

**Business Development Services
in the Palestinian Territory:
Analysis of Demand and Supply Conditions**



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FOREWORD

This study reviews the role, characteristics, problems, and ways to enhance the business development service (BDS) sector in the Palestinian territory, namely the consulting services provided by NGOs and public institutions for SMEs. In the highly competitive and challenging environment in which SMEs operate, there is a great need for consulting services in a wide array of specializations. These include production management, financing, marketing, and the development of managerial capacity. Having a modern, well-developed and forward-looking BDS sector is an important prerequisite for improving the economy's competitiveness as a whole, as well as improving the competitiveness of products and services offered by SMEs, which represent 98% of enterprises in the Palestinian territory. However, due to limited financial and human resources, BDS providers find themselves incapable of carrying out critical R&D activities that will enable them to enhance their productivity and products, and expand their operations. Understanding such limitations, this study provides a clear picture of the difficulties and challenges faced by BDS providers on the one hand, and those facing SMEs on the other. I hope it will draw the attention of policymakers to the sector, and encourage them to work to improve the quality BDS products and services, and facilitate their efficient delivery to SMEs.

I would like to take this opportunity to extend my gratitude to the research team, reviewers, and all those whose invaluable contributions in public discussions enriched the findings and recommendations of the study. I would also like to thank our partners GTZ and the IDRC for their financial support of this research, and indeed their continuous support of the Institute's research activities over the years.

Dr. Samir Abdullah
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Executive Summary

Introduction

Many definitions have been used for Business Development Services (BDS) depending on whether the party involved is a provider or a beneficiary. BDS can be described as “a group of services aiming to empower the role of working institutions —regardless of their size— in economic development through assisting them in improving their performance and competitiveness.” This is done by developing their abilities in running the various operations of business, such as: reducing production costs, developing related skills, increasing product quality, improving financial management, and strengthening relations with domestic as well as foreign markets. BDS are categorized as three major types: training, consultation, and information services.

The importance of studying the market for BDS comes from the large percentage of Small and Medium Enterprises (SMEs) in the Palestinian Territory, a higher percentage of which are informal. Furthermore, pressures from competition are increasing in the Palestinian market, mainly due to imported “cheap” products. BDS are crucial in order to support Palestinian products through improving their quality and competitive power in local and world markets.

Research Methodology and Goals

Analysis of demand and supply conditions in the Palestinian Territory was done through reviewing key studies concerning BDS in Palestine, Arab states and foreign countries in order to benefit from other countries’ experiences. Moreover, a survey was conducted of 493 SMEs to identify their needs and evaluate BDS. Another 40 BDS providers were surveyed in order to identify the nature of their services and their evaluation of the market for BDS. The surveys aimed to provide recommendations that may contribute in improving the quality of BDS and therefore help empower the competitiveness Palestinian SMEs.

Best practices

Based on international experience, conditions were agreed upon that ensure the best quality of Business Development Services supplied, these are:

- ✧ Ensuring that BDS are delivered to enterprises that need them and avoiding a non-systematic selection process. Selection must be based on the presence of certain entrepreneurial characteristics among beneficiary enterprises.
- ✧ Ensuring that the delivery of BDS is demand-driven and not supply-driven in order to guarantee that offered services serve the needs of beneficiary enterprises.
- ✧ Giving priority to enterprises where the manager is also the owner since s/he will have more commitment to improve the operation of the enterprise compared to a paid manager.
- ✧ Ensuring cost effectiveness in the provision of BDS in order to guarantee that services are delivered at the lowest possible price.
- ✧ Ensuring long-term continuity in the provision of effective and useful BDS to beneficiaries as well as the continuing operation of enterprises that demand these services, which would guarantee a strong role for these enterprises in future employment creation and economic growth.
- ✧ Ensuring maximum outreach by business service providers, particularly as international experience has shown that approximately 90-95% of beneficiary enterprises became aware of the existence of services through their commercial ties and not as a result of outreach efforts of business providers.

Demand Side

1. Sample Description

The West Bank constituted 69% of the sample, whereas Gaza accounted for the remaining 31%. The biggest share (65.2%) of the sample came from micro enterprises with less than four employees. Twenty percent were from small enterprises with less than nine employees, and 14.8% were from medium and large enterprises employing more than ten people.

Palestinian enterprises are mostly family businesses, as evidenced by the connection between ownership and management. The percentage of owners who run their businesses directly is 87.6%, while 12.4% are paid managers. Males are dominant in management, comprising 93.6% of managers.

2. The Importance of Business Developments Services

Concerning awareness of BDS, it was found that business owners in the West Bank were more informed than those in Gaza. The greatest

proportion of respondents indicated awareness of accounting services (whether training, consulting, or information services), followed by marketing services. The private sector received the highest level of recognition for providing BDS compared to the public sector or NGOs due to the interest of the private sector in promoting services and informing potential clients (since they are profit-seekers).

West Bank enterprises were also more aware of the role of BDS in increasing the work efficiency, worker productivity, overall production, and knowledge of technological advancements. Although the enterprises acknowledged the importance of BDS, more than half (55%) of Palestinian enterprises are not willing to pay anything for BDS services. This percentage increases as the size of the enterprise – hence its financial capacity- decreases, reflecting the considerable role that the unstable financial situation of many enterprises plays in preventing them from acquiring services.

3. Determinants for choosing BDS providers

It was found that enterprises' financial issues played a key role in choosing a BDS provider. The majority pointed out that cost is the main issue in choosing a service. Other issues such as the quality, timing and location of providers are also important in choosing a BDS provider.

4. Satisfaction with BDS

Results of the study show that enterprises in Gaza were more satisfied than those in the West Bank. There was general satisfaction regarding trainer efficiency measured by the correlation between training issues and problems facing the enterprises and how they benefited from training. Ranked second was satisfaction from the methods used in training, followed by training material.

The results showed dissatisfaction concerning training environment (training rooms, hospitality and complimentary services), and training timing. In consultation services, there was general satisfaction regarding consultants' efficiency and ability to study the problems facing the enterprises. Satisfaction also came from current and accurate information used. However, there was a relative dissatisfaction in the methods of writing and presenting recommendations, as well as the accuracy of analysis.

5. Financing BDS

Private finance comprised the principal financing source for BDS (85%), whereas other sources such as donations, family-supported finance, loans, and donations from governmental, non-governmental and international organizations composed 15%. Higher educational levels of managers allowed enterprises to obtain financial means other than private financing. This is due to the fact that education provides an information base on Palestinian and international financial institutions and how to deal with them. Moreover, many financing institutions require feasibility studies which may constitute a barrier for managers with low education levels. Another factor for non-private financing is the size of the enterprise which is positively correlated with the amount of non-private financing.

6. Demand for Business Development Services

Willingness to improve work efficiency was the number one factor driving demand for BDS in the West Bank; whereas in Gaza it was work-related problems followed by the will to develop planning skills.

In the ranking of the most demanded services, accounting services topped the list followed by marketing services. The least demanded services were related to management and finance. When estimating expected demand, the results showed a variation depending on type of service (i.e. training, consulting, or information). On average, training services are considered the most demanded followed by information and finally consultation services.

Marketing services were the most demanded in the consulting services category and the least was computer services. Other consulting services received similar proportions of responses. In the training category, management and computer services topped the list; whereas legal consulting services were the least demanded. Finally, in the information category, pricing services were the most demanded and financial analysis and computer services were the least demanded.

Although there is a significant expected demand for BDS in the future, it cannot form an “effective demand” without the ability to pay for such services. This is apparent from the percentage (55%) of enterprises not ready to pay anything for BDS—a phenomenon that reflects the importance of financing availability of these services.

7. Business Development Services’ Evaluation

Enterprises that tried BDS showed a great deal of satisfaction as to how much the services met their needs, indicating that the

enterprises were able to apply the provided BDS in their businesses and sensed an improvement in productivity and output. Accounting services (all categories) achieved the highest rating, especially regarding its availability, quality, and relevance with the enterprises needs. This was followed by marketing services, financial management, and legal services.

However, many issues related to BDS were met with strong dissatisfaction, such as the availability of the service. Enterprises indicated dissatisfaction with the organization of trade exhibitions inside and outside the country, and customs' facility services.

Regarding the location of these services, dissatisfaction was clear concerning investment services, due to the concentration of such services in specified cities.

As to the issue of cost, dissatisfaction came from consulting and customs' facility services. Engineering support services received the lowest quality ratings. Finally, respondents ranked customs facility services as the hardest in terms of obtaining the service.

The Supply Side

1. Sample Description

The research team was able to survey 40 BDS providers, of whom 73.7 % were in the West Bank, and 26.3% in the Gaza Strip. Of the sample, 44.4% were private BDS and 55.6% were run by NGOs. The sample revealed that employees of business support providers have high educational backgrounds as 48.2% have master's degrees or higher, 42.9% have bachelor's degrees and 8.2% have a two-year college diploma. Moreover, the sample revealed that employees of such institution have high levels of experience; 50% have between 6-10 years of experience and 31.3% have fewer than five years of experience.

2. Main Available Services and their Determinants

When factors influencing the supply of services were measured, it was found that such services are mostly demand driven. Donors seem to have a say in the type of services offered by institutions as well as the profitability of the services, although a small proportion of BDS

providers actually conduct feasibility studies and offer the services based on demand and profitability considerations.

Regarding the type of offered services, the results show that training services are the most widely-offered, followed by consulting and information providing services. In terms of consulting services, the most widely-offered service is legal consulting, followed by business and executive-level business consultation and marketing consulting. Regarding training services, the most popular service was business and executive-level business consulting followed by accountancy and computer training. Information service provision was relatively limited whereas legal information services was widely offered.

3. Target Market

Targeted groups were analyzed from the perspective of service providers. Service providers indicated no strong preference on whether to deal with existing businesses or start-up businesses. The largest portion (31.8%) of their business was carried out in the service sector, whereas the industrial, agricultural and construction sectors represented 28.4%, 20.5% and 19.3% of their service volume respectively. The results also revealed that the private sector was the most targeted followed by the NGO and the public sectors. Moreover, 87.5% of BDSs targeted the local market across the West Bank and Gaza Strip, 25% exclusively targeted the city where their business is located and only 12.5% targeted external markets. Lastly, data revealed no discrepancies based on the number of beneficiaries.

4. Sources of Funds

Donor funding represented the largest source of funding for BDS providers. Institutions' private funds were on par with trainee fees and the contribution of the public sector was the lowest. These results reflect the substantial reliance of BDSs on foreign funding, which fluctuates according to the political situation on the ground and has the adverse consequence of making such intuitions subject to donors' agendas rather than the actual needs of beneficiaries.

5. Promotional Schemes

Service providers prefer direct personal selling as a medium of marketing their services because face-to-face selling gives them the opportunity to market their services in a more personal way, attracting a larger number of beneficiaries.

6. Competition

Fifty percent of the BDS providers in the West Bank and 52% of those in the Gaza Strip indicated that there is intense rivalry amongst them. Competition is mainly based on the quality of the service itself as opposed to price competition, which was a relatively insignificant determinant of competition. Marketing policies such as meeting customers' needs and post-sales services varied amongst service providers. It is worthwhile to mention that the most important determinant for the demand of business support services is the cost of the services while quality was the most important base for competition in the supply side. This indicates that service providers place little emphasis on the pricing of their services.

7. Pricing

Cost-based pricing was the primary method for pricing services, whereas only 30% pay attention to their competitors' pricing in the market.

8. Problems and Obstacles

The results indicate that poor financial resources, which are required to cover consulting services, is the main obstacle encountered by service providers. This makes them heavily dependant on foreign funding. Additional obstacles include the rising fees of consulting and training providers, lack of professional specializations needed to carry out certain consulting services, the lack of supervisory institutions to monitor the activities of BDSs, the lack of classification for service providers, the relatively small size of the Palestinian market, intense price-based competition at the expense of quality, the unwillingness of beneficiaries to accept recommended changes in their business, and the inability of beneficiaries to assess quality provided by various business service providing firms. Furthermore, beneficiaries have limited awareness regarding the importance of service provision and beneficiaries lack the ability to prioritize their needs.

Main Findings

The study unveiled a number of problems and obstacles in the demand and supply sides of service provision. The following is a summary of the main findings:

The Demand Side

- ✧ Beneficiaries' knowledge of BDS in the West Bank and Gaza Strip is poor. Furthermore, the training and consulting culture among beneficiaries is at best poor.

- ✧ Business owners' acceptance of business development services, their belief that such services could improve their businesses, and their willingness to accept proposed changes in their businesses declines with age.
- ✧ The high cost of BDS is the most important element in considering whether or not to request the service.
- ✧ There are inadequate financial resources for covering business expenses, especially as Palestinian institutions rely heavily on private funds when requesting business support services.
- ✧ Beneficiaries complain of the low quality of certain services in terms of the duration of training courses, their timing and overall environment under which they are held, the precision of analysis, the methods of presenting information and recommendations and the fact that information was at times out of date.
- ✧ There is a lack of harmony between what is demanded and what is supplied in terms of BDS. This particularly applies to training and consulting. For instance, from the beneficiaries' perspective, information provision services are more important than consulting services, whereas from the BDS perspective, consulting services are more emphasized as these services are usually funded by donors.

The Supply Side

- ✧ There is a lack of supervision of individuals and institutions' BDS activities as well as the lack of professional categorization in the industry.
- ✧ There are insufficient financial resources to cover operating expenses, especially in light of rising costs related to consulting and training firms.
- ✧ There is a short supply of specific specializations needed to meet rising demand.
- ✧ There is poor demand for such services due to the small market size and rising costs.
- ✧ There is increased price-based competition at the expense of quality-based competition.
- ✧ There is unwillingness among some beneficiaries to accept required business adjustments.
- ✧ Some beneficiaries are unable to assess the quality of business support services.
- ✧ Some beneficiaries are unable to prioritize their needs.
- ✧ The international funding of certain services has caused cost increases in these services beyond the beneficiaries' financial capabilities. In

fact, 60% of business support providers believe that consultancy is the most costly element in the pricing of their services.

- ✧ BDS are centered on traditional services and ignore technological areas, know-how and international and regional competitiveness analysis and trends.

Recommendations

- ✧ Increasing the Palestinian National Authority's attention to the BDS market through the adoption of a unified classification system for BDS providers that is primarily based on their respective professional capabilities.
- ✧ Focusing efforts on expanding knowledge and disseminating the BDS culture among Palestinian firm-owners through all types of promotion available.
- ✧ Activating the role of the association of consulting firms as a forum that brings these firms together.
- ✧ Providing incentives for BDS and other institutions that support the activities of private sector organizations to become acquainted with the latest worldwide experiences in consultancy work by participating in commercial exhibitions and holding educational seminars.
- ✧ Providing incentives for support organizations such as chambers of commerce, specialized unions, and business associations, among others, to allocate additional resources for encouraging demand for BDS.
- ✧ Working to make available new BDS that could contribute to transforming the Palestinian economy from a traditional economy that focuses on conventional production and has a low value-added, to the production of goods and services with a high value-added and a high knowledge content (knowledge-based goods).