to municipal policies, the general tendency of impact is not positive. The entrepreneurs agree among themselves that local policies on taxation, public security have been neutral in their impact, while policies on public purchases, housing, economic regulation and licences and industrial services and local promotion have had on average a negative impact. It is worth noting that more than 90% of the small firms consider that local economic regulation and licence policies have had a negative impact on their performance. Disaggregating views by city, leads to the conclusion that particularly entrepreneurs in Manizales view local policies as having negative impacts while their colleagues in Pereira and Armenia have, on average, a more positive view. At the departmental level, the overall trends do not vary much and most policies lack a positive impact.

⁴ One possible triggering factor may be a recent initiative of the Corporación Financiera de Caldas which has recently set up a foundation to strengthen the links between firms, universities and local government.

11. Producer services

11.1 Introduction

Under 'new competition', producer services (such as accounting, publicity, finance, computer, design, transport & distribution, engineering, procurement, marketing etc.) play an important role. The reason being that determinants of competitive capacity of enterprises have become manifold and are extended into all major functional areas of the enterprise (Goe, 1991). In the majority of cases these services, if provided internally from within the firms, represent high fixed costs and often have a high cost risk. Often a firm may not have sufficient internal demand or the services has a high level of complexity which makes it difficult for a company to internalise these services. In these cases it would be advantageous for the firm to draw external expertise. It is often argued also that firms that grew up under protected markets of the import substitution era, have either incorporated certain functions for control purposes (e.g. transport) or have not developed certain functions, such as marketing (cf Helmsing, 1993). Alternatively, functions may not have been available in the market and firms therefore resorted to internalise them (e.g. computer hardware and software). Thus, there are several factors that may lead to the hypothesis that firms would increasingly rely in external expert services as competition heightens (due to liberalisation) and the terms of competition change (due to 'new competition').

11.2 Use of producer services and future demand

The research has sought to establish the status of producer services, their recent evolution and the factors that have caused any changes in the manner in which a firm caters for them. It is worth noting that certain services are not readily used by all firms. For example, catering services, advertising & publicity, computers. For these services, these firms don't make a choice for either 'make' or 'buy'⁵. The next table gives a panoramic overview of producer services.

Table 11.1
Producer services: internalised, partially and wholly contracted and frequency of change

Producer service	Key service*	Desirable service**	Internal service	Contracted service	Partially contracted	Proportion contracted	Frequency of change***
Training	46.4%	40.7%	34	10	8	46%	8
Marketing	44.7%	35.6%	41	6	3	57%	5
Design	39.3%	33.9%	40	7	5	53%	13
Management services	36.9%	26.1%	33	10	4	33%	8
Software	21.4	22.5%	14	29	4	60%	11
Publicity	27.8%	20%	24	16	10	64%	8
Engineering & maintenance	19.3%	18.3%	22	20	14	34%	6
Finance	42%	12.2%	36	14	2	53%	3
Hardware	16.3%	11.5%	20	25	4	67%	10
Procurement	15.6%	9.7%	46	6	1	35%	6
Transport & distribution	8.5%	8.6%	24	23	6	59%	4
Accounting	20%	7.8%	45	7	7	61%	9
Legal services	3.4%	7.6%	18	33	1	78%	3
Leasing	11.9%	7.1%	17	8	1	50%	1
Employment agency	4.4%	4.6%	34	7	4	32%	5
Security	10.8%	3.6%	38	13	2	75%	3
Labour recruitment	2.4%	2%	46	3	1	10%	5
Catering	1.7%	1.2%	14	5	1	75%	1
Cleaning	2%	0%	52	4	0	0%	0
Maintenance of grounds & buildings	1.4%	0%	35	7	2	60%	1
Transport of staff	1.4%	0%	19	0	0	0%	0
Renting of plant	0%	0%	32	7	2	67%	1

* respondents were asked to assess on a scale of 1 to 5 the role the service played in raising competitiveness of the firm; these assessment were summed and divided by the sum total maximum score for each service.

⁵ This explains why the percentages of columns 4, 5 and 6 do not add up to 100.

** respondents were asked to identify the 10 most important enterprise services that should be locally available; these assessments were summed and divided by the sum total of the maximum score for each service.

*** number of firms that has changed the provision of the service in the past three years

Source: Survey

The services that have been most outcontracting, partially or fully, are computer hardware and software, legal services, engineering & maintenance, transport and distribution and publicity. The firms do not draw frequently externally on services for marketing, procurement, recruitment of labour and design. In spite of recent macro-economic changes firms have not made important changes in the manner in which they organised enterprises services, except for design, computer hardware and software and accounting.

The change that have taken place in the past three years have been predominantly towards externalisation of services. In 55 instances firms reported to have shifted from internal to external provision or had increased the proportion of contracted services. The opposite occurred in 23 instances.

The most important motivations firms had to externalise these services have been the following: the desire to increase functional complementary, to modernise the organisation of production (return to core competence) and to reduce administrative problems. Surprisingly, other motivations such as the need to reduce costs, the technical complexity of the function and the lack of knowledge on the part of the firm were playing only a secondary role, while demand considerations were virtually absent (insufficient demand, irregular demand).

It would seem reasonable to conclude that the changing processes of competition have only partially induced firms to reassess the manner in which they cater for their enterprise services, seeking mayor efficiency and lower costs.

The sectors that most use contracted services are the furniture and food industry. the sector that least has externalised enterprise services is the printing industry which has restricted it to software, legal services and engineering.

Examining the patterns of provision of enterprise services by firm size reveals some important trends. The smallest firms are least active in externalising these services and do so on a small number of them. On the other hand the largest firms have externalised more services and have done so with greater intensity.

There are small variations by city. While firms in Manizales have externalised 22 services, those in Pereira 18 and those in Armenia only 17. Also the intensity, i.e. the percentage of firms externalising is highest in Manizales in 14 services.

11.3 Producer services and local development

The literature on local and regional development has recognised the important role that producer services can play for local and regional industrial development (cf Cofey & Bailly, 1991; Hansen, 1994). The presence of these services as independent specialised firms creates economies of agglomeration in the sense that also other firms, previously not using these services, can get access to them. Service provider firms that have establish themselves as a result of an early externalisation, would seek to expand their markets and make their services available to other firms, that have as yet not externalised or have been too small or not yet 'graduated'. The presence of producer service firms would allow manufacturing firms to undertake actions to raise their competitiveness without having to incur high investment or initial costs.

The research has established where specialised providers of these services are located and which services providers are considered sufficiently important that their local availability becomes critical to the local manufacturing firms. The next table presents the main findings.

Table 11.2

Location of producer service providers

(number of responses indicating location of external service provider)

Type of enterprise service	Specialist providers		
	Local	Region	Elsewhere
Legal services	25	1	1
Software	19	3	6
Advertisement	19	1	3
Engineering & maintenance	17	3	9
Transport & distribution	15	6	4
Hardware	15	4	3
Security	15	0	0
Finance	11	2	0
Accounting	10	1	0
Training	9	4	3
Employment services	9	0	0
Maintenance of buildings	9	0	0
Leasing	6	3	1
Design services	6	1	4
(rental of) plant	6	0	1
Catering	6	0	0
Management consulting	4	1	7
Cleaning	4	0	0
Transport of staff	4	0	0
Marketing	2	3	3
Procurement	2	1	4
Recruitment of labour	2	0	0

Source: Survey

It may be concluded that the region already counts with a base of specialist enterprise services provider firms. In the cases of software, design, management services, procurement and engineering firms still draw on specialist providers from outside the region. According to respondents that the local availability be improved of the following services: training, design, marketing, management services, computer software & hardware and advertising & publicity.

There is some variation by sector. The next table summarises the most important differences.

Table 11.3

Most important local producer services, by sector

3 key services to raise competitiveness	Sector	3 most important services to become locally available
Finance; advertising & publicity; design;	Food	Design; training; advertising & publicity
Training; finance; marketing;	Clothing	Training; management services; marketing;
Training; marketing; design;	Furniture	Management services; training; design
Finance; marketing; training;	Printing	Marketing; design; training;

Source: Survey

The demand for local enterprise services by city is examined in the next table. The pattern of demand doesn't vary much for the four most important services. However, from there onwards there are significant variations. It appears that Armenia in particular is faced with a deficit of services, notably for leasing, finance and advertising & publicity services. The situation is somewhat better in Pereira, where there continues to be an important demand for management

consulting, engineering and advertising & publicity. Manizales appears to be the best endowed city with relatively little excess demand.

Table 11.4
Demand for producer services, by city

Type of service	General demand	Armenia (n=12)	Manizales (n=19)	Pereira (n=29)
Training	48%	50%	47%	48%
Design	40%	33%	31%	48%
Marketing	40%	33%	37%	44%
Management	33%	12%	47%	34%
Engineering	25%	-	31%	31%
Advertising publicity	18%	42%	11%	34%
Hardware	17%	25%	11%	17%
Finance	13%	42%	-	11%
Procurement	12%	25%	11%	-
Leasing	12%	58%	21%	-
Accounting	10%	25%	-	11%

Source: Survey

11.4 Conclusions

The services that have been most outcontracted, partially or fully, are computer hardware and software, legal services, engineering & maintenance, transport and distribution and publicity. The firms do contract services for marketing, procurement, recruitment of labour and design. In the past three years, firms have not made important changes in the manner in which they organised producer services, except for design, computer hardware and software and accounting.

In as far as changes took place these have been mostly directed towards externalisation of services. The motivations for externalisation were: the desire to increase functional complementary, to modernise the organisation of production (return to core competence) and to reduce administrative problems. Surprisingly, other motivations such as the need to reduce costs, the technical complexity of the function and the lack of knowledge on the part of the firm were playing only a secondary role, while demand considerations were virtually absent (insufficient demand, irregular demand). It would seem reasonable to conclude that the changing processes of competition have only partially induced firms to reassess the manner in which they cater for their enterprise services, seeking mayor efficiency and lower costs.

Examining the patterns of provision of enterprise services by firm size reveals some important trends. The smallest firms are least active in externalising these services and do so on a small number of them. On the other hand the largest firms have externalised more services and have done so with greater intensity.

There are small variations by city. Firms in Manizales have been most active in externalising services, those of Armenia least.

On the basis of the location of the producer service firms it may be concluded that the region already counts with a base of specialist enterprise services provider firms, especially Manizales. For software, design, management services, procurement and engineering, firms still draw on specialist producer services firms from outside the region.

12. Contact patterns of firms

In this chapter the contact patterns of firms are briefly reviewed. With contact patterns are meant the functional areas in the operation of firms on which firms gather information from external sources, what are the agencies with which they interact and which are the media which they use.

The functional areas on which firms in the survey obtain information outside the firm are finance, technology, new products and ideas and markets & competitors. From a sectoral point of view, it is worth noting that the food industry draws much less on external sources for matters of finance. This also applies to the clothing industry which additionally interacts less with the outside world on technological matters. The printing industry is more than proportionally interacting with external agents on new products ideas. On matters of finance firms consult primarily with financial institutions and in the case of subsidiary firms with their respective head offices. On the other areas firms consult primarily journals and publications, inquire with family and friends, and in the case of markets and competitors also consult public agencies.

Table 12.1 gives an overview of the general contact patterns of the firms.

Table 12.1
Contact patterns

Source	Total	Food	Clothing	Furniture	Printing
Business periodicals & journals	80%	80%	67%	82%	87%
Fairs & exhibitions	73%	73%	83%	76%	60%
Databases	35%	46%	33%	29%	30%
Mass media	69%	60%	67%	70%	80%
Academic institutions	→ 30%	27%	42%	29%	27%
Government agencies	→ 42%	67%	33%	29%	40%
Membership of business association	73%	93%	50%	65%	80%

Source: Survey

The most widely used information channels are journals and publications. The high level of education of the entrepreneurs may help to explain the high frequency of use of business journals and periodicals. Colombia has an extensive range of nationally made business journals and also international ones are available in their Spanish language editions. The most widely quoted journals and publications are specialised and sector specific publications such as La Bobina (textiles), El Mueble, Alimentos Procesados and Artes Graficas, published by Andigraf.

Almost three quarter of all firms are member of a business association. The most important are the national association of industries, the Colombian association of small industries, the national federation of commerce, the local chambers of commerce and the export group of Risaralda (GER). The highest rate of membership is found in the food industry and in firms oriented towards export markets. The lowest membership is found in the clothing industry

Fairs and exhibitions are another important source of information. Regular attendance is also here rather high. The most frequently cited fairs are: the International Fair of Bogota as well as sector specific fairs such as the Household Fair, Colombia Fashion, Colombiatex (textile fair) and the Feria de Artes Graficas of Bogota. International fairs of importance are: Food & Dairy (USA), Fashion exhibitions in France, Italy and the USA, Furniture fairs in Germany (Hannover, Cologne) and USA (Atlanta) and the Barcelona and Frankfurter book fairs.

Specialist databases are much less frequently consulted. The most widely used databases are the industrial and commercial directories and the databases of the Chambers of Commerce and

of the national statistical office (DANE). The same applies to contacts with academic institutions. The most important academic institutions are the EAFIT business school and the Catholic University (in Manizales). Among the most widely contacted public agencies are SENA, DANE, DIAN and to a lesser degree INCOMEX, and PROEXPO.

The most widely quoted mass media are the national newspaper El Tiempo as well as several periodicals and radio stations.

Examining contact patterns by firm size yield some important differences. Fewer small firms attend fairs and exhibitions (59%), databases (18%) and academic institutions (23%). Small firms are however equally frequent member of a business association (76%). The latter is somewhat unexpected but is explained by the higher affiliation to both sector associations and the national association of small industrial firms.

The most common sources of innovative ideas are clients, fairs & exhibitions, own employees and material suppliers. Fairs and exhibitions are particularly important to the food and furniture making industries and to firms oriented to national markets.

10. Conclusions

The research has attempted to shed light on the following questions. i) what type of competition is faced by firms and what have been the principal changes therein during these 3 years?; ii) what types of economic factors/shocks have affected competitiveness of firms in Bulawayo during the 1993-1996 period?; iii) what strategic responses and actions have been launched and undertaken by the firms?; iv) what enterprise support services have played an important role and is the demand for support services shifting as a result of changing terms of competition?; v) what is the use of specialised producer services and have processes of externalisation taking place?, and finally, vi) what are the contact patterns of firms in relation to the development of the firm? Below we will formulate the principal conclusions with respect to each of these questions.

General characteristics

In terms of the general characteristics of the firms in the survey, it is important to stress that the owner/managers, generally come from the region itself and have high levels of education but low levels of international experience. A large majority of the firms is independent. There has been growth in employment. In this context it should be noted that the period covered was one of opening up of the Colombian economy but also one of economic growth of the region itself because of good international market prices for coffee. In contrast to international trends, there has been no flexibilization of the labour force. Sales increased, especially in furniture making and printing, while clothing grew at a much lower rate and the food industry saw its sales decline. Firms in the region are relatively specialised, producing only one product group (notably in clothing industry). Only a small proportion consists of diversified producers with a wide product group range. Firms depend for more than 80% of their sales on their principal product group. Product diversification is highest in food and clothing industry

Type of competition

In relation to the character of competition, it was found that 82% of the firms has a fixed circle of clients the size of which varies by sector. In 50% of the cases, firms depend for more than 80% of their sales on this fixed circle of clients. There are a number of indications that firms seeks to maintain close client relations and make efforts to stimulate client loyalty. The latter is stimulated in various ways. Credit and discounts are most widely used, especially in the clothing and furniture making industry. Small firms use credit while large firms adopt discounts. Firms seeks to maintain close client relations and client loyalty and prefer not to engage in price competition, with the exception of the furniture making industry

More than half of the firms have a local/regional market orientation and nearly one quarter has an export market orientation. During the period under review there have been no mayor changes in market orientation, except that a number of local market firms become regional market oriented Firms in the region prefer to avoid price competition. they do not expect their clients to react significantly to small changes in prices and are neither to engage nor to follow rival firms in price wars. suppliers do not exercise a serious competitive threat. On the whole there is a relatively low level of competition. Non-price factors that play a role are product image, technical quality, brand name, client specifications and speed of delivery. When examining the changes over time in relative importance of these factors, it was found that views of the owner/managers diverge considerably from international trends.

Threats

Competitive threats have arisen in the past three years, both in the domestic as well as export markets. Firms found it more difficult to maintain their position. The main threat has been exercised by existing rival firms and by new firms. Clients have played less of a role, only in export markets did their increased price sensitivity constitute a concern for the export firms. Suppliers and substitutes do not figure significantly in product market threats.

In inputs markets, the easier availability of inputs (both imported and domestic) as well as price increases constitute a worry for the firms. The easier availability presumably constitutes a threat in the sense that they are also easier available to rival firms (less control over inputs would fuel entry of new firms and competition).

In as far as macro economic issues are concerned, firms are most preoccupied about domestic factors, such as inflation, interest rates, and growing economic instability and much less about international trade issues (import liberalisation), foreign investment and exchange rates.

Non-economic factors weigh heavily in their concerns, notably, political instability, trafficking in drugs and money laundering and personal insecurity. All three are found in the list of 10 most frequently cited threats.

The picture that emerges is quite distinct from that of a typical country in the midst of a process of adjustment. The above mentioned non-economic factors, such as political instability, trafficking in drugs and money laundering and personal insecurity, are fundamental concerns that shape the decision making by the owner/managers.

Strategic choices

On the whole it would appear that the strategic responses by firms have been primarily of a defensive or 'first response' nature. There may be several explanations, one is typical risk reducing behaviour. Firms will choose those options that are most evident and close to their own possibilities and capacities and will not risk themselves in strategic choices that are more complex and require the involvement of other actors. Another may be that the owner/managers of the firms lack information about the changes in the external environment and/or are as yet not convinced about the need to adopt more radical strategies to strengthen competitiveness. Another and complementary factor may be that the impact of international changes have as yet not reached affected firms in the region, as the local economy at the time of the survey was still riding the beneficial wave of high coffee prices.

More complex responses that would be consistent with the propositions of 'new competition', such as reorganisation of production, networking and inter-firm co-operation have been much less practised, and have not been dominant strategies at the level of individual firms. Other strategies such as developing new market segments (incl. export markets) or new products have been of secondary importance.

The overall pattern is reproduced in all four sectors, with some minor variation. The food sector has been more active on the market side, both as a defensive strategy as well as in terms of improving and developing new products. At the same time it engaged less in production reorganisation and in exit strategies. In the clothing sector there has been less scope for market oriented strategies and firms resorted more to 'belt tightening'.

Actions

The actions undertaken by the firms have concentrated above all in process innovations, marketing, HRD, management and, product innovations. There are differences by sector and size. Clothing and food industry which have larger firms had used a wider range of actions. On contrast, firms in the furniture and printing industry are predominantly small and medium-sized generally adopted a smaller range of actions and with lower frequency. Actions in the areas of financial restructuring, downsizing, inter-firm co-operation and networking were not very often selected by the managers.

If one examines each of the areas and compares past actions with actions that are identified as being desirable in the future, one may observe some interesting shifts in the priorities of the

entrepreneurs/managers. For example, in the area of process innovation there is a shift from quality control and replacement investment towards organisational re-design and new plant & equipment. In marketing there is a switch observable from marketing efforts in existing product markets towards market research on new products. In management, there is a change away from gaining better control (financial and quality) towards better integration of management processes and more attention to management of strategic change and of R&D. In the area of product innovations there is a shift away from existing product in existing product groups towards new product groups and to more attention to client based specifications. In the area of finance there is more future attention to strengthen the equity base of the firms and finding domestic partners is one of the manners in which this may be achieved. Downsizing changes from exit proper to subcontracting to local firms. This is confirmed under the heading of networking which also emphasises more local subcontracting as well as outcontracting of business services. Finally in the area of inter-firm co-operation firms focus their future attention on export marketing and joint R&D.

The most important fields of future action are i) research on clients and products in existing markets, research on new products, firm specific advertising in the area of marketing, ii) career development programmes and management training in HRD; iii) re-design of the organisation of production in area of process innovations; iv) integration of production, sales and marketing management; management of R&D and of strategic change; vi) raising equity in the area of finance.

The pattern that emerges should be taken caution, after all the 'desired future actions' are only a weak indicator of future entrepreneurial/management decisions. It does however suggest that entrepreneurs are placing their efforts in areas that are consistent with the propositions of 'new competition'

The most important external agents of change were input suppliers, family/friends, domestic clients, and bank managers. The roles played by business associations and equipment supplier firms was somewhat less than expected. Public sector agencies played no role of importance in the formulation or implementation of strategies and actions.

Most constraints that firms faced in implementing actions were related to the external environment, and notably important are general 'background' issues such as political and economic instability. The internal constraints were primarily of a financial nature (liquidity and levels of debt).

Basic conditions: support services, infrastructure and policies

As regards the role of support services in the past three years, it may be concluded, first of all, that training services played an important role for a large number of firms in the region. Secondly, and although marketing has been an important area of action of the firms, there have been relatively few support services in this area. Thirdly, the financial services - especially those concerning investment finance - have been rather well developed in Colombia and they play a relatively important role for the firms. Technological support services are in an intermediate position and have played a role of significance for the firms in the sample.

There are minor variations between the four sectors. As regards firm size, a general conclusion is that smaller firms make use of fewer support services and with lesser intensity of use than larger firms (except vocational training). Particularly the medium sized firms make use of more services and with greater intensity. The largest firms are more selective in the type of services they used and they drew less on support services in the area of training. A similar pattern may be discerned when looked upon in terms of market orientation. Firms that operate in international markets make use of more services and with greater relative frequency than firms oriented towards local markets.

Firms were asked to indicate future demands for services as well as reveal their preferences as regards institutional modalities of service delivery. As regards future demand it was found that of the 15 most important services, 6 are training services, 4 are technological support services, three concern marketing and 2 general support. Financial services do not figure among the 15 most important support services. This is somewhat surprising, as the literature on industrial policy financial services usually figure quite dominantly. The new services that have entered the priority listings of the firms are particularly technological support services and general support services. Training services continue to play an important role.

When examining the institutional preferences of the firms for support service delivery, several conclusions may be drawn. First of all, it is rather striking that private sector delivery, be it in commercial or on a non-profit basis apparently is not an attractive option according to our respondents. In general, commercial providers and consulting firms have a low preference. The same applies to non-profit foundations. Secondly, there is a continued preference for public agencies in the area of financial services, marketing and general enterprise support, is somewhat unexpected. In many other countries, the state withdrew from the provision of (subsidised) financial services and the deregulation of the financial sector contributed to the emergence of new and specialised financial entities. Thirdly, local governments are seen as a key provider of general business support services. Fourthly, business associations continue to play an important role in intermediation and the delivery of support services. However, sector associations gained greater prominence in comparison to general industry associations. Sector associations are preferred delivery agent for 5 of the 30 listed support services. Meanwhile, the general business associations are preferred agency for only 2 support services. Notwithstanding the latter associations continue to play a role as a public platform and general interest representation vis a vis government. Local firms have high expectations of academic centres in the region, higher than perhaps may be expected on past performance of these centres in the enterprise support system⁶.

As regards infrastructure the firms indicated that telecommunications, uninterrupted supply of electricity and roads are important infrastructure facilities for maintaining and/or strengthening their competitive capacities. Generally, firms are satisfied with the quality of these services in the three cities concerned.

Finally, as regards public policies only a qualitative assessment was made. The general picture that emerged from this assessment is rather negative. One general conclusion is that the entrepreneurs consider national policies to have had little positive impact on the performance of their firms. At best the effects of these policies have been neutral as in the case of credit and interest rate policies, tax reforms, exchange rate and to a lesser degree the liberalisation of imports. National policies that have had a negative impact on the firms were price deregulation, restrictive practices and foreign investment regulation. Also with regard to municipal policies, the general tendency of impact is not positive. The entrepreneurs agree among themselves that local policies on taxation, public security have been neutral in their impact, while policies on public purchases, housing, economic regulation and licences and industrial services and local promotion have had on average a negative impact. Especially small firms are critical of local policies of economic regulation and licensing.

Producer services

The services that have been most outcontracted, partially or fully, are computer hardware and software, legal services, engineering & maintenance, transport and distribution and publicity. The firms do contract services for marketing, procurement, recruitment of labour and design. In the past three years, firms have only made limited changes in the manner in which they

⁶ One possible triggering factor may be a recent initiative of the Corporacion Financiera de Caldas which has recently set up a foundation to strengthen the links between firms, universities and local government.

organised producer services, except for design, computer hardware and software and accounting.

In as far as changes took place these have been mostly directed towards externalisation of services. The motivations for externalisation were: the desire to increase functional complementary, to modernise the organisation of production (return to core competence) and to reduce administrative problems. Other motivations such as the need to reduce costs, the technical complexity of the function and the lack of knowledge on the part of the firm were only of secondary importance, while demand considerations were virtually absent (insufficient demand, irregular demand). It would seem reasonable to conclude that the changing processes of competition have only partially induced firms to reassess the manner in which they cater for their enterprise services, seeking mayor efficiency and lower costs.

Examining the patterns of provision of enterprise services by firm size reveals some important trends. The smallest firms are least active in externalising these services and do so on a small number of them. On the other hand the largest firms have externalised more services and have done so with greater intensity.

On the basis of the location of the producer service firms it may be concluded that the region already counts with a base of specialist enterprise services provider firms, especially Manizales. For software, design, management services, procurement and engineering, firms still draw on specialist producer services firms from outside the region.

Contact patterns

The contact patterns of firms were briefly reviewed. On the whole, entrepreneurs/managers of firms in the region have intensive contacts with outside world and use different information channels. Key sources are business periodicals and journals, business associations and fairs and exhibitions. The mass media are also considered an important medium. Much less important sources are specialist databases, government agencies and academic institutions.

Examining contact patterns by firm size yield some important differences, especially in relation to small firms. These firms use fairs and exhibitions, databases and academic institutions less frequently. They are however equally frequent member of a business association. The latter is somewhat unexpected but is explained by the high affiliation to both sector associations and the existence of a national association of small industrial firms.

The most common sources of innovative ideas are clients, fairs & exhibitions, own employees and material suppliers. Fairs and exhibitions are particularly important to the food and furniture making industries and to firms oriented to national markets

Appendix 1

Sampling framework and procedure

On the basis of the Company registers of the 5 Chambers of Commerce operating in the area and after removing small enterprises (defined as those with assets of less than 20 mln), the following sample frame resulted.

Table a 1.1
Sample Frame

	Armenia	Manizales	Pereira	Total
Food	15	43	30	88
Clothing	11	17	92	120
Furniture	18	12	18	48
Printing	12	20	29	61
Total	56	92	169	317

Source: derived from company registers Chambers of Commerce

For each of the sectors a sample was constructed taking into account the value of assets, which is the only indicator available in the size of the firms. In stead of selecting apriori criteria of size based on value of assets and apply these to all four sectors, the segments were determined for each sector separately, using a statistical analysis of conglomerates complemented with an analysis of the selected indicator for effects of the sample design in order to increase the efficiency in the stratification of the sample (maximising internal homogeneity and maximising heterogeneity between segments).

In each of the sectors, variation was reduced by selecting all of the largest firms into a separate stratum of 'deliberate' inclusion. The largest firms also seriously affected the distribution of the indicator. The remainder of firms was sampled. The sampling method may be described as stratified random sampling with a systematic selection within each of the segments. The number of strata was determined as part of the stratification procedure.

Table a 1.2
Results of the design

	Population	Sample	Variance	Average	Rel. Error	Coef. of var.
Food						
Inclusion	11	11		1.0025E+10	0.0%	
Frame	77	11	1.1E+17	293932043	17.0%	111.2
Total	88	22		1510367058	1.9%	
Clothing						
Inclusion	4	4		4893954227	0.0%	
Frame	116	12	1.6E+17	278094794	20.9%	142.8
Total	120	16		431956775	11.1%	
Furniture						
Inclusion	4	4		1543246650	0.0%	
Frame	40	9	5E+16	226941916	16.7%	98.69
Total	44	13		346605982	7.9%	
Printing						
Inclusion	4	4		2178334221	0.0%	
Frame	57	12	2.8E+16	140896982	15.4%	119.3
Total	61	16		274499424	6.2%	

In the above table eight strata of low to high variation within each group (column 4) and average (column 5). The sizes of the sample by stratum (column 3) were assigned in proportion

to the variance and average of the stratum, achieving relative errors (column 6) which were below or equal to 11.1%.

On this basis a sample was obtained which is summarised in the following table.

Table a1.3
Final composition of the sample

	Armenia	Manizales	Pereira	Total
Food	2	8	5	15
Clothing	0	3	10	13
Furniture	6	0	6	12
Printing	3	8	8	19
Total	11	19	29	59

Appendix 2

Enumeration of concrete actions undertaken

CARD 4.1 (qstn 4.3 and 4.4) Downsizing

(reducing manufacturing operations)

- (a) not applicable
- (b) closing down least profitable product groups, products or product ranges
- (c) same as (b) and supplement trading in corresponding imported products
- (d) closing down manufacturing subprocesses or manufacture of component parts and switch to purchase as material inputs (from abroad or domestically)
- (e) subcontracting manufacturing subprocesses or component parts to firms in the province
- (f) same as (e) but to firms anywhere in the country
- (g) other, please specify

CARD 4.2 (qstn 4.5 and 4.6) product innovations

(improving, revising and changing the products/services on offer)

- (a) not applicable
- (b) improve technical qualities (durability, versatility)
- (c) change physical appearance (fashionable design)
- (d) develop product as part of a larger product group
- (e) increase the range of product specifications/options
- (f) reduce the range of product specifications/options
- (g) customise of product to individual clients
- (h) add/improve customer support services
- (i) develop new products within related product groups
- (j) develop new and unrelated product groups (diversify)
- (k) other, please specify

CARD 4.3 (qstns 4.7 and 4.8) Process innovations

(revising and improving production processes)

- (a) not applicable
- (b) upgrading of existing plant and equipment
- (c) improving quality of material inputs
- (d) acquisition of new plant and equipment
- (e) improvement of quality control processes
- (f) decentralise production management
- (g) physical redesign of operations (improving workflow)
- (h) organisational re-design of operations (raising worker participation in production decisions, quality circles)
- (i) other, please specify

CARD 4.4 (qstns 4.9 and 4.10) Management

(revising and improving management capabilities, processes and organisation)

- (a) not applicable
- (b) internal control of operations (mgmt of inventories, works in progress)
- (c) financial management & cost control (e.g. accounting & budgeting systems)
- (d) integrated management of production and sales/marketing
- (e) sourcing of inputs
- (f) human resource management
- (g) product and process quality management
- (h) research & development
- (i) management of strategic decisions & change
- (j) other, please specify

- CARD 4.5** (qstns 4.11 and 4.12) **Financial restructuring**
(changing ownership structure, debt conversion and rescheduling)
- (a) not applicable
 - (b) rescheduling of debts
 - (c) conversion of short term into long term debts
 - (d) expanding equity
 - (d) acquiring new domestic partners
 - (e) acquiring of a new foreign partner
 - (f) other, please specify

- CARD 4.6** (qstns 4.13 and 4.14) **Human resource development**
(strengthening knowledge, skills and expertise of employees)
- (a) not applicable
 - (b) skill upgrading in area of immediate need
 - (c) personnel development programmes
 - (d) management training programmes
 - (e) delegation of responsibilities to direct workers (e.g. work teams)
 - (f) participation of direct workers in production decisions
 - (g) participation of employees in company management
 - (h) change in reward systems (from fixed to performance based)
 - (i) other, please specify

- CARD 4.7** (qstns 4.15 and 4.16) **Markets and Marketing**
(revising knowledge of current and prospective clients and improving knowledge of current and prospective clients about the firm and its products)
- (a) not applicable
 - (b) market research on clients & products in existing markets
 - (c) market development for existing products
 - (d) market research for new products
 - (e) generic advertising (promoting demand for product)
 - (f) individual advertising (promoting one's own product(s) over those of rivals)
 - (g) company public relations in general
 - (h) social responsibility and local image of company
 - (i) 'greening' of image of company
 - (j) other, please specify

- CARD 4.8** (qstns 4.17 and 4.18) **Networking**
(subcontracting, outcontracting, franchising, licensing)
- (a) not applicable
 - (b) subcontracting of manufacturing subprocesses/activities to local firms
 - (c) subcontracting of manufacturing subprocesses/activities to domestic firms, irrespective of location
 - (d) international subcontracting of subprocesses/activities
 - (e) subcontracting manufacture of components and parts to local firms
 - (f) subcontracting manufacture of components and parts to domestic firms, irrespective of location
 - (g) international subcontracting of component or part manufacturing
 - (h) outcontracting of producer services (will be developed in part 6)
 - (i) acquiring international franchise for the local manufacture of products
 - (j) acquiring agreements for manufacture under licence
 - (k) other, please specify

- CARD 4.9** (qstns 4.19 and 4.20) **Inter-firm co-operation**
(mutually agreed joint undertaking of particular activities in domestic/export markets)
- (a) not applicable
 - (b) joint marketing efforts in export markets (e.g. cost & information sharing in campaigns, collective brand names, quality standard agreements)
 - (c) joint marketing efforts for domestic market (same)
 - (d) joint acquisition of/tendering for orders in export or domestic markets
 - (e) co-manufacturing agreements for large orders
 - (f) sharing or pooling of production facilities, assets, activities
 - (g) jointly contracting, undertaking or pooling of product design activities
 - (h) jointly contracting, undertaking or pooling of Research & Development activities
 - (i) joint purchasing of inputs
 - (j) other, please specify

Appendix 3

Enterprise support services and institutional modalities

LIST 5.4 Selected enterprise support services and type of delivery agency

Which of the following general enterprise support services, if any, do you consider essential for your line of business such that it should become available locally or regionally? What type of agency should provide these services?

	tick off if applicable	commer- cial agency	non- profit founda- tion	general association of firms (eg CZI)	sector specific assoc. of firms	central gov't agency	local gov't agency
(a) not applicable	[...]						
(b) promoting of economic interest of the town/region	[...]	[...]	[...]	[...]	[...]	[...]	[...]
(c) business information Center	[...]	[...]	[...]	[...]	[...]	[...]	[...]
(d) general business advice	[...]	[...]	[...]	[...]	[...]	[...]	[...]

LIST 5.6 Selected technology support services and type of delivery agency

Which of the following *technology support services*, if any, do you consider essential for your line of business such that it should become available locally or regionally? What type of agency can best provide these services?

	tick off if applicable	commer- cial consul- tant	non- profit founda- tion	equip- ment supply firms	sector specific assoc. of firms	public agency	academic research centers/ univer'ty
(a) not applicable	[...]	[...]	[...]	[...]	[...]	[...]	[...]
(b) general technical assistance	[...]	[...]	[...]	[...]	[...]	[...]	[...]
(c) technology databases & information services	[...]	[...]	[...]	[...]	[...]	[...]	[...]
(d) R&D technology	[...]	[...]	[...]	[...]	[...]	[...]	[...]
(e) testing and standards	[...]	[...]	[...]	[...]	[...]	[...]	[...]
(f) product design services	[...]	[...]	[...]	[...]	[...]	[...]	[...]

LIST 5.8 Selected marketing support services and type of delivery agency

Which of the following *marketing support services*, if any, do you consider essential for your line of business and which should become available locally or regionally? What type of agency can best provide these marketing support services?

	tick off if applicable	commer- cial consul- tant	non- profit founda- tion	other export manuf. firms	inter- national trading firms	sector specific assoc. of firms	public agency
(a) not applicable	[...]	[...]	[...]	[...]	[...]	[...]	[...]
(b) marketing/export info/advice	[...]	[...]	[...]	[...]	[...]	[...]	[...]
(c) dom. trade fairs & exhibitions	[...]	[...]	[...]	[...]	[...]	[...]	[...]
(d) fairs/exhibitions/promot'n abroad	[...]	[...]	[...]	[...]	[...]	[...]	[...]
(e) identification/export oppor- tunities & buyers	[...]	[...]	[...]	[...]	[...]	[...]	[...]
(f) export insurance	[...]	[...]	[...]	[...]	[...]	[...]	[...]

LIST 5.10 Selected financial support services and type of delivery agency

Which of the following *financial support services*, if any, do you consider essential for your line of business and which should become available locally or regionally? What type of agency can best provide these financial support services?

	tick off if applicable	commer- cial banks	non- profit founda- tion	sector specific assoc. of firms	central public agency	local public agency
(a) not applicable	[...]					
(b) investment loan finance	[...]	[...]	[...]	[...]	[...]	[...]
(c) venture capital	[...]	[...]	[...]	[...]	[...]	[...]
(d) debt rescheduling/conversion	[...]	[...]	[...]	[...]	[...]	[...]
(e) loan guarantees	[...]	[...]	[...]	[...]	[...]	[...]
(f) credit insurance	[...]	[...]	[...]	[...]	[...]	[...]
(g) co-financing schemes on technology	[...]	[...]	[...]	[...]	[...]	[...]
(h) co-financing schemes on marketing	[...]	[...]	[...]	[...]	[...]	[...]
(i) co-financing training/ mgmnt schemes	[...]	[...]	[...]	[...]	[...]	[...]

LIST 5.12 Selected training support services and type of delivery agency

Which of the following *training support services*, if any, do you consider essential for your line of business and which should become locally or regionally? What type of agency can best provide these technology support services?

	tick off if applicable	commer- cial consul- tant	non- profit founda- tion	sector specific assoc. of firms	central public agency	local public agency	academic research centers/ univer'ty
(a) not applicable	[...]						
(b) vocational & skill training	[...]	[...]	[...]	[...]	[...]	[...]	[...]
(c) supervisory & intermediate management training	[...]	[...]	[...]	[...]	[...]	[...]	[...]
(d) business management training	[...]	[...]	[...]	[...]	[...]	[...]	[...]
(e) technology upgrading	[...]	[...]	[...]	[...]	[...]	[...]	[...]
(f) marketing & export training	[...]	[...]	[...]	[...]	[...]	[...]	[...]
(g) financial management training	[...]	[...]	[...]	[...]	[...]	[...]	[...]

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