

MICROECONOMIC ASPECTS IN BUSINESS SERVICES' DEVELOPMENT: THE CASE OF BULGARIA

This paper evaluates the micro-economic aspects in development of business services in Bulgaria. The analysis is largely based on questionnaires that deal with the demand and the supply side of these services on the Bulgarian market, but also uses western theoretical and empirical approaches and available statistics. The analysis reveals that, in spite of the positive tendency in development of the business services in Bulgaria, they are still relatively unknown and underdeveloped. At this stage, the local demand for business services is weak and thus moderately encourages the emergence of a dynamic services sector, a more competitive industrial sector and consequently a more modern and competitive economy. Finally, some measures for business services' development are suggested in regards of the specificity of the Bulgarian economy at this stage. The overall point of these measures is to stimulate the development of business services in Bulgaria, but also to reinforce the mutual links between these knowledge-intensive activities and the performance of other economic sectors in general.

JEL: L89, P51, D21

A common fact to all developed economies has been the increase of the importance of the services' sector and especially the growth of business services over the last couples of decades. Much empirical and theoretical research in advanced economies has been devoted to the fundamental change of the society related to its transformation from the industrial phase to the new economy- based on services, knowledge and information.

On the other side the reality in the socialist economy seems to have been different. The vision of the tertiary sector before the transition towards a market economy has resulted in the undervaluing of services in the process of economic development and as a consequence in underdevelopment of these activities. Services were organized in different way and were treated by the statistics. In addition, some services were not developed at all. As a result, business services in their actual content are new for the Bulgarian transition economy. These are services that are very important for the successful transformation and functioning of the post-socialist economy and enterprises. The important fact is that actually, their potential benefits are still unknown in the Bulgarian enterprises as indicates the recent report of OECD (2005) that evokes the need of more information about these activities.

In the above-mentioned context, this paper² aims to examine the tendencies and perspectives in development of the high-value added business services in Bulgaria

¹ Desislava Kolarova, Ph. D., Institute of Economics, Bulgarian Academy of Sciences, Department Economics of the Firm, 3, Aksakov Str., 1040, Sofia, Bulgaria, UPMF Grenoble 2, Espace Europe Institute, Laboratory PEPSE, BP 47, 38040 Grenoble, France, dkolarova@caramail.com .

during the transition at micro-economic level. The article focuses mostly on the supply of business services, but also on the demand side for identifying the current tendencies and challenges related to their development, which stay in front of enterprises and policy makers.

The analysis is structured as follows: Firstly, the literature concerning the business services in advanced economies is briefly reviewed. In the first section the definition of business services and factors, which influenced their emergence in developed economies are analyzed. In the second section a brief historical parallel is performed with a different services' and economics' reality in the socialist economy, followed by the analysis of the rupture and transition that brought the emergence of new business-related services. In the third section the main characteristics of the business services supply and demand are examined. Finally, the conclusion underlines the appropriate measures that can encourage the development of the business services in Bulgaria in order to help the full integration of the economy and to enhance the competitiveness of the Bulgarian enterprises on the European Internal Market after scheduled accession in 2007.

Introduction

Since 1970, numerous researches have pointed out the common transformation in modern societies towards a new type. In spite that different names were given in order to describe the new society (post-industrial societies, services society, information society, knowledge-based society)³, one finds common features: the increasing importance of services, of human resources, of knowledge and of information. The scheme of Malaska represents that post-industrial change related to the expansion of dominant sectors at different stages of development and lastly to the expansion of services as a dominant sector⁴. During the intensive phase, the growth is clearly shown both in the production and employment. Throughout the extensive phase, the employment decreases or stagnates without influencing the productivity. The regenerative stage is mainly related to the quality and organization, because the growth of the new sector stimulates the new organization of the economy, of the production, consumption and labor.

Consequently, the main difference of the post-industrial society compared with the former one is the increasing share of services at all levels: in employment, in value added and in consumption etc. This phenomenon is also observed at regional and urban level. Today, the statistics confirmed that services account for more than 70% of employment and of Gross Domestic Product (GDP) in developed economies, even the size and type of the services activities varies across the countries⁵.

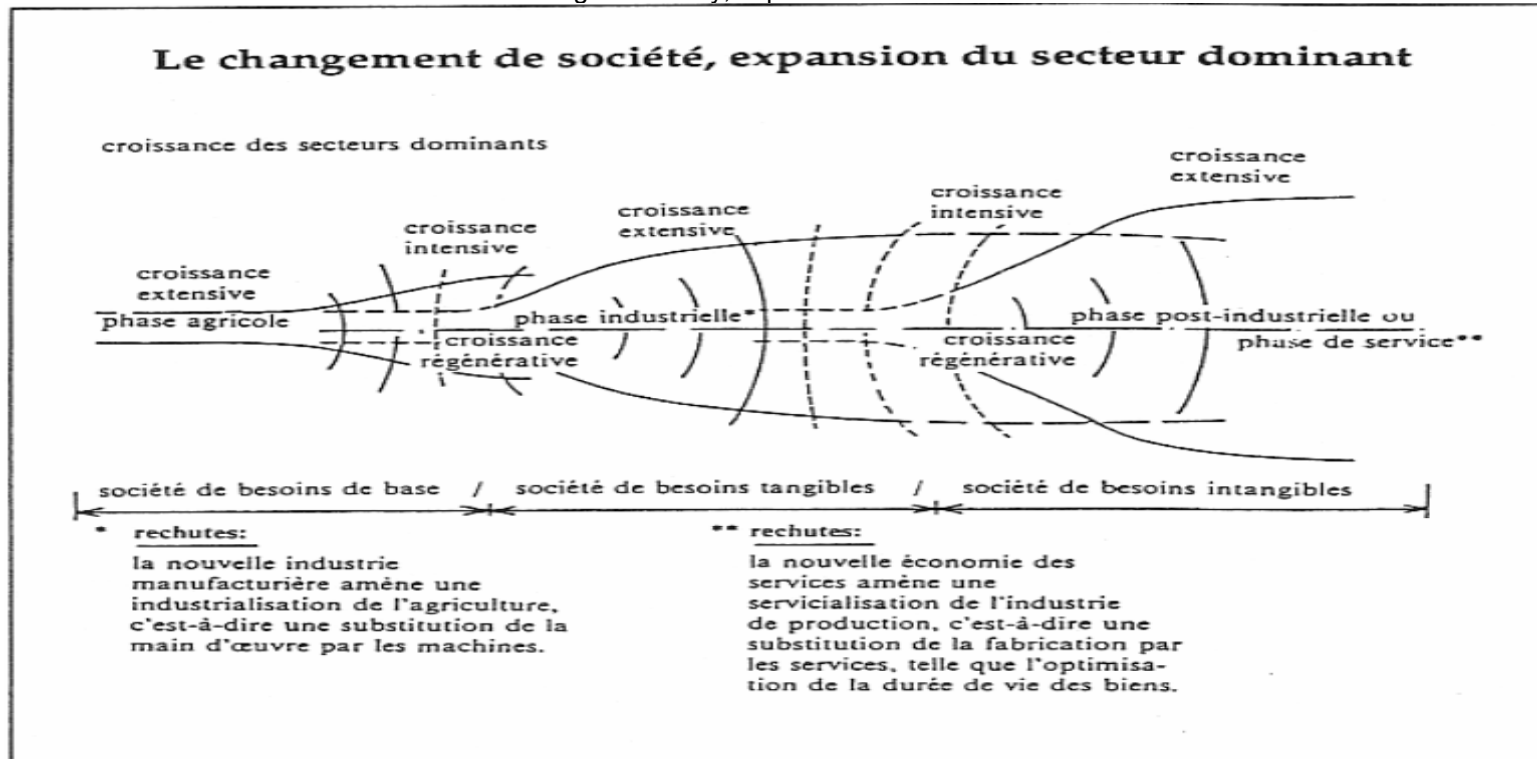
² This article is a part of a doctoral dissertation "Development of the Business Services in Bulgaria" presented and defended in public in April 2005 in France.

³ See for example Bell, D., Tofler, A., 1980, 1990.

⁴ Cited in De Bandt, 1995.

⁵ EC, European Competitiveness Report, 2002.

Change of society, expansion of the dominant sector



Source : De Bandt, J., Services aux entreprises- Informations, Produits, Richesses, Economica, Paris, 1995, p. 180.

That stage of services' development is also characterized by one important tendency: the expansion of knowledge-intensive business services, rapid development of Information and Communication technologies (ICTs) and increasing importance of intangible factors in the economy (such as knowledge and information)⁶. Their importance for the competitiveness and economic growth even bring to mind the change in the traditional concept of competitiveness.

The role of knowledge-intensive business services has become an important focus in the post-industrial debates. Numerous studies recognize that these services play an increasingly important role in the production processes⁷. They do not only directly affect the competitiveness of the economy, but also influence that of the companies by supporting their overall performance. Today business services have an importance for overall economic development, as their weight also increases in qualitative terms, as they become increasingly influential sources and channels for new innovations and knowledge⁸.

The recent report of OECD (2005) points out that the rapid employment growth in services and the increase in the share of services sector in total value-added is due to the strong performance of the market services and business-related services as a part of them. These services actually account around 20-30% of value-added in the total economy in opposition to 10%- 20% in 1980⁹. Business services also have been characterized by a high level of business dynamics described by high rates of new firm creation, by rapid growth of successful new firms, and reallocation of resources from declining to growing firms. Regarding the Foreign Direct Investments (FDI), the World Investment Report 2004 has shown a clear shift towards services. As to business services, the report shows that they became more prominent in the world FDI as between 1990 and 2002 the FDI stock in business services grew 9-fold.

1. Business Services in Developed Economies

1.1. Definition of Business Services

First of all, for the extension our research, it is necessary to precise the definition of business services and to reply to the question *what business services exactly are?* In general, it is particularly difficult to define business services, having in mind their strong heterogeneity. Their classifications and definitions are numerous as they vary and depend often on the interest of given research.

1.1.1. Statistical Definition

Actually, under the definition of "business services" in the nomenclature of the economic activities of the European Union (NACE Rev.1), one finds different and heterogeneous activities. Business services are classified in sector K- Real estate, Renting and Business Services. In this classification of business services two principal sub-groups can be observed. The first includes high value-added business services, resulting from their intellectual contents (such as consulting services, computer services, marketing and advertising, legal services, human

⁶ De Bandt, J., 1995 ; Epingard, P., 1999.

⁷ Rubalcaba, 1999, OECD, 1999.

⁸ EMCC, Knowledge- intensive business services-what future?, 2005.

⁹ Wölfl, 2005, p.18.

resources and R&D services). The second sub-group consists of operational services like cleaning, security services etc. Thus, the actual classification of business services reflects a mix between high and less knowledge-intensive activities.

Table 1

Definition of Business Services According NACE Rev. 1 Classification

| Classification of NACE activities | Services | More important activities |
|-----------------------------------|---------------------|--|
| 721-6 | Computer | Hardware consultancy Software consultancy Data processing Database activities |
| 74.11, 74.12, 74.14 | Professional | Legal activities Accounting and tax consultancy Management consulting |
| 74.13, 74.4 | Marketing | Market research Publicity |
| 74.2, 74.3 | Technical | Architectural activities Engineering activities, Technical testing and analysis |
| 71.1, 71.21-23, 71.31-33 | Leasing and renting | Renting of transport and construction equipment Renting of office machinery incl. computers |
| 74.5 | Labor recruitment | Labor recruitment and provision of personnel |
| 74.6, 74.7 | Operational | Security activities Industrial cleaning |
| 74.81-84 | Other | Secretarial and translation activities Packaging activities Fairs and Exhibitions |

Above-mentioned classification of business services activities will be changed in the new revision of NACE (NACE Rev. 2) in view to reflect changes in technology and economic structures. That also will facilitate the analyses of each individual activity which were previously included in one activity group.

1. 1. 2. Non-Statistical Definitions of Business Services

In the difference of other services, business services possess some particular characteristics.

Their first distinctive feature is their *intermediate position* in the production chain, but also their principal users, enterprises, indicated well by their name¹⁰.

These services can be defined as: "... real activities (not financial) that influence first the competitiveness of companies (they are not incompatible with the services provision to consumers) through their use as intermediary inputs in the value chain, and via quality and innovation gains resulting from the interaction between suppliers and client and service"¹¹.

Business services represent "inputs" for the whole of the economic activities and can "contribute to the indirect transformation of the conditions of manufacturing production and by opening new possibilities of production development"¹².

¹⁰ Mérenne-Schoumaker, B, 1996.

¹¹ Rubalcaba-Bermejo, L, 1999, p.26.

¹² Petit, P., 1988, p.183.

The intermediate consumption of business services brings complementarities and integration between services and goods and gives to the latter an immaterial element. That integration in the production processes refers to a concept of complementarity and independence between immaterial and material factors of production¹³.

Analyzing the nature of business services, some authors¹⁴ distinguish inside these services two sub-groups (see figure below). The first group of activities is mostly related to the labor and the life of the employees (cleaning, security etc). The second group of *information services* is associated to the market relations, to the production processes and to the strategy of the enterprise. The latter groups of services “modify the (informational) state of the client; help the client to be better informed and to take vital decisions”¹⁵ and “concerns all information which requires the functioning, the performances and the development of the company”. They are integrated in the production, respectively in the products.

Business services possess a strong content of tacit knowledge and information and constitute a major element in the quaternary activities¹⁶. The high content of tacit knowledge and sophisticated expertise, imply a narrow need of face-to-face contact and the need for a more intensive process of *co-production*¹⁷. This need of proximity seems to be considered like an element reducing the uncertainty.

Among business services, certain authors distinguish three types of activities¹⁸: those treating data, those that bring information and those that treat knowledge (for example consulting services). The difference is that the first two categories can be provided via electronic way, whereas the last group requires a narrow proximity.

On the other hand, the development of the new ICTs had an important impact on the classical characteristics of services related to their stockability, transportability, tradability and simultaneity in their consumption and production. The ICTs have changed the concept of distance and time. Consequently the notion of proximity also has been modified. The ICTs’ development during the last years influenced the exchange of certain services and contributes to the reorganization of the traditional services’ relationship, production and delivery. They affected also the “classical” delivery of some high value-added business services (such as software and information services, R&D and technical services, advertising and marketing services, business consulting services, recruitment and human resource development services) and increased the importance of the digital delivery¹⁹. The ICTs’ development has also encouraged a new phenomenon during the last years related to the international outsourcing of services that more recently concerns even some high value added business services. This advance modifies the need of geographical proximity for services’ supply.

¹³ Gadrey, J, Delaunay, J-C, 1987.

¹⁴ See De Bandt, 1996.

¹⁵ De Bandt, 1995, p. 26-27.

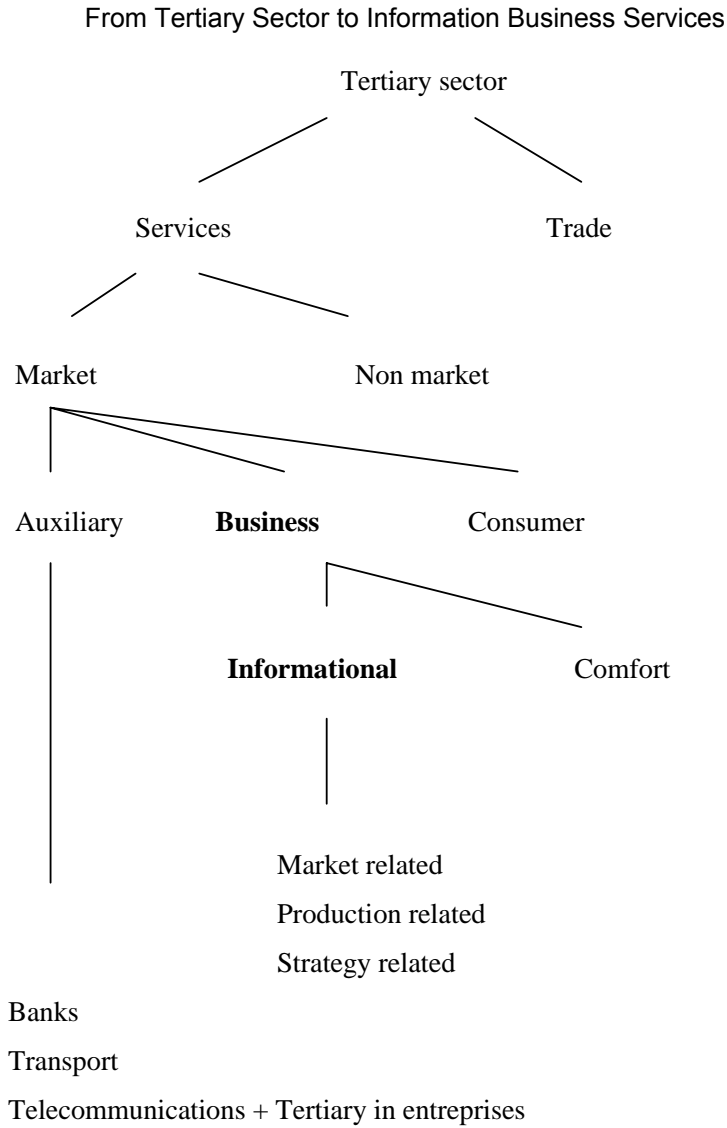
¹⁶ see Gottman, 1983; De Bandt, J, 1999.

¹⁷ The process of *co-production* is typical for services activities and describes the mutual relationship between the service’s supplier and user in the process of the service’s production.

¹⁸ Henten, 1998; Henten and Skouby 1998.

¹⁹ see the report of OECD (2004) for more information on this topic.

Figure 1



Source: Adapted from J. De Bandt, *Services aux entreprises- Informations, Produits, Richesses*, 1995, p. 24.

Specific characteristics of knowledge-based business services are related to their *complexity* and provision of *specific* and *adapted* advices to their clients. The degree of participation of the letters in production process and the specificity of his needs give the base for another classification of business services²⁰:

²⁰ Thèvenot, N, 2000.

Table 2

Specificity of Needs and Degree of Client's Participation in the Production Process

| Degree of need's specificity | Passive participation | Active participation |
|------------------------------|-------------------------|-----------------------|
| Non specific | Standardized services | Free service |
| Specific | Industrialized services | Personalized Services |
| Very specific | - | Co-produced services |

Adopted from Thèvenot, N, 2000

Taking into account above definitions, business services in current analysis are defined as:

1. Information services²¹, ensuring a strategic information or advice for customer, having a durable effect and related to the decision associated with problem solving and creation of the policy²²;
2. Services based on the intangible components such as information and knowledge, supplied by highly skilled human resources;
3. Services of the relational type that normally require an intensive contact (proximity) between the supplier and their recipient;
4. Paid services that quality cannot be evaluated before their supply;
5. Intermediate services supplied mainly to the companies and supplied by the specialized firms.

Starting from this definition and aiming to limit our field of study by taking into account the available data, the working definition of business services used throughout this paper concerns such services as²³ computer services (72), legal services (7411), consulting services (7412, 7414), marketing and advertising (7413, 7440), human resources services (7450) and R&D (73). As it has been already mentioned, these services increase the company's effectiveness, competitiveness, productivity, product quality etc. The higher value-added is their distinguished feature from the other tertiary activities. Most important, these services remain new activities for Bulgaria, developed mainly after the transition. As they represent essential activities for the competitiveness of market economy and enterprises, they are subject of our empirical analysis.

1.2. Emergence of Business Services in Developed Economies

The fast growth of business services evokes the question of the driving factors behind this reality. Numerous factors explain this fast development. They are mainly related to the tendency of the externalisation of some services functions, but also to increase of the demand because of complex environmental changes. In general, the evolution of business services can be explained by three stages of development corresponding to different needs²⁴:

²¹ In the sense of De Band, 1995.

²² O'Farrel and Hitchens, 1990.

²³ Codes according to National Classification of economic activities (NKID)-2003, Source: NSI, Sofia.

²⁴ Mérenne-Schoumaker, B, 1996, p. 166.

- The first stage (1950-1960), the oldest one, is related to services that solve administrative problems (legal, tax services, accountancy) and to services of commercial nature (transport, advertising);
- The second stage (1965-1975) consists of "externalisation" of certain services which positively influence the costs' reduction and which are not strategic for the production control and the markets (ex. activities such as restoration, transport, the data-processing etc.);
- The third stage (since 1975), most recent one, is related to two types of new needs: those related to the technological changes and those related to the knowledge. Thus this stage of development concerns advanced activities such as marketing researches, specialized advices, experimentation, tests, controls, etc.

Some other factors contribute also to increasing demand of specialized services. The technological change, the globalisation of the economy, the internationalization of the markets, the increased competition and the appearance of the new tasks for the organization of the production, result in a change of the production process, increase in the division of labour, a growing complexity of the economic transactions and in particular the increase in the needs for information and specialized knowledge²⁵. The demand of business services increases. This growth in the demand is explained by three main changes and by their consequences²⁶. The most important are related to the change in *production system*, change in *production factors*, and change in the *markets*.

Figure 2

The Causes that Explain the Emergence of Business Services



Source: Rubalcaba-Bermejo, L., Business services in European Industry, 1999, p. 131.

²⁵ Epingard, P., 1999.

²⁶ Rubalcaba-Bermejo, L., 1999.

Then, the rise of information, knowledge and the new technologies in the economic activities, result also in increase of demand for specialized business services because of the new forms of competition, related to the diversification of the production, quality improvement, the innovation and the reduction in the uncertainty of the external environment. These specialized business advices ensure to the companies market information and increase their capacities of adaptation to the changes²⁷.

In general, the increase in business services demand and the process of outsourcing of these services are explained by potential cost savings, by possibility of obtaining and of improving of service quality, by increase in technical complexity, by specialization of services function and by focalisation on core activity²⁸.

Nowadays, enterprises face new needs for knowledge and information associated to the market globalization, to the transformation of the productive processes, to their competitors and customers, to implementation of new technologies that led to the growth in specialized services.

As a result, business services are of primary importance for the companies that look for the complex knowledge to solve their problems and to their effective performance in more diverse environments²⁹. By the complementary role that they play in the whole of the productive chain as intermediate inputs, business services contribute for companies' competitiveness in their local and global environment (by increasing the flexibility of the production system, by generating decrease of production costs and growth of the product value added, by facilitating the innovation and the modernization of the firms³⁰). Generally, by using strategic business services, the companies increase their value-added³¹.

Business services are essential for the competitiveness of the manufacturing industry (29%), to business services sector itself (46%) and for sectors like construction, hotel and restoration, real estate (12%)³². There are essential factors in achieving the goals of the Lisbon Strategy to make a Europe "the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth, with more and better jobs and greater social cohesion, and respect for the environment"³³. Their role in the modern economy is describe by the European Commission in the following logic:

The importance of the business services is such that in 2004 the European Commission sets up a European Forum on Business-related services in order to identify the solutions to increase the productivity of these services and to enhance their contribution in achieving the Lisbon goals. Actually, in 2006 this Forum was modified to become a European Forum on the Internal Market for Services and treats a wide range of subjects in the context of the Internal Market for Services.

²⁷ Gallouj, C., Gallouj F., 1996.

²⁸ Howells, Green, 1986.

²⁹ De Bandt, Gourdet, G, 2001.

³⁰ Demazière, C., 2000, p.19.

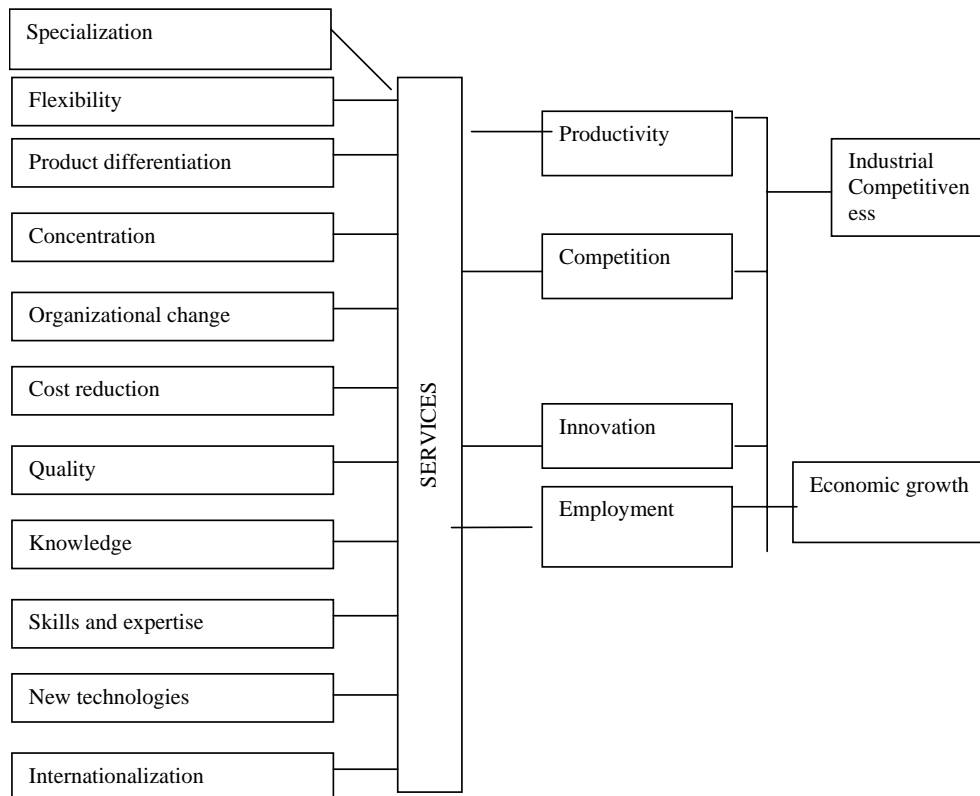
³¹ O'Farrel, 1995.

³² See the rapport of the European Commission, 2003.

³³ European Commission, 2000.

Figure 3

The Role of Business Services in the Modern Economy



Source: European Commission: "The Contribution of Business Services to Industrial Performance: A Common Policy Framework", 1998.

2. Business Services in Transition Economies

2.1. Development of Services Sector in Bulgaria: Historical Background and Actual State

As some authors³⁴ underline it "the new services economy does not correspond any more to the economy of the tertiary sector according to the traditional acceptance. It concerns the fact that today the services functions are dominant in all types of economic activities". The more and more, the value in the modern economy is created by "intangible" services activities, knowledge and information. This fact is completely contradictory of the "materialist" analysis of Marx that was applied in the socialist economy. That is why seems evident that for better

³⁴ see Giarini& Stahel, 1990, p.45.

understanding the current problems in development of services and more precisely of the business services in transition Bulgarian economy, a historical remind is important.

2.1.1. Historical Background

During the socialist period a negative connotation was characterized the services sector. This vision has resulted in the services undervaluation in the process of economic development and as a consequence in underdevelopment of this sector. This fact could be explained in different ways and by different fundamental reasons. But the primary cause for this lack of understanding and development was rooted in the Marxist economic doctrine.

By prolonging the materialist vision of work of the classical economists and by observing the capitalist goods, Marx develops a theory of the productive labour. In his opinion, the productive labour producing practical values and corresponding to the finalities of the production integrates only the tangible goods and excludes the services that are characterized by their intangibility and by their unproductiveness in value and in surplus value.

The distinction between the immateriality and the materiality applied in the analysis of goods and services has a great importance in the work of Marx and consequently in the treatment of services like unproductive activities.

Focused on the goods, Marx gives the priority to the productive labour and to the tangible goods, therefore to the economic importance of the material production. Its theory of the productive labour does not include services. Thus, the link between productive labour and materiality represents an essential element in the Marxist analysis. This theory has contributed to the undervaluation of the services in the economic analyses and their negligence in the socialist economies.

In the centrally planned system with its allocation of resources the central government's priorities were directed towards the material production sector, respectively to industry. During the socialist period in the framework of COMECON, the centralized economy is characterized by a structure strongly orientated to the priority development of the heavy industry. This fact was due to the conceptual limitations, imposed by Marxism dealing with the concept of material production. Their line of reasoning went that value added was created solely by the industrial and agriculture sectors that produced material goods and were accounted for in the Gross National Product³⁵. The socialist accountancy was an "accountant system of material production that according to the Marxist theory, distinguished unproductive and productive activities and account only the latter for obtaining a material product. The unproductive costs are those not directly related to the material production"³⁶, or theses are the majority of services. The GDP and the productivity are measuring instruments of a material wealth founded on the accumulation of exchange values. The value of use was not taken in consideration. In difference of material sphere of production, services consumed resources, but do not created value added. As a result of "unproductive" nature of services, the services sector acquired a low relative share in the GDP (for example 37.1% in

³⁵ The statistics in the socialist economy used different macroeconomic aggregates than those that one finds in developed market economy.

³⁶ See Andreff. W., 1993.

1970 and 29.9% in 1988³⁷), a low relative employment (30% in 1990³⁸) and poor quality.

Because of the residual “unproductive” conceptualization certain services were not developed. Neither the business services, nor the service relationship were developed. The business services, as such, lacked or were organized in different way.

The typical characteristic of the socialist economy was the large industrial enterprises and the absence micro and small enterprises. The industrial enterprises or combinats³⁹ were vertically integrated, as were also the information flows. Enterprises were not led by the economic rationality, but directly by the orders of the communist party. Their organization was bureaucratic, formalized and hierarchic. Their distinctive feature was a strong degree of internalization of activities (especially services)⁴⁰. The level of technological integration in the production process is low. The innovation was concentrated rather on the improvement of the existing equipment than on radical innovations. The monopolistic position of many companies does not encourage them to invest in more productive equipment, nor in the innovation of their products.

In the centralized economy the necessity of intermediate services related to the management of human resources, to marketing and advertising, to legal and financial issues, to the expertise and advices was not the same. These decisions were centralized and not externalized. Services activities were under the monopolist control of the state. From the other hand, the inexistence of private sector and existing trade monopole brought lack of competitiveness in services. Evidently the conditions in this environment did not contribute for increase of services sector efficiency and consequently for increase of economic efficiency⁴¹. But also the overall development of the economy was hindered because of business services atrophy.

In addition, the inadequate economic policy due to the lack of understanding the nature and the significance of the services has hindered the development of reliable statistics.

2.1.2. Services Sector during the Transition: Between Rupture and Continuity

Following 1989, the transition in Central and Eastern Europe joined the wider process of economic transformation. After a half-century of autarchy, central planning and over-industrialisation, the post-communist states underwent a process of de-agrarization, de-industrialisation and tertiarisation⁴². They had to face new, complex and globalized market, as well as a new economy, in which information and knowledge have progressively replaced capital and labour as key factors of production according to the new-classic theory. They were also faced by

³⁷ Source: « L'annuaire statistique des pays du CAEM », in M. Lavigne, K. Szymkiewicz, *Les Pays de l'Est sur le marché international des services*, rapport pour le CGP, Paris, 1990.

³⁸ Source : data of World Bank, cited by Rask, K. & Rask, N., 1994.

³⁹ Hirschhausen, C., (1996) proposes a multifunctional concept of the "socialist combinat" according to which the combinat provides and combines different activities as the more important one are the production, the social services and the control.

⁴⁰ Hirschhausen, C., 1996.

⁴¹ OECD, 1991.

⁴² Landesmann M., 2001.

the problem of the underdeveloped services sector that consequently hindered the development of other economic sectors.

The collapse of the old structures led to the radical rupture that requires the construction of an entirely new system. This rupture is equivocal: it recalls the concept of the transition that implies a gradual passage from a socialist economy towards a new market economy, but in the same time, the rupture implies also continuity. Thus, the transition can be interpreted as a mixed economy in which coexist old and new elements⁴³. The transition process is multidimensional, as it requires political, social, economic, institutional and organisational changes.

Bulgaria finds itself in new global context and in the mixed transformation process. The openness of country towards the external world also brings another significant challenge related to its future adhesion in the EU normally envisaged for January 2007. From one side it implies a transition towards a market economy with all its respective elements. From the other side, at this advanced stage of the transition, the integration of the country supposes another major economic transition, that towards a knowledge-based economy. This is an economy, marked by the extension of the place of the services and by the key role that occupied knowledge and information in the creation of wealth. The last stage represents a great challenge for Bulgaria especially in view of the bad positioning of country in the European knowledge-based economy⁴⁴ and constitutes a significant element of the progress and transformation of the country. For that purpose during the systemic change the companies as well are obliged to transform their structure, to change their organization, the way of producing, to up to date and enhance the skills of their employees, to change their customers' and partner's relations. They have also to apply the international standards, to introduced new technologies, to innovate for being competitive.

All these processes led to the need, to the emergence and development of specialized business-related services.

2.1.3 Emergence of business services and their position in the Bulgarian economy

Above-mentioned processes led to the need, to the emergence and development of specialized business-related services. Different factors have influenced the emergence of business services.

Following 1990, a new business environment is beginning to take shape. Factors like the creation of numerous newly started small businesses, increasing competition, the entering of foreign capital, liberalization of foreign trade, change in the production factors, the entire restructuring of the economy, have dynamized the development of services sector as a whole. At the same time, these processes have shown the increasing importance of certain knowledge-intensive services, connected with the development of the business. It was thus that the term "business services" made its appearance. Development of these services is an important factor for the successful restructuring of the economy. But they are particularly important for the firms' adaptation to the new conditions as far as knowledge-intensive business services have a direct impact on the enterprises

⁴³ Chavance, B, 1994.

⁴⁴ see for further analysis Kolarova, & Bourdeau-Lepage, 2005.

users of such services in terms of improvements in their profitability, output, quality, human resources and organization.

Thus, a decade after the beginning of the transition in Bulgaria, there is a clear tendency of development of the services sector. Considered for a long time as unproductive and dependent activities, today services sector constitute a basic part of the national and regional economy and is an important element in the development process. The part of services sector employment and value added has increased considerably. It is thus for business services.

2.1.4. Factors Influencing the Emergence of Business Services

Following 1990, a new business environment is beginning to take shape. Factors like the creation of numerous newly started small businesses, increasing competition, the entering of foreign capital, liberalization of foreign trade, change in the production factors, the entire restructuring of the economy, have dynamized the development of services sector as a whole. At the same time, these processes have shown the increasing importance of certain knowledge-intensive services, connected with the development of the business. It was thus that the term "business services" made its appearance. Development of these services is an important factor for the successful restructuring of the economy. But they are particularly important for the firms' adaptation to the new conditions as far as knowledge-intensive business services have a direct impact on the enterprises users of such services in terms of improvements in their profitability, output, quality, human resources and organization.

Thus, a decade after the beginning of the transition in Bulgaria, there is a clear tendency of development of the services sector. Considered for a long time as unproductive and dependent activities, today services sector constitute a basic part of the national and regional economy and is an important element in the development process. The part of services sector employment and value added has increased considerably. It is thus for business services.

2.1.5. Macroeconomic Tendencies

- *Employment*

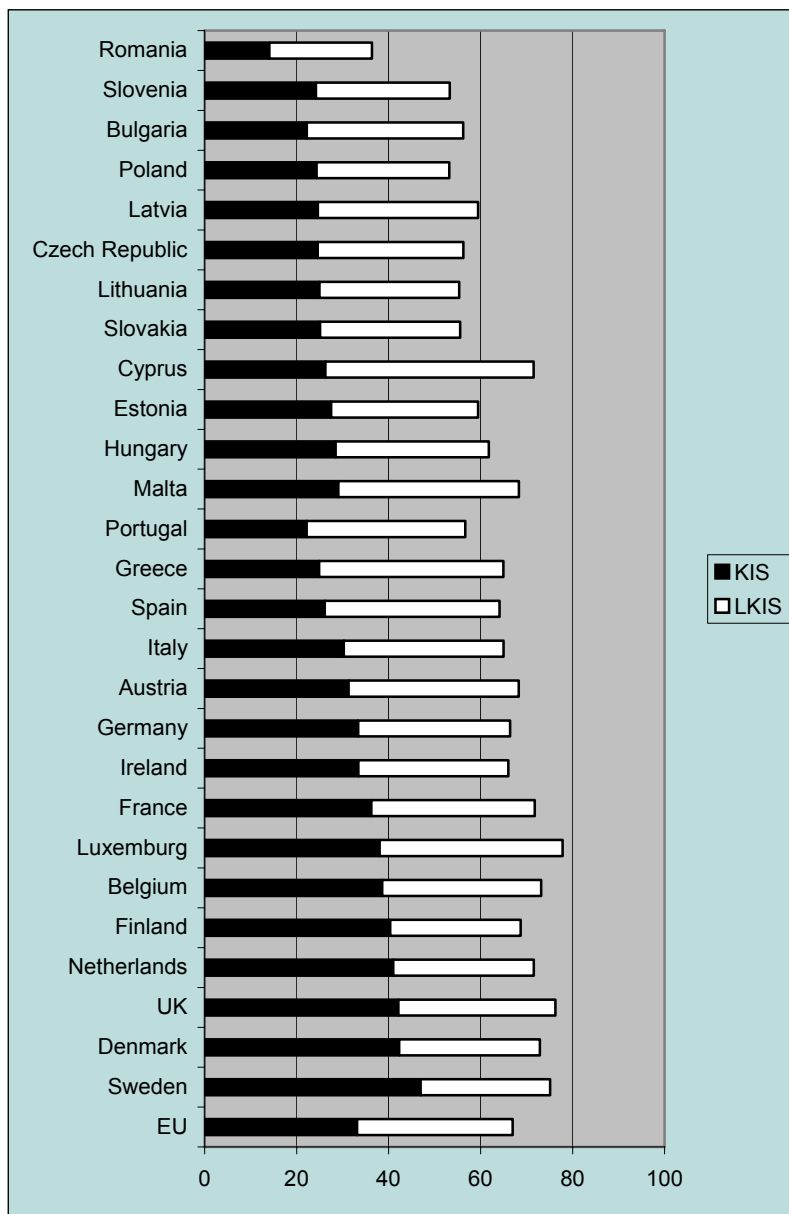
Recent available data show sluggish development in the employment of business services form the period 1996-2002. In 1996 enterprises providers of business services created 1, 98% of the total employment and 2.52% of the employment within the services sector, while in 2002 they create respectively 1.53% of the total employment and 3.29% of the employment within services sector⁴⁵.

Sectors creating more employment among the business services are consulting services (23.45%), human resources services (14.53%) and computer services (12. 53%). The more numerous enterprises with business services activity are registered in the field of consulting services, accountancy, audit and tax advices (5532), follow by advertising services (2867), computer services (2817), marketing (1136), legal advices (1127) and human related services (229).

Thus one important conclusion is that in the development of knowledge-intensive services an important difference between developed and transition economies are observed. The New Member States of the EU for example lag behind the Old ones

⁴⁵ Source: NSI, data 2003.

Figure 4
 Employment in Less Knowledge-Intensive Services (LKIS) and in Knowledge-Intensive Services (KIS)⁴⁶ in Europe in %, 2004



Source: Eurostat, 2005

⁴⁶ According to Eurostat :
Knowledge-intensive services (KIS) include following NACE Rev. 1.1 codes : 61, 62, 64 to 67, 70 to 74, 80, 85 and 92
Less-knowledge-intensive market services (LKIS) include NACE Rev. 1.1 codes 50, 51, 52, 55, 60, 63

in the share of knowledge-intensive services employment. The share of LKIS prevails in services employment (see figure 4). It is also true for some of the South-European countries like a Greece, Spain, Italy and Portugal for example.

The relatively weak employment in the business services in Bulgaria, compared to the developed economies, is explained by the initial phase in development of these services, but as well by the weakness of demand and the lack of information of these services⁴⁷. In the same time, their development also confirms the continuation of the transition process towards a new economy based on services that can be considered as positive. The relatively smaller part of employment in business services is observed not only in Bulgaria, but characterizes also other transition economies⁴⁸.

Concerning the value added, the Institute of statistics does not provide desegregated data on business services, but only aggregate data for sector K. The relative part of value added in current prices of sector K increases slightly: in 1999 the contribution of this sector accounts 3775 million leva, while in 2003 is 4798 million leva.

The FDI play an important role in the transition of post-socialist economies⁴⁹. Their multiples effects are associated to the capital and technological transfer, acquisition of new knowledge, skills and competence. In the first decade of transition, the decisions of foreign investors' were influenced by the overall economic context. That led to the uneven distribution of FDI, which were mainly directed towards countries of the first wave of enlargement⁵⁰. In the first decade of the transition, Bulgaria attracted relatively lower part of FDI stock per year and per capita, FDI inflow and FDI inflow per capita) compared with the other candidate countries⁵¹. Their structure indicates the concentration mainly in labor-intensive branches (industry, trade) and to lesser extent in the knowledge-intensive branches (for example financial services). The FDI in the knowledge-intensive business services activities, represent only a small share of total investments in the country. In 2000 they constitute 10% of the total FDI and 23% of FDI in services sector⁵².

3. Methodology and Results of the Research

3.1. Methodology

During the transition, business services were expected to serve as a specific resource base for the improvement and functioning of the Bulgarian enterprises and constitute a necessary precondition for their adaptation to the European Common Market. They also seemed to be also a new source of employment. Fifteen years later, the question is what their role really is?

The differences existed between the perception of material goods and immaterial services have impacted also services statistics in Bulgaria. Statistics on services was largely neglected in the past and the notion of business services did not existed at all. After a reorganisation in the statistical system, more aggregated data

⁴⁷ OECD, 2005.

⁴⁸ EC, 2003.

⁴⁹ World Investment Report, 1994.

⁵⁰ Andreff, W., 2003.

⁵¹ See the report of WIIW on FDI in Eastern Europe.

⁵² According to data of the National Statistical Institute

are available recently (from 1996), but are still limited for assessing the development of business services sector trends. The lack of detailed statistical data in Bulgaria hinders an in-depth analysis of the business services sector and its impact over the other sectors in the economy. Furthermore, the input-output tables are not available on the micro-level. Thus for evaluating of development of business services at micro-economic level, questionnaires regarding supply and demand side were developed.

The confirmation used in this paper comes from a combination of sources such as various documentary evidence obtained from professional associations, economic journal sources, but the main source were the interviews with managers of a sample of enterprises undertaken in the period of May-August 2003. This information was collected as a part of doctoral research project. Thus for the purpose of this analysis as it has been mentioned questionnaires were developed for the firm's suppliers and users of business services. As the transition of Bulgaria is carried out in an international environment, hence a comparison with western lines of development is important, in order to examine the transformation and future integration of the Bulgarian economy in the European economy. That is why the questionnaires are based on theoretical and empirical references in western literature.

The main enterprises group contains 350 enterprises suppliers of business services. The analytic sample is based on a lottery selection and 109 Bulgarian and foreign firms operated on the Bulgarian market were retained. The volume of the sample and the lottery selection were made on the base of tree criteria: employment (less than 50 employees for service firms); economic activity (business services regarding the classification of NKID⁵³-2003); territorial (limited to national territory and to location of head office). The lottery selection gives the necessary representative results for our empirical analysis concerning the supply side. Therefore, the obtained results can be taken as indicative of possible future effects.

The enterprises are analyzed from the point of view of their supplier/user relations. From 109 interviewed firms, 76 enterprises suppliers of business services have replied to the questioner.

The questionnaires are structured as follows and include:

- The enterprise profile (main activity sector, place and year of establishment, property type, turnover etc.);
- Employment data (number of employees, sex, age, education, former work experience in services sector);
- Factors defining localization choice (location motivating factors, networking, availability of different types of resources etc.);
- Data on services supply (type of services, services quality, innovation and change in services, frequency of demand, legislation and factors hindering/encouraging the enterprises' activity);
- Complementary information.

⁵³ NKID-2003 is a National classification of economic activities, harmonized with the European classification NACE Rev.1. NKID-2003 has been fully harmonized with the European classification NACE Rev. 1.

The activity of the enterprises suppliers of business services correspond to following classification of the National Classification of economic activities in Bulgaria (NKID-2003): 72- Computer services (Internet, identification of ICT need and solution application etc.); 7411- Legal services (low application, legal advices, privatization advices, mergers and acquisitions etc.); 7412, 7414 – Consulting services (strategic analysis, policy development and long-term objectives, financial, social and economic advices and analysis etc.); 7413, 7440- Market research and publicity (market research, foresight, product and services design and development, advertising sales management etc.); 7450- Human related services (Management and labor organization, foresight and selection of human resources, salary evaluation, vocational training).

Table 3

Sartorial Distribution of Business Services Suppliers Replied of the Questionnaires

| Main activity | % of enterprises |
|--------------------------------------|------------------|
| 72 Computer services | 19,3 |
| 7411 Legal services | 7,1 |
| 7412, 7414 Consulting services | 35,7 |
| 7413, 7440 Marketing and advertising | 7,8 |
| 7450 Human related services | 30,0 |

Enterprise Distribution by Cities and Size

| Cities | Number of habitants, 2002 | GDP par habitant ⁵⁴ , 2002 | Micro <10 11010 | Small<50 | Total |
|-------------|---------------------------|---------------------------------------|-----------------|----------|-------|
| Sofia | 1 194164 | 6988 | 27 | 6 | 33 |
| Plovdiv | 712702 | 3132 | 7 | 3 | 10 |
| Varna | 460001 | 4034 | 7 | 5 | 12 |
| Burgas | 421049 | 3654 | 7 | 4 | 11 |
| Russe | 264232 | 3271 | 2 | - | 2 |
| Gabrovo | 140991 | 3723 | 2 | - | 2 |
| V. Turnovo | 308562 | 3101 | 1 | - | 1 |
| Pleven | 320327 | 3089 | 2 | - | 2 |
| St. Zagora | 366636 | 4313 | 1 | - | 1 |
| Blagoevgrad | 336988 | 2749 | 2 | - | 2 |
| Total | | | 56 | 18 | 76 |

Source: Questionnaires data base, 2003.

Concerning the enterprises' users of business services, 52 industrial and services enterprises replied to our questioner.

The obtained results will be suitable for recommendations about the policy measures, enhancing the development of business services. The fact that the majority of the managers and directors of enterprises wanted to receive the principal results of this research shows also their interest in this study. Furthermore similar analysis would be helpful for enterprises to positioning vis-à-vis of their concurrence and for better understanding their clients' needs.

3.1.1. Business Services Supply: Main Characteristics

Enterprises, suppliers of business services on the Bulgarian market can be divided in two main groups. The first one consists of many *micro firms* with little statistical

⁵⁴ The GDP per habitant is in current prices and in leva (1 Euro ≈ 1, 955 leva).

relevance and a high rate of establishment and disappearance. The limited number of staff determines the structure of the companies, as the number of workforce does not exceed 20 employees. The organization structure is more flexible. This small structure characterizes 95.8% of enterprises suppliers of business services, but describe also the enterprises' structure of the whole economy. The small firm's size is also characterizing the enterprises suppliers of business services in developed economies, but it is more pronounced in the New Member States of the EU (E-business watch, 2004). *The prevalence of the micro and small enterprises on the business services market in Bulgaria* can be explained by some typical characteristics for the small enterprises as some research devoted to Western countries pointed out: not very significant barriers at the entry and the exit in the sector; greater flexibility, domination of the informal work relations⁵⁵.

In Bulgaria, the increase in entrepreneurship initiative and the creation of many micro enterprises can be also explained by attempt to cope with a long-term unemployment, as the development of small enterprises does not normally require enormous investments. But often at the beginning of their creation the skills, access and use of knowledge are insufficient. This fact is especially relevant for the commencement of the transition process when there is a lack of qualified human resources in numerous fields related to the market economy. Indeed, before 1989, the traditional orientation of the education system followed the priorities of industrial development imposed by the socialist doctrine. Consequently, lacked the disciplines in the field of marketing, management, entrepreneurship etc., which also prevented the effective development of certain economic sectors. This fact indicates also the absence of the qualified administrative business executives. The weakly developed knowledge and experience in the above-mentioned field is a problem for the development of large part of SMEs in Bulgaria⁵⁶.

Gradually the education system change and new market-orientated disciplines were introduced. But even actually, the education system is still perceived as inappropriate to the current needs of the market and insufficiently contributes to fostering the entrepreneurial spirit⁵⁷.

Due to lack of experience, in the very beginning of the transition, compared to the operating foreign enterprises on the Bulgarian market, the micro and the small Bulgarian enterprises often suffer from a lack of methodology and their evolution and skills acquisition went by the practice and through the principal "learning by doing". Gradually that changed with the acquired experience and education. This can be considered as a positive tendency as it is well known that the competitiveness, demand and services' quality depends mainly on the management potential and the qualification of the employees as "the competitive success of the knowledge-intensive business services provider is found in the triad of education, the expertise and the experience"⁵⁸. The employees represent fundamental element that connect and treat the essential basic components in business services: knowledge and information. Gradually employees gained experience in this field. The interviews show that their qualification is increasingly ameliorated via collaboration with foreign enterprises, seminars and workshops,

⁵⁵ Keeble, D., Bryson, J, Wood, P., 1991.

⁵⁶ Todorov, K., 2000.

⁵⁷ OECD, 2005, p.14.

⁵⁸ Bryson, J; Rusten, G, 2004

special education and training abroad and by regular meetings among the personnel. Our survey confirms their high level of education as 90% of the employees have a diploma of Master. Executive directors of the business services firms are especially male (90%). Regarding their education background, 85.7% of the directors are titular of a university diploma. Among the directors, 55% are economists and the other fields of competence are spread between marketing and management, engineering and finally the legal and psychological studies. The average age of the employees in 30% of cases is 30 years, while in 45% it ranges between 31 and 45 years. The answers of our survey show that the employees in business services are more qualified compared to employees in the other economic sectors.

The other end of the spectrum of the business services providers includes a small number of *foreign, well-established multinational companies* (for example KPMG, Price Waterhouse Coopers, numerous international banks and financial institutions, insurances companies, telecommunications and computer companies etc.). These companies have a long experience and well developed methodologies in services delivery that meet western standards. They offer a various services and quality due to their world reputation. The services provided by the foreign companies, received a good overall estimation of the Bulgarian SMEs⁵⁹.

In regard to the company size, one can notice another important difference. In the micro enterprises, the diversity of services is often incomplete. For example, if we examine closely the sub-group of human resources services, their activity is reduced to the selection of the personnel, the assistance to the unemployed persons to find a job, small number of prequalification courses that often have nothing to do with the actual skills and interests of the unemployed person. Regarding the range of services, the latest reports confirm this fact as in 2004, 90.6% of enterprises are not satisfied with the range of business advisory services available to new entrepreneurs and SMEs against 9.4% that are satisfied (OECD, 2005).

At the same time, the largest enterprises in this field and especially the foreign ones, propose a range of more modern and personalized services. For example: complete analysis and integrated solutions for human resources; initial evaluation, definition and development of strategy; solution's development and implementation; results measurement etc. They propose modern training programs for increase of the performance of human resources by interactive and dynamic methods of improvement (guided discussions, visual case studies, group activities, simulations and practice regarded competence etc.).

In this sense, the competition is strong. The majority of the questioned companies affirm the existence of a competition on the market of business services. The competing environment is defined as strong by the most of enterprises (71.4%), whereas only a small part describes competition as weak (7.1%). The foreign companies' represents greatest concurrence for the 64.3% of the Bulgarian companies as only 35.7% of the Bulgarian enterprises find their concurrence among the local Bulgarian providers.

Concerning the market size, the Bulgarian enterprises operate especially on the national market (57.1%), and in the city of their original establishment (28.6%).

⁵⁹OECD, BERD, 2002, p.51.

Majorities among the interviewed enterprises (71.4%) declare that their turnover is increased from the creation of their activity, against 21.4% that affirm the opposite tendency.

Regarding their export activity, 78.6% of them do not export their services, against 21.4% that do it. The destination of the customers in 21.4% of cases is located in Central and Eastern Europe and 14.3% of the export is for Western Europe. Among the factors that do not favor the export of their services, the companies mention: the absence of foreign demand, lack of contacts abroad, and the enterprise strategy that does not planning an expansion abroad.

Another significant characteristic of Bulgarian providers of business services is the enterprises "novelty", related to their creation. In 2003, data of the Register of the National Statistics Institute show clearly, that the majority of the enterprises in the field of business services were created after 1996 (61.15%). This fact shows relatively late expansion of business services in Bulgaria, resulting from various factors related to the economic and political conjuncture.

To what concerns the innovation issue in services, business services have a strong innovative character. These services in general stimulate five typed of innovation: technological, organizational, strategic, commercial and operational⁶⁰. To what concerns these services in Bulgaria, initially it should be noted, that the business services represent in themselves a major innovation for the transition economy that did not exist before in these form. Thus here at the first place, the innovation can be observed like mobilization of the new knowledge creation, mobilization of skills and techniques to answer the emergent demand for specialized expertise. It is also the mobilization of competences and the individuals for being competitive on the market. After comes the incorporation of technical systems in the process, the organisational innovation. These two types of innovation are described in the theoretical literature like "innovation-valorisation" (or ad hoc) and the "innovation-objectivation"⁶¹.

Regarding our survey, the answers that we obtained from the Bulgarian enterprises, show that since the beginning of their activity, 57.1% of the enterprises have developed new services, 64.3% changed and improved quality of the provided services, 64.3% have introduced new methods and 85.7% of the companies have widened their market. That fact is confirmed by study of the National Statistics Institute⁶² shows that after the industrial enterprises (20.4%) the enterprises in business services sector have introduced new products, technologies etc. (17.9%).

However, different factors hinder the innovation in services enterprises. This fact is very significant with regard to the future accession of Bulgaria to the European Union. In a new complex environment of the Internal Market, the Bulgarian enterprises seem likely to be not very competitive because of its insufficient capacity to innovate. In this positions find themselves also the companies in the industrial sector that also experience problems to innovate⁶³.

One of the elements for resolution of the problem require a policy of enterprise development, which means a long-term directed strategy, investments in intangible

⁶⁰ see Rubalcaba, p.138.

⁶¹ Gallouj, C. Gallouj, F., 1996, p. 34-35.

⁶² NSI, 2000, Conditions pour développement des micros entreprises en Bulgarie, pp. 24.

⁶³ see Chobanova, R., 2002.

assets, search of financial resources and highly qualified staff. More generally, that called upon the development of new policies centered on education, R&D and innovation.

Gradually is observed the emergence of professional associations like the Bulgarian Association of Management Consulting Organizations (BAMCO), the Association of the advertising agencies, the Association of Marketing in Bulgaria etc. This fact is generally related to the objective to services' quality assurance. This represents a positive step especially regarding the fact that 82.8% of the enterprises consider that business service providers do not operate efficiently against only 17.2% that find their operation efficient⁶⁴.

These associations are members of different international associations and organizations. For example BAMCO is accredited to award the CMC (Certified Management Consultant) certificate, which presents a guarantee for the consultant's quality of services⁶⁵. The creation of such professional associations among the companies working in the same sector can be associated to the beginning of the formation of formal or informal networks. This could stimulate cluster formation, because of the existing geographic proximity (for example the case of Sofia). The experience of the developed economies shows that such collaboration, aims to facilitate the knowledge and information exchange and diffusion, to enhance skills and experience, to improve innovation etc.⁶⁶. Above mentioned developments are positives, but the survey carried out in Bulgaria shows that in spite of this the mentality still prevents the real cooperation among the companies and consequently the positive advantages related to this practice.

3.1.2. Business Services Demand: Main Characteristics

For being competitive all enterprises need services in their production process. In this sense and with increase the importance of externalisation of services' function, business services represent an important intermediate input in the production process. The conducted questionnaire reveals the fact that the *intermediate demand for business services comes initially from the industrial sectors, followed by the service sectors*. That is interesting and different tendency from the one observed in the developed countries where the demand comes initially from the services sector, followed by the industrial sector⁶⁷. Probably the explanation of this fact can be found in the serious and durable difficulties that experience the majority of industrial enterprises in Bulgaria related to the loss of the external markets, financial problems, privatization, the internal reorganization, implementation of new production processes and quality's enhancement. That led undoubtedly to stronger need of specialized business related services. Regarding the mutual relationship business services/industry, on the other hand, the industrial problems of the country, related to the crisis in the sector, do not encourage the development of a

⁶⁴ OECD, 2005.

⁶⁵ "The CMC is an internationally recognized certificate, which provides proof of the consultant's professional knowledge and skills to the clients and the specialized institutions. It is also a proof for the successful execution of competence, experience and professional standards assessment of the professional management consultants" (see www.bamco.org site for more information).

⁶⁶ Keeble, D., Nachumt, L., 2001.

⁶⁷ for this topic see Petit, P., 1988 ; Garcia, C.; Carmona, C.; Passola, V.; Wunnick, 1994; Rubalcaba-Bermejo, L., Merino, F., 2003, Project Phare-ACE, Increasing importance of service industry, 1994.

dynamic local supply. That hinders the development of the tertiary sector as a whole⁶⁸.

As it has been underlined, specialized business services increase enterprises' competitiveness by providing a particular expertise.

Among the Bulgarian enterprises, the externalisation/internalisation choice depends on the service's character and costs. In general, the tendency to externalisation at the beginning is reduced to traditional and banal services activities. The distributive and operational services are most frequent externalized (for e.g. security, transport, cleaning etc.). At this moment, the tendency to the externalisation of business services observed in the Bulgarian economy is less strong in comparison with the developed economies. The enterprises usually use an *external* supplier (more than 6 times per year) mainly for the resolution of the complex and sophisticated problems that they cannot cope by themselves. For certain services, the externalisation is contracted out by contracts of middle and long terms between the enterprise and the external provider (e.g. telecommunications, software, hardware and data processing consulting etc). These long-term contracts contribute to a reduction of the transactional costs and offer a specialized and adapted service to the specific needs of enterprise. The survey reveals the logic of the most frequent services externalisation. Firstly come the legal advises, followed by the communications and the Internet, computer related services, tax services (related to privatization), marketing and advertising. After come the audit services that the law obliged certain companies to use it⁶⁹.

On the contrary, the more often *internalized* services within Bulgarian companies are the ordinary accounting services, marketing and management services, while financial services and the insurance, advertising, legal and tax consulting services and services related to human resources are carried out by external supplier. The services as security, cleaning and transport also are externalized.

The preceding assertions are confirmed for the enterprises on the whole territory of the country, as regional differences have not been observed.

Factors influencing business services externalization

For 80 % of interviewed Bulgarian enterprises, *quality* constitutes a key factor for externalisation, because the external supplier often offers specific competences that the client is usually deprived. The purchase of the external service is seen by enterprises user of business services like the transmission of the value-added, contributing to the improvement of the company activity. The quality definition of business service providers is the same. More precisely, for the majority of the suppliers, quality is related to the medium term results, reached by the customer. It is also related to the frequency of the service's demand of the same client in result of the level of its satisfaction. The formation of associations and sector unions in business services sector, which possess experience, qualified human resources and good reputation, represents another means to guarantee quality and to reduce

⁶⁸ see Dobrinski, R., 2001.

⁶⁹ According to the Accountancy Law, in Bulgaria, the companies obliged to use the audit are those, which cover the following conditions: 1. The sum of the assets of the balance must be 500 000 leva; 2. The net income of the activity must be 1 000 000 leva; 3. The number of employees must be more than 30 persons.

the uncertainty of the purchase. The enterprises members of such associations are also certified companies.

Other complementary factors are often related to enterprise image and reputation, necessary time for service supply, human resources regarding their experience and their education level, adaptation of the service to the specific needs of the customer, price issues etc.

The positive finding is that all interviewed companies providers of business services have a back-feed with their customers in regards of provided service (for example interviews of the customers, the reports and the analyses of the employees and their contact with customers etc). That contributes to the evaluation and the improvement of the service quality related to the customer expectations in the context of co-production of the service, as the client expectation is the fundamental element in the process of quality evaluation of business service⁷⁰.

Concerning the price, in spite of the lack of the financial resources, the enterprises mentioned price at the end of the list of the factors influencing their choice. In certain cases, lower price represents a factor determining the purchase of the service. That is particularly valid for the micro and small enterprises that use business services.

Thus in conclusion, the users of business services expect a high service quality, related to the awaited result, a rapid service provision at reasonable price.

The survey shows that in 60% of the cases, firms buy business services from Bulgarian providers against 40% that use foreign company's services. Logically, the first explanation for this choice is certainly related to the price of the service by recalling that the nature of work in high value added business services affects incontestably their price. But also, in spite of the fact that the Bulgarian companies offer lower prices compared to the foreign companies, clients explain their choice, by the fact that the Bulgarian companies better than foreign ones know, the specific characteristics of the national market, have deepened knowledge of administration and legislative frameworks etc.

This choice is not relevant to the *large* privatized industrial companies, which tend more often to internalize services. This internalization of the functions sometime hinders the competitiveness because of the lack of the skilled employees. The obtained results on the business services demand show that in case they use an external supplier, they tend to employ the services of multinational provider, whose reputation is established. Often they use the service supplier recommended and used by the head office that impose to them an orientation towards given Western supplier.

The result also states that the majority of *SME in the manufacturing* tend more often to externalize the strategic services. That is also true for the enterprises in the commercial sector, as well for other companies in services sector. They consume services of the local Bulgarian suppliers because they consider their methodologies as more adapted and flexible in regards a specific situation and problems on the local market. In this sense, the development of the business services seems to be associated mainly to the need of the small enterprises (up to 100 employees).

In same time, the studies carried out by the National Statistics Institute (2000) prove that the micro enterprises need more business services advices than the

⁷⁰Rubalcaba-Bermejo, L, 1999.

other companies. Our survey shows that because of insufficiency of the financial resources the micro and the small companies are often prevented from employing the external advices that they would need. They do not internalize the greatest part of business services, due to lack of financial and human resources. In Bulgaria, the tendency to the internalisation of business services thus decreases with the size of the enterprises.

In general, it should be underline that the majority of the interviewed enterprises do not sufficiently realize the importance of business services for the improvement of their functioning, productivity and competitiveness. Taking into account that enterprises operate in a constantly changing environment and in the financial restrictions, often they consider the purchase of business services as expenditure and not as investment that bring the competitive advantages. This result is confirmed in 2005 by the study of OECD that underlines that: "less than a third of Bulgarian entrepreneurs use advisory services, even though they are available in virtually all regions through local business associations, consulting companies and branches of the SME Agency. Moreover, even fewer are satisfied with the range of advisory services available to them. This demonstrates the need for more information on the services available and their potential benefits..." (p.14).

The questionnaire indicates that, the principal problems of business services supplier with it relationship to the client in 57.1% of the cases is related to the lack of financial resources.

The obtain results define the competition among the business services suppliers as high, but the same is true actually for the prices of services that are still high. That fact indicates the lack of competition on the market. Along the high prices, entrepreneurs find consultant services not well personalized to their needs and in particular when it concerns specialized consulting⁷¹. Thus in view of above mentioned and of limited financial resources, they opt for more general forms of consulting, such as seminars that represent adequate sources of information in regards of customers and markets.

Conclusion and Policy Implications

A very important difference between two types of economic systems (the socialist and the capitalist) has been highlighted. In the socialist economy the concept of services met distinct realities in the economy, enterprises and statistics. That is especially true for knowledge-intensive business services that were not developed in their actual content, because of their purely capitalist character.

Today, Bulgaria finds itself in the complex global environment. Since fifteen years, the country is on the trajectory of long and multidimensional transition towards a market economy. On this trajectory is also situated another significant challenge for the country: the future accession of Bulgaria within the European Union. Thus, one of the most advanced and important dimension for Bulgaria is related to the transition towards a services and knowledge-based economy.

During the transition the vision of services gradually changed as one observe an extension of the services activities in the economy. Furthermore, the new modern business related services have emerged and have done the initial steps in their development. In spite of that positive fact, they are still relatively unknown and

⁷¹ OECD, 2005.

underdeveloped. Some facts prove it: still predominant industrial mentality and lack of service culture; underdevelopment and ignorance of services relationship and the importance of the process of co-production in services; the relatively small part of services and business services in term of employment and value-added compared to the developed countries of the EU; the lack of human resources with qualifications and an experience necessary and suitable to the Western standards; still poorer service's quality and innovation. Here one can add the unstable economic environment and the insufficiency of financial resources. Unfortunately, this last factor does not favour the increase of the business services demand as well the demand for services in general. Also as it has been shown, the business services' demand comes firstly from industrial enterprises. This fact, connected to the industrial crisis and the problems of the industrial enterprises, also contributes to the weakness of the demand. Thus, at this stage, the local demand of business services, moderately encourage the emergence of a dynamic services sector, more competitive industrial sector and consequently a more modern and more competitive economy. It seems that at this stage, the weaknesses in business services are more than their strengths (open marketplace, easy entry, strong competition, relative growth etc). But that situation can change very fast in view the openness of the economy and the future opportunities related to the future adhesion into the EU. Compared to the developed economies and even compared to certain transition countries the importance business services remains still inferior. In general they are often perceived like expenses and not like an investment. All these factors contribute to a quantitative insufficiency of the demand of business services in Bulgaria that can seriously affect the competitiveness of Bulgarian enterprises.

The development of this type of services requires time, improvement of the variables of the economic environment, the change of mentality of the economic agents, but also improvement of the governance⁷². Relative direct and indirect policies can encourage the development of business services. The justification for a business services policy can be find in different factors such as: their role in the knowledge-based and information society; the strong growth of the sector over the past 20 years; the capacity for employment creation and new flexible employment; the growing relationships with other branches and industry; the importance of quality in the development of competitive services; the necessity to improve productivity in the supply of services; obstacles and barriers to a Single European Market on business services etc⁷³.

Today, the relationship between services and industry is complex and mutually dependent. Services need manufacturing for their existence and development, but manufacturing also need a quality and developed services for it efficient operation. Concerning the future prospects for development of business services in Bulgaria it can be supposed that the overall growth in this type of services in Bulgaria will continue. It will depend of the *stability of the macroeconomic and business environment* and in particular of the industrial development that represents a significant consumption of business services as it is like in the advanced economies of the EU.

⁷² For further analysis see Kolarova, D.& Bourdeau-Lepage, L., 2005.

⁷³ See Rubalcaba, p.454.

This type of services could be one possible answer for overcoming the problem of unemployment⁷⁴. The high long-term unemployment in Bulgaria continues to be a main challenge for the economic and social policy of the country. From one side, the business services themselves are potential source of new employment (also for flexible employment). From the other side the consumed services by the enterprises, especially business services, lead to improvement of their activity, and from here to the creation of new employment. This fact returns to some education policy issues.

The recent trends of *international sourcing* of some advanced services can affect positively the development of some services in Bulgaria. Above all, that can be said for the Bulgarian IT and computer-related services. An *adapted legislative environment*, which does not exist yet, can in particular contribute to the continuation of this growth in the coming years. But also the continuous *improvement in infrastructure and of its quality* plays also an important role.

The macroeconomic policy that insures an appropriate environment for business development should be combined by a microeconomic strategy that enhancing different type of investments. First of all, the investments in human capital are very important. The importance of education and lifelong learning for the improvement of the economic results and competitiveness is largely recognized. The quality of human capital is also increasingly important source of competitive advantage. In this direction another essential factor for quality of business services are the highly qualified human resources. Further adaptation of the education system in Bulgaria to the new requirements of the EU knowledge-based economy is needed. Thus also indispensable is further development of the continuous training and life long learning practices, but also the specialized trainings for the employees in business services sector in collaboration with foreign partners.

But also the investments in ICTs, R&D, innovation and the improvement of legal framework and governance are important.

In addition, closer links between the enterprises, education and research units is needed for encouragement of the R&D in different sectors, for intensification of the innovation of various types and increases its effectiveness and for encouragement of the clusters formation in the services sectors and especially in the business services.

Thus, in conclusion the policy has to be focused on promotion of business services development and employment, to the promotion of cooperation between business services enterprises, to encouraging modernization of the infrastructure and to amelioration of legislative environment. The overall purpose of these measure is to stimulate the development of business services in Bulgaria, but also to reinforce the links between these services and the performance of other economic sectors in general.

Throughout this paper it has been tried to underline the emergence of a new model of economic development in the developed countries, generated by the services economy. This model brings a radical change in the mode of production and consumption. This model does not oppose any more services to industrial activities, but the more and more explore their mutual relationships. This new development model gives an importance of intangible factors of growth such as

⁷⁴ see Kolarova, 2001.

information, knowledge, R&D, innovation, education. An important place inside is occupied by business services, enhancing the enterprises and whole economic competitiveness. It is the model of the development of the European Union. Thus, from capacity to adjustment to this model will depend the nature of integration of Bulgaria within the European Internal Market. Indeed, one of the economic criteria defined in June 1993 by the European Council in Copenhagen relates to the existence of viable market economy as well as a capacity to face the concurrence pressure on the internal market of the European Union. In this sense, a well-developed services sector is essential for the successful integration of Bulgaria and its economic competitiveness. Moreover, business services represent an essential element of functioning market economy and a necessary factor to the competitiveness of the Bulgarian economy and enterprises.

Literature

- ANDREF, (W.), 1993, *La crise des économies socialistes : la rupture d'un système*, Ed. Presse Universitaire de Grenoble.
- BELL, (D.), 1973, *The Coming of Post-industrial Society*, Basic Books, New York.
- BRYSON, (J.), RUSTEN, (G.), 2004, "Virtual firms and the rise of project-based organizational forms for the supply of business service expertise: information communication technologies and the stretching of social relationship across space", paper presented at XIV international congress of RESER, Toulouse, France.
- CHAVANCE, (B.), 1994, *La fin des systèmes socialistes : crise, réforme, transformation*, L'Harmattan, Paris.
- CHOBANOVA, (R.), 2002, in INZELT, A., AURIOL, L., *Innovation in Promising Economies*, AULA Publisher Ltd., Budapest, Hungary, p. 43-63.
- DE BANDT, (J.), 1995, *Services aux entreprises- Informations, Produits, Richesses*, Economica, Paris.
- DE BANDT, (J.), 1999, "The concept of labour and competence requirements in a service economy", *The Service Industries Journal*; London.
- DE BANDT (J.), GOURDET, (G.), (dir.), 2001, *L'immatériel nouveaux concepts*, Ed. Economica, Paris.
- DELAUNAY, (J.C.), GARDEY, (J.), 1987, *Les enjeux de la société de service*, Ed. Presse de la Fondation Nationale des Sciences Politiques, Paris.
- DEMAZIERE, (C.) (dir), 2000, « Politique locale d'aménagement et de développement, services aux entreprises et centralité, analyse de trois agglomérations françaises (Tours, Orléans, Nantes), Responsable scientifique, PUCA, Programme Service, emploi, territoire.
- DOBRINSKI, (R.), in UNECE, "Services in transition economies", *Round Table*, Geneva, 2001.
- EPINGARD, (P.), 1999, *L'investissement immatériel, cœur d'une économie fondée sur le savoir*, CNRS Editions, Paris.
- EUROPEAN COMMISSION, 1998, "The Contribution of Business Services to Industrial Performance: A Common Policy Framework".
- EUROPEAN COMMISSION, 2002, European Competitiveness Report 2002, Brussels.
- EUROPEAN COMMISSION, 2003, "The competitiveness of business-related services and their contribution to the performance of European enterprises", Brussels.
- GALLOUJ, (C.), GALLOUJ (F.), 1996, *L'innovation dans les services*, Ed. Economica, Paris.
- GIARINI, O., STAHEL, W., *Les limites du certain. Affronter les risques dans une nouvelle économie de service*, Presses polytechniques et Universitaires Romandes Lausanne, Suisse, 1990.
- Gottman, 1983, *The coming of transactional city*, Institute for Urban Studies, University of Maryland.
- HIRSCHHAUSEN, (C.), 1996, *Du combinat socialiste a l'entreprise capitaliste. Une analyse des réformes industrielles en Europe de l'Est*, Ed. L'Harmattan, Collection « Pays de l'Est », Paris.
- KEEBLE, (D.), BRYSON, (J.), WOOD, (P.), 1991, "Small firms, Business services Growth and Regional Development in the UK: Some Empirical Findings", *Regional Studies*, Vol. 25.5, p. 439-457.
- KEEBLE, (D.), NACHUMT, (L), 2002, "Why do business service firms cluster? Small consultancies, clustering and decentralization in London and southern England", ESRC Centre for Business Research Working Paper Series, 194.
- KOLAROVA, (D.), 2005, *Development of the Business Services in Bulgaria*, PH.D. thesis France, UPMF, Grenoble II.

KOLAROVA, (D.), 2005, BOURDEAU-LEPAGE, (L.), 2005, "Knowledge Society and Transition Economies: The Bulgarian Challenge", LEG Working paper No 2005-05.

KOLAROVA, (D.), 2001, "Employment in the Business Service Sector – a possible answer to the social challenges in transitional economy", International Conference on "Social Challenges in Transition Economies. Welfare, Income Distribution and Poverty", Sofia, **Bulgaria**, 2001.

LANDESMANN, (M.), 2000, "Structural change in the transition Economies (1989- 1999)", N 269, WIIW, Vienna.

MERENNE-SCHOUMAKER, (B.), 1996, *La localisation des services*, Ed. Natan, Paris.

NSI, 2000, Conditions pour développement des micro entreprises en Bulgarie, p. 24.

OECD, 1991, « Les services dans les pays d 'Europe Centrale et orientale », Paris.

OECD, 1999, "Knowledge- intensive services – What is their role?", Paris.

OECD, 1999, "Knowledge- intensive services – What is their role?", Paris.

OECD, BERD, 2002, « Bulgarian enterprises policy performance assessment », Paris, p.51.

OECD, 2004, "Digital Delivery of business services", Paris.

OECD, 2004, « Perspectives des technologies de l'information de l'OCDE, Paris.

OECD, 2005, Enterprise policy performance assessment: Bulgaria, OECD, Paris.

OECD, 2005, Enhancing the Performance of the Services Sector, Paris.

O'FARRELL, (P.), HITCHENS, (D.M.), 1990, "Producer services and regional development: key conceptual issues of taxonomy and quality measurement", *Regional Studies*, p. 163- 171.

O'FARRELL, (P.), 1995, "Manufacturing demand for business services", *Cambridge Journal of Economics*, p. 523-543.

PETIT, (P.), 1988, *La croissance tertiaire*, Ed. Economica, Paris.

Project Phare-ACE, 1994, Increasing importance of service industry, Hungarian Academy of Sciences.

RASK, (J.), RASK, (K.), 1994, "The pivotal role of services in transitional economies: lessons from the west", *The economics of transition*, Vol. 2, N4.

RUBALCABA-BERMEJO, (L.), 1999, *Business services in European Industry: Growth, Employment and Competitiveness*, European Communities, Office for Official Publications of the European Communities, Brussels, Luxembourg.

RUBALCABA-BERMEJO, L., MERINO, F., 2003, "Urban supply-demand interrelations in business services: a 3-Steps PROBIT model for the case of Madrid and its conurbation" (Draft version), XIII International Conference of RESER, Mons, 9-10 October.

THEVENOT, (N.), 2000, « Le recours aux services aux entreprises : une typologie des modes d'organisation », *Economie et Gestion de Services (EGS)*, N2.

ТОДОРОВ, (К.), *Основи на дребния бизнес*, Издателство "Тракия-М", София, 2000.

TOFFLER, (A.), 1980, *The Third Wave*, Ed. W.Collins Sons & Co, London.

TOFFLER, (A.), 1990, *Power Shift*, Ed. Bantam, New York.

UNCTAD, World Investment Report 2004, The Shift Towards Services, UN, 2004, Geneva.

UN/ECE, 1994, World Investment Report, UN, Geneva.

WIIW, 2002, FDI in South-Eastern Europe in the early 2000s, Vienna.

Wölfl, (A.), 2005, The Service Economy in OECD countries, STI Working Paper 2005/3 Statistical Analysis of Science, Technology and Industry, Paris.