

# Characteristics and Conditions of Entrepreneurship in Eastern Europe\*

*Marin Marinov\*\* / Svetla Marinova\*\**

*Establishing of new small businesses is an intensive process in the whole of Eastern Europe. As they are new, most of them are in the introductory phases of their existence (survival, consolidation and control). Contemporary industrial and market structure in the countries of Eastern Europe provides entrepreneurs with many opportunities for niche company creation. However, many problems exist related to the lack of resources (mostly financial), inadequate knowledge and skills in management and marketing needed in market economies, insufficient availability of business support organisations combined with inappropriate understanding and attitude among managers in the newly created businesses towards the existing business support organisations.*

*Der Aufbau von neuen Kleinunternehmen stellt in ganz Osteuropa einen intensiven Prozeß dar. Die meisten von ihnen stehen noch ganz am Anfang, in den ersten Phasen ihrer Existenz (Überleben, Konsolidierung und Kontrolle). Die gegenwärtigen Industrie- und Marktstrukturen in den osteuropäischen Ländern verschaffen Unternehmern viele Möglichkeiten zur Gründung von Nischenunternehmen. Dennoch bestehen eine Vielzahl von Problemen im Zusammenhang mit fehlenden Ressourcen (meist finanzieller Art), unangepaßtes Wissen und oft fehlende Fähigkeiten im Management und Marketing, oft fehlende Unterstützungsorganisationen verbunden mit ungenügenden Verständnis und Einstellung der Führungskräfte in den neu gegründeten Unternehmen existierenden Unterstützungsorganisationen gegenüber*

---

\* Manuscript received: 18.8.96, revised: 11.10.96, accepted: 21.10.96

\*\*Marin Marinov, born 1948, Professor of Marketing, Technical University of Sofia, Bulgaria. In 1996/1997 Visiting Professor of Marketing and International Business at the University of Colorado at Colorado Springs, U.S.A. Major areas of research interest: international business, international marketing, privatisation related changes in company marketing, management and marketing change in Central and Eastern Europe.

\*\*Svetla Marinova, born 1962, MBA (Warwick), Ph.D. student funded by Phare ACE Programme at Aston University, UK. Major areas of research interest: international marketing, market orientation, marketing and management changes in Central and Eastern Europe.

## Introduction

Economists consider four major strategies for entrepreneurial development: "capital", "nuclear", "evolutionary" and privatisation of state enterprises (Brunner, 1993). The application of a certain strategic approach depends on the current conditions of the economy and the governmental attitude and goals for development of entrepreneurship. Analysis of entrepreneurship using this approach focuses on the macroeconomic and political conditions for creating and developing new ventures. It considers the state as entrepreneur without considering the entrepreneurial characteristics and requirements of the individual entrepreneur and the entrepreneurial support system.

Entrepreneurial success depends on the pursuit of opportunities, and the organisation and implementation of resources. If resources are understood not only as those currently controlled by an entrepreneur, but also as the ones owned by other people, the chances for a new venture success increase. However, the key factor here is how to convince the possessors of resources not only that it is an opportunity for the entrepreneur, but for them as well.

A key change in Eastern Europe is the replacement of the previously imposed dominant value system by multiple value options. This availability of overwhelming variety of options in Eastern Europe at present creates some problems for entrepreneurs. They are mainly related to identifying the appropriate opportunities. Establishing conditions for individual entrepreneurial activities through realising market opportunities based on motivation, drive and ability mobilises resources for such a purpose. This could be the basis for the effective and efficient implementation of a certain macroeconomic entrepreneurial strategy encompassing focuses on the development of businesses with present comparative advantages creating islands of excellence and reducing the state ownership and control on the productive assets of the economy.

The transfer of ownership from state to private is the key issue of the transition from centrally planned to a market led economy. The practical achievements in this aspect, however, are unsatisfactory and disappointing in the global context of Eastern Europe. Some of the main reasons for these can be found in the change of ownership and the respective development of entrepreneurial system.

This paper reviews the entrepreneurship development in the context of Eastern Europe from a theoretical perspective. It explores the dimensions of some key factors in shaping small and medium enterprises (SMEs), the characteristics and requirements for the different types of entrepreneurship, the tasks and role of entrepreneurship for closing the structural gap in the economy that could speed up the East European transitional processes, and the conditions for entrepreneurial revival in Eastern Europe. Using a dynamic vs. a traditional entrepreneur comparison, the article relates its theoretical analysis to the experience of a SME new venture in Bulgaria.

## Key Factor Characteristics of Entrepreneurship in Eastern Europe

The tradition of support for small business creation and development was severely suppressed with the establishment of communist regimes in all Eastern European countries and consequently it could not promote and push forward the development of private SMEs (See Table 1). The past experience and traditions in entrepreneurship are nowadays difficult and painful to resurrect and start functioning effectively and efficiently. The distribution of political power is a gradual process, as the gap between central planning and market driven decentralisation is still very significant. Governments favouring centralisation resist radical change and delegation of authority to regional and local governments, as the old societal structures continue to be decisively powerful..

*Table 1: Key Factors for Entrepreneurial Development*

Key Factors in Shaping SME's Policy	Dimensions of the Factor in Eastern Europe
The length of tradition of support for SMEs	None in the period of at least 45 years
The relative distribution of political power between central, regional and local governments	Presently unclear, historically exclusively concentrated in the central governments
The strength of the existing SME sector	Mostly weak, financially unstable and insignificantly developed
The balance of industrial and political power between large industry and SMEs reflected in their company orientation	The cases are different in various countries, but as a whole power still stays in large industries
The overall economic and social rationale for business policy development	Development of small private businesses is considered to be of significant importance in the economic restructuring of Eastern European countries, still the restructuring processes are not well supported with national programmes
The basic ideology of governments	The processes of restructuring have been slowed down with the forming of socialist governments in many Eastern European countries following the election victory of socialist (former communist) parties in the last elections.

Source: Based on the idea for the content of the key factors for entrepreneurial development by Haskins, G. *et al* (1986)

The monopolistic positions of industrial "giants" in Eastern Europe have been shaken in the recent years through the processes of restructuring and privatisation, but they still dominate the national output and highest contribution to GDP in almost all of the Eastern European countries. Consequently, small

businesses and entrepreneurship are presently with low economic power and too vulnerable in the turbulent economic conditions.

Establishing institutions to support the development of small businesses is a serious task and a big challenge that will take a long time. The existing network of private and restructured former public institutions forming the small business support network in Eastern Europe is far from being sufficient and adequate. The indispensable for the creation and development of market economy financial sector is still emerging. There is little evidence for coherent local and regional strategies for small private business creation and development. Very little has been done in these aspects on central government level.

As stated by Dubravcic (1995) the change of ownership of economic assets is a part of a global entrepreneurial system that includes risk taking and profit seeking agents as well as help in their entrepreneurial efforts by an adequate and well developed business support structure, basically a financial market structure.

The types of entrepreneurship related to the needs of small private business creation and development in the conditions of mature transitional economies, having the characteristics described in Table 2, were non-existent in the centrally planned economies of Eastern Europe during the communist rule.

The types of entrepreneurship presented in Table 2 can be domestic or foreign. As a result of the systematic destruction during the communist regime of the entrepreneurial system domestic entrepreneurship (productive and financial) is currently in poor condition in Eastern European countries and is unable to fully benefit from the availability of existing opportunities.

*The rudimentary financial markets, the main private business support institutions, cannot provide the necessary assistance for entrepreneurial development in Eastern Europe. Foreign entrepreneurship, to date mostly financial, does not fully exploit the emerging opportunities in the region due to political and economic instability, lack of legal guarantees for investment, high inflation that in some countries is beyond control. The strong positions of the former nomenclatura, socialist (former communist) governments in many Eastern European countries, the existence of powerful Mafia and lobbying groups that influence the revival of entrepreneurship raise additional problems and barriers for entry of foreign entrepreneurs both productive and financial. The financial business support structures mainly consist of state owned institutions that do not favour the development of private small businesses. As the economic conditions are bad countries' internal investment funds are scarce and this limits the performance of domestic financial managerial entrepreneurship. Therefore, for the whole region it is mainly foreign through investment funds and international financial institutions.*

*Table 2: Characteristics and Requirements for types of Entrepreneurship in Eastern Europe*

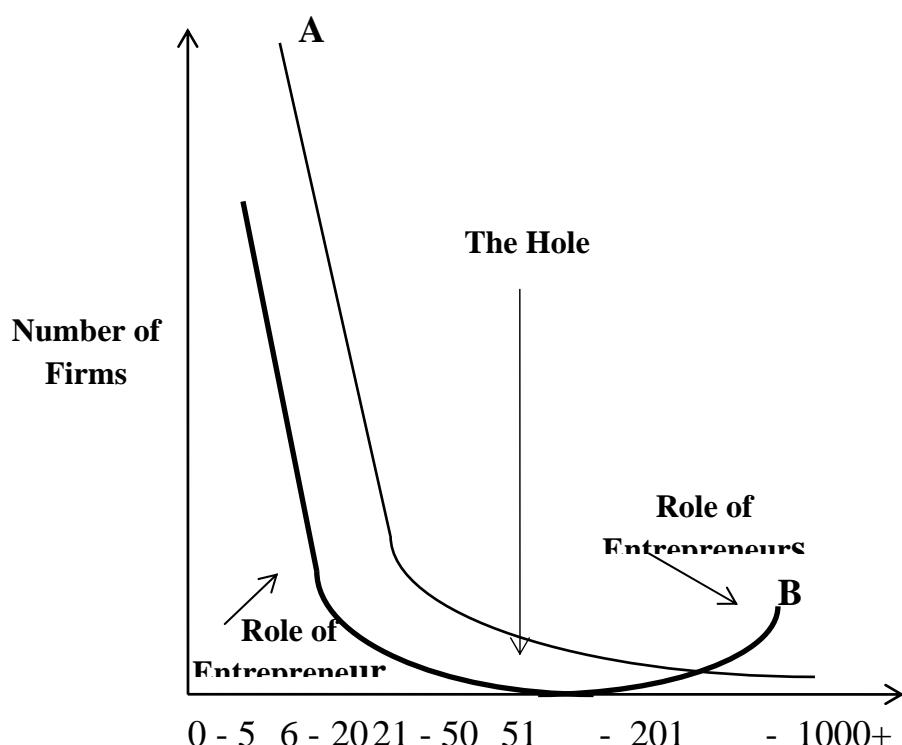
Type of Entrepreneurship	Features of Entrepreneurship	Necessity for Innovation	Importance of Risk Taking	Significance of Profit Making
Productive [Owner(s) of small businesses are often also manager(s)]	Develop from successful single proprietorship by hiring additional workforce. Financial markets supply funds from savers to provide productive entrepreneurs with capital.	Very big	Crucial	Crucial
Financial	Savers who chose among the variety of opportunities differing according to their attitudes to risk taking and eagerness to fortune making	Very big	Crucial	Crucial
Productive Managerial	Deciding on education and employment opportunities and acting in direction of creating and improving position in the enterprise. Risk and awards are related to career development and income increase and not to the amount and value of assets.	Crucial	Very big	Crucial
Financial Managerial (Managers in the financial institutions)	Agents acting as intermediaries of financial markets offering investment opportunities for savers and funds to productive entrepreneurs for creation and development of private businesses	Very big	Very big	Very big

## Goals of Entrepreneurship in Eastern European Transition

The experience to date in transitional reforms of post-communist economies in Eastern Europe indicates that “macro stabilisation will be difficult to achieve ... in the absence of adequate micro adjustment” (Svejnar, 1991) and that institutional reforms and privatisation are insufficient for efficient and effective economic restructuring without entrepreneurship (Acs and Audretsch, 1993) aiming at successful new venture creation.

Pre-transition comparative research in the economic structures of capitalist economies and planned communist economies identifies the existence of a “hole” in the latter economies (see e.g. Gibb, 1993; Vahcic and Petrin, 1989). The “hole” represents a remarkable absence of small firms in the economic structures of economies of Eastern Europe. Gibb (1993) gives another interpretation of the hole comparing the market economy distribution of firm size (curve A) with the corresponding distribution in the transitional economies (curve B) - see Figure 1. The characteristics of firm size distribution, expressed by curve B, are inherited from the years of communist megalomaniac economic development, characterised by severe restrictions on the development of small private businesses and lack of property rights guaranteeing such development.

Figure 1: Size of Firms (Number of Employees)



The macroeconomic role of the entrepreneurs in Eastern Europe is presented on Gibb's model of the structural gap in Figure 1. Graphically expressed, their role is to gradually change the form of curve B so that it can be transferred in curve A. In real dimensions this task is interpreted with the increase in the number of firms with size from 0 to 50 employees, mostly through creation of new private ventures and restructuring of large state-owned firms to overcome their significant absence in firm size 51 to 250 employees.

The latter firm size group is seen by Banasch (1990) as the major route to small business development in the industrial and service sectors of Eastern European countries. Banasch's suggestion is appropriate for the conditions in the region where the most significant obstacle to new firms set-up of 51 - 250 employees size is the scarcity of financial resources, mostly concerning domestic entrepreneurs. On the basis of the entrepreneurial task in macro aspect, tasks on micro level can be broadly defined. Their successful implementation can result in macro restructuring of the transitional economies in Eastern Europe. The entrepreneurial task on micro level can be summarised as follows (Tyson *et al.*, 1994):

- Entrepreneurs have to play active roles and implement the processes of privatisation and restructuring of state-owned companies. The realisation of these tasks needs a broad range of activities. Entrepreneurs have to divide large firms in smaller more efficiently functioning and giving better effects enterprises. By doing this the scarce resources could be freed up and utilised in a better way, existing excessive diversification can be reduced, better and more effective configuration of related businesses can be created. In the meantime the entrepreneurs have to restructure and reorganise the smaller privatised firms in order to create appropriate managerial network in the restructured enterprises, stimulate the development of managerial skills needed in a market economy, invent new incentive schemes, introduce total quality management, make the reorganised companies innovative, flexible and globally orientated to the market.

- Entrepreneurs have also to start from scratch new modern small businesses that will contribute to "filling in the hole". As Arzeni (1992) shows the average employment share of small firms in Eastern Europe is 3 per cent because in 1980s two completely controversial processes took place in the market and centrally planned economies. While the small-firm share of employment in the developed Western economies has recently increased considerably (see e.g. Duche and Savey, 1987; Storey and Johnson, 1987), that share has been decreasing till the start of transition in the former centrally planned economies (Carlsson, 1989). Although this negative trend has been successfully reversed in most Eastern European countries the bulk of the job for the fulfilment of the second task of micro character still has to be done.

- Entrepreneurs have to help the process of global change of the characteristics of the industrial structure of the economies of Eastern Europe.

Such a shift must result in fundamental industrial restructuring replacing the excessive dependence of the economies upon outdated heavy industries with more balanced industrial structures resulting from the development of industries where individual countries can gain comparative advantage. Through the exposure to new markets the influence of market forces have already created conditions for such changes, as prices of goods have been permitted to reflect their actual supply on the world markets. The pricing policy, related to the situation on the domestic markets, faces the restriction of the very small purchasing power of the domestic customers. Entrepreneurs will have to find a good answer to this complication as well.

Regarding the operational activities needed for the start-up of a new venture or restructuring of an existing business the principal entrepreneurial tasks at any stage are: production/operations, finance and marketing (Arendarsi and Mroczkowski, 1994).

*Production/Operations:* The environmental characteristics and their restrictions are the most important factors that determine the particular kind of business to pursue, especially if it is of bigger size. In Eastern Europe as well as in Western countries, previous experience and business contacts play crucial role. This is especially true for businesses with international markets, trade and service companies. The recession in Eastern Europe is forcing more thought and creativity into the production/operations task. The manufacturing start-up firms in manufacturing usually have to restrict their activities by applying low-cost, low-technology production processes because of the lack of sufficient capital and significant difficulties in obtaining modern equipment and technology. Some help in this aspect has been provided by foreign entrepreneurs usually resulting in creation of international joint ventures.

*Finance:* Initial capital is needed for the establishment and early development of new ventures and often for the restructuring of existing businesses. Studies in many Eastern European countries have revealed the extreme significance of own capital for start-up businesses. Bank credits have had very limited role as well as the financial help through various foreign investment funds. New ventures are usually undercapitalised due to the macroeconomic specifics accompanying recession (high inflation, high interest rates, constantly decreasing availability of domestic credit opportunities). Some of the new ventures act as competitors from their birth which decreases their chance for profit as competition has kept prices down despite the contrary effect of recession. The global evaluation of the financial task of entrepreneur in Eastern Europe gives it complicated and controversial description which significantly hampers its fulfilment.

*Marketing:* The recession in Eastern Europe has created hard time for the new private companies since their pricing policy is severely restricted by their undercapitalised conditions. The underdeveloped and unsuitable for market economy infrastructure in the region has created many problems with distribution of products for most new private businesses. In some countries, like

Bulgaria, the wholesale and retail system undergo very significant changes and this process creates additional burden for entrepreneurs. For many new private businesses the most important customers are state-owned companies, that being bigger and stronger, enjoy strong bargaining power, especially when supply is provided on highly competitive basis. This makes the respective small businesses substantially dependent on the condition of the public sector that in most of the countries is poor or very poor. Such entrepreneurs have to cope with very sophisticated problems. Consequently the worsening health of the state-owned companies can produce equivalent result in otherwise healthy private firms. Being new and small the established private businesses are generally of local importance operating within the boundaries of a single town or smaller part of it. In such cases the owners of the businesses often act as distributors and retailers (small firms on family basis in agriculture are good examples). International markets are usually regarded by small venture start-ups as a potential for the expansion of their markets, creating an international joint venture or seeking additional opportunity for technology transfer and source of credit.

## Conditions and Requirements for Entrepreneurship in Eastern Europe

Using the model developed by Hatton and Raymond (1994) (See Figure 2) the overall evaluation of entrepreneurship in Eastern Europe can be based on elements of which it consists. The variable *environment* represents the variety of all internal and external factors actively and potentially relevant in the process of business decision making. *Strategy* is regarded as a pattern in a continuous stream of decisions (past, present and future) that is expressed in two aspects:

- guides the progressing adaptation to and influences on the environment of a business;
- forms the business internal policies and procedures (Miles and Snow, 1978; Mintzberg, 1978). *Task* and *technology* are conceptually almost inseparable. The *task* represents the major objective of the business, and the *technology* provides a detailed description of how this objective can be realised. The *structure* of a business includes the official organisational hierarchy and lines of communication, as well as the existing informal structure and actual lines of communication during the functioning of this business. The *individual*, a controversial variable, is analysed by the authors in the aspects of bureaucratic orientation and degree of strength needed for higher order.

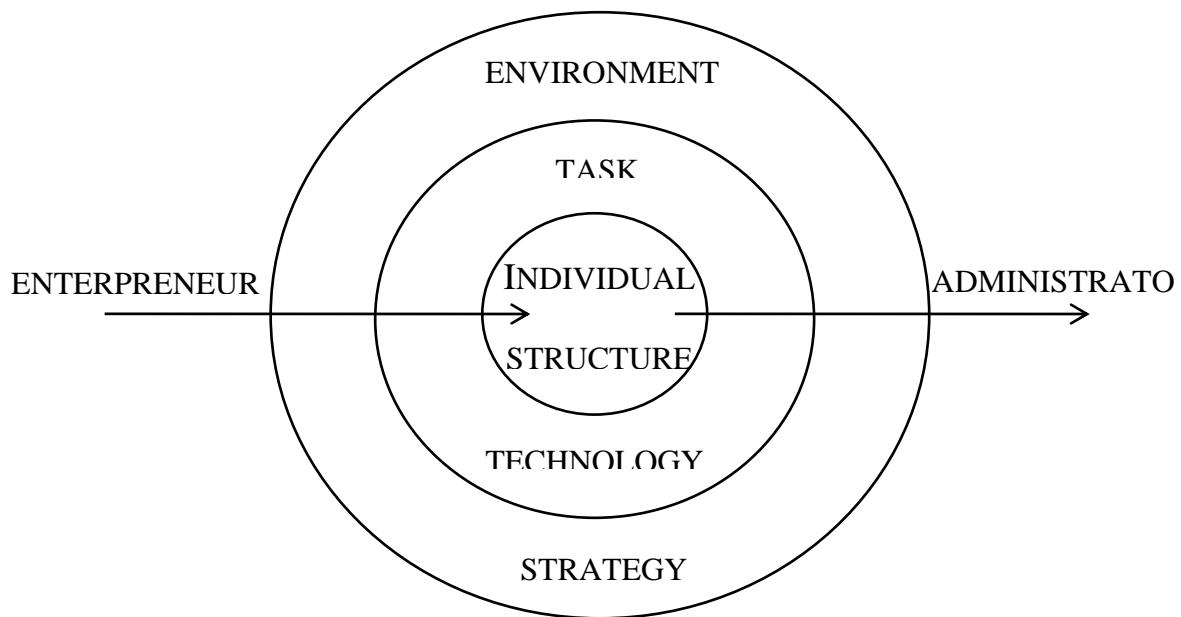
Analysing the entrepreneurial model, presented in Figure 1 with the use of information given in Table 3, both entrepreneurial and administrative aspects of the organisational activities of small private businesses are considered. The original idea of the model is to provide guidance for entrepreneurial decisions from the start-up phase of a small business combined with the analysis starting from the outermost layer of the model and progressing toward the centre.

The environmental characteristics for small business creation and development in Eastern Europe are assessed as very complex and dynamic. The reason for complexity, both for domestic and foreign entrepreneurs is the fact that the macro environmental characteristics lack as elements the necessary institutional business support infrastructure. For a domestic entrepreneur crucial from a financial point of view is the insignificant amount of domestic investment funds and the willingness and availability of supply through financial help provided by foreign investment funds and the international financial institutions. The reality is that the supply of finance is far less than the existing demand. Macro environment is characterised with significant volatility caused by the processes of political and government instability in most of the countries in the region. In most of Eastern European countries governments change often and each comes with new programme for the restoration of the entrepreneurial system. This hampers the restructuring process and causes continuous changes in the legislation and institutional structure, delaying the appropriate re-establishment of the indispensable for the market economies entrepreneurial system.

The overall existing economic system also changes as result of the restructuring processes, transfer of ownership of productive assets and liquidation of the existing state owned enterprises. Many niches in the existing markets are available that creates good opportunities for entrepreneurial development in Eastern Europe. However, many problems exist, related to both macro and micro specifics of the environment. They are caused by the need for integration of the new start-up businesses in the existing economic structure that itself undergoes considerable changes continuously since the beginning of the transitional process.

Considering the characteristics of the environment it is of fundamental importance for the entrepreneurial development in Eastern Europe that the determining business characteristics match the environment and the market specifics in the best possible way. The problem of the most significant importance of Eastern European markets is the small purchasing power of the individual industrial customer. The high inflation causes high level of interest rates on loans that cools down the ambitions of the less enthusiastic and risk adverse entrepreneurs. From strategic point of view a new venture comes into existence after the analysis of all aspects of the environment. The niche strategy is very suitable for small business creation where economies of scale cannot be exploited because of the limit of market for certain products or services and the theoretical optimal size of an enterprise is not achievable. The existent economic structure in Eastern Europe provides opportunities for many industries to specialise on product/service and market basis to serve well targeted market segments. If based on a well developed niche strategy a small business start-up is expected to have better chances. Most successful small private businesses in Eastern Europe, created during the transitional period, can be identified as niche enterprises.

Figure 2: A Small Business Concentric Congruence Framework



Source: Hatton, L. and B. Raymond (1994)

Table 3: Variable Dimensional Characteristics of Entrepreneurship in Eastern Europe

Variables	Dimension	Predominant Dimensional Characteristics in Eastern Europe
External Environment	simple - complex static - dynamic	very complex very dynamic, unsettled, turbulent
Internal Environment	simple - complex static - dynamic	very complex very dynamic
Business Strategy	defenders - prospectors	mostly prospectors for start-up businesses mostly defenders in later phases
Task	simple - complex predictable - uncertain interdependence: pooled - sequential - reciprocal	complex to not very complex mostly uncertain reciprocal or sequential, rarely pooled
Technology	mediated - long-linked - intensive	mediated, rarely long-linked or intensive
Structure	centralised - decentralised organic - mechanic	mostly decentralised mostly organic, rarely mechanic

Individual	bureaucratic orientation: high - low higher order needed strength: higher - low	mostly low medium
------------	--	-------------------

The specifics of the environmental characteristics define the entrepreneurs at the start-up phase as prospectors. The overall complexity of the environment combined with the absence of knowledge, experience and skills among the Eastern European entrepreneurs; the lack in most of the cases of efficient competition and rudimentary, inefficient and inexperienced financial markets; the insignificant amount of domestic capital; the phenomenon of high inflation and unemployment rates and the macroeconomic and political instability, often turn the strategy of entrepreneurs from prospector to defender.

As seen from literature data (See e.g. Arendarski and Mroczkowski, 1994; Bartlett, 1993; Marinov, 1993; Puchev, 1990) and based on authors' personal experience in small business consulting, it is evident that the task of entrepreneurs in Eastern Europe can be described as with significant complexity because of the unfavourable and turbulent characteristics of the existing economic structures. Related to these the tasks are unpredictable, that is rarely due to the character of the business. The predominant interdependence of tasks' characteristics is sequential or reciprocal, rarely pooled. This is to a large extent due to the lack of market knowledge and experience of Eastern European entrepreneurs and the market characteristics of the region that do not provide sufficiently strong and distinctive market signals.

The technological characteristics of small private businesses in Eastern Europe if viewed as the extent and scope of computer technology applied in the organisation can be described as relatively scarce, primitive, if at all existing. Application of information technology is very limited. When technology is analysed as the application of knowledge to perform work, then it could be suggested that in Eastern Europe it is mostly mediated, rarely strategy related or intensive. This fact results in competitive disadvantages for most of the small businesses in Eastern Europe compared with Western companies of the same type. These are especially true in terms of product quality corresponding to the requirements of international standards, market and customer information gathering and handling and information flow efficiency and consequent results for the organisations.

The organisational structure of newly created small businesses in Eastern Europe is predominantly decentralised h-form or a certain mixture of functional and decentralised form with comparatively low rigidity. Being in most of the cases organic enterprises, small private businesses in the region are in the form of mutual collaborations with few well defined rules and procedures. These organisational characteristics affect the potentials for production and market flexibility of small businesses. The latter is rather restricted by the scarce financial resources and mainly domestic market operations of small private

businesses in the region. Organic business creation and development differ from the ones related to small business establishment resulting from the restructuring and privatisation of large former state owned companies. Their structural characteristics tend to be more centralised and less flexible. Additionally, while in newly created small businesses the formal and informal organisational structures tend to be identical to a great extent, differences in this aspect are more common for the small businesses born from the break-ups of former state owned mega-businesses.

Entrepreneurs in Eastern Europe have in most of the cases low bureaucratic orientation and tend to be independent decision makers. Their activities are mainly determined by the environmental constraints that are complex and restrictive in nature.

As the characteristics of the variable dimensions suggest, entrepreneurship in Eastern Europe functions in a mostly very complex and dynamic environment that is highly volatile. The new business creation in the region has had explosive character since the start of the reform and this process is without a parallel in the recent economic history. Only those businesses that apply the approach of dynamic entrepreneurs can hope of survival combined with successful growth and development. Table 4 gives information that contrasts the features of the transitional SME owners and dynamic entrepreneurs.

*Table 4: Major Features of Traditional SME Owners and Dynamic Entrepreneurs*

Feature	Traditional SME Owners	Dynamic Entrepreneurs
Business Development	Static	Growing/Expanding
Vision	Status Quo	Opportunistic
Scope	Local	Global
Focused on	Internal Resources	External Resources
Approach to Market	Fear Competition	Seek Competition
Attitude to Risk	Risk Adverse	Risk Taking
Predominant Goal	Survival	Success

If the environmental characteristics and conditions for business functioning in the developed market economies are considered, entrepreneurs described through features similar to those of traditional SME owners might be successful, whereas that cannot be the case in Eastern Europe. The unsettled political, economic, legal and business environment in the region impose indispensable requirements to all the features that characterise the dynamic entrepreneurs.

## **The Venture of Roda Car Ltd. Bulgaria - Entrepreneurial Characteristics**

The international joint venture between Rover Group Ltd. (United Kingdom) and Daru Car Ltd. (Bulgaria) started in Bulgaria in November 1994.

### **External Environment**

The macro- and microenvironment in Bulgaria was characterised by lack of tradition of SME support. The industrial and political power was strongly concentrated both in powerful large private business lobbies and large state owned industries. The available rudimentary business support structure was mostly oriented to state owned businesses while the infrastructure in the country was very underdeveloped.

The political decision making power with deeply embedded centralism was still too much concentrated in the central government, the latter not demonstrating any enthusiasm and support for the success of the venture. Instead, many difficulties and obstacles including taxes, tariffs, civil servant heavy bureaucracy were in place. The company was situated in the town of Varna, far from the capital and local government authorities were not empowered to really improve the conditions for the functioning of the firm. The last parliamentary and municipal elections in the country have been won with absolute majority by the former communists (Bulgarian Socialist Party) whose government initially strongly opposed private SME development out of total government control.

The small business sector in Bulgaria was very weak, financially dependable, and providing insufficient in quantity low quality goods and services. Opportunities for physical distribution were extremely very limited and logistics in a bad condition. Therefore, the company could not rely on regular supply and had to keep enormous amounts of stock as huge buffers at the front and at the back of the factory. That was freezing considerable amount of capital, creating production problems mostly with material flows and slow turnover.

The whole market in Bulgaria was far from being competitive. The management defined the marketplace as “inhabited by half legitimate - half crook companies”, dividing absolutely everything among themselves - markets, raw materials, zones of operation. In that way the approach of the command economy when the cake had been divided among the producers by the Communist Party making everybody happy except the customers, was still in place. Some illegitimate, violent competition was appearing, but it was much more of a “Mafia” type rather than exhibiting characteristics of a competitive market.

### **Internal Environment**

The company used greenfield approach to people and started recruiting workers for its business. Cultural problems of managerial character developed between the British management and Bulgarian workers that were solved in process by

processes of mutual adaptation. The most important was the application of team work and related issues of decision making responsibilities that Bulgarians had to accept and build on.

Meeting high quality standards was a serious obstacle to business development. The process of mutual adaptation between the British and Bulgarian parties was there in progress as well, which for both sides was a totally new, very complex and dynamic environment. The Bulgarian workers had to deal mainly with new technology and new management know-how, while the British managers faced mainly different culture, environment, work practices and standards.

## **Business Strategy**

From a strategic point of view the company owners were clear prospectors. They aimed at becoming market leaders at the Bulgarian car market and then possibly expand their leadership position beyond the Bulgarian boundaries. They wanted to influence the quality perceptions of their potential customers through introducing much higher quality standards than the existing ones.

## **Task**

Both in manufacturing and marketing aspects the task of the company can be described as very complex. They simultaneously aimed at establishing and getting recognition for their very high quality standards, realising backward integration with local suppliers, becoming market leaders in Bulgaria and beyond in a broader region through increasing the volume of production and product diversification.

The company management was trying to implement pool - sequential approach of their task realisation that would very much depend on the economic development of the country in the near future. After an overall estimation this task could be described as mostly predictable.

## **Technology**

In co-ordination with task new technology approach based on intensive development was in the process of implementation. Plans for technology integration were in process of development.

## **Organisational Structure**

The organisational structure was a lean, fully decentralised organic one.

## **Individual**

Bureaucratic orientation was as low as possible in spite of the internal and external environment of significant cultural differences. Higher order needed strength was medium, tending to become low.

## **Marketing Conditions**

The recession in Eastern Europe had created hard times for this new private venture since the purchasing power of customers was severely restricted. Consequently, the pricing policy of Roda Car Ltd. was planned to be very flexible, adapting to these conditions, but offering high quality product.

The underdeveloped and unsuitable for market economy infrastructure in the region had created many problems mainly related to distribution and communications. As in Bulgaria the wholesale and retail system was undergoing very significant changes, this process created additional burdens for the new venture.

The company relied on local marketing expertise, which was limited and inadequate. There was much of unawareness and lack of practical skills in marketing research and marketing the very product of Roda Car Ltd.. That proved to be a major internal drawback in the whole venture.

## **Features of Entrepreneurship**

When summarised the entrepreneurial features of the company were typically dynamic because:

- business development could be described as growing;
- business vision was opportunistic;
- scope of business - currently local but tending to become regional in the near future;
- the business was focused and combined both internal and external resources;
- the approach to market was seeking competition of domestic and international origin;
- according to the attitude to risk, they were gradual risk takers;
- the business goal was success.

Roda Car Ltd. as a new venture in Eastern Europe combined all types of entrepreneurship: productive, financial, productive-managerial and financial-managerial. They were also a combination of foreign and domestic entrepreneurial expertise, the former being dominant. However, those were necessary, but not sufficient prerequisites for the success of the entrepreneurial venture. The complicated and extremely unstable private business environment in Bulgaria - political, legal, economic and financial, as well as the inadequate marketing expertise of the Bulgarian partner were putting obstacles in the future development of the Roda Car Ltd. venture, that could bring eventually to serious problems with the functioning of the company, if not to its failure.

## Conclusion

Eastern Europe has to resolve a very complicated and unprecedented task of its transformation from central planning to market orientation. Global economic restructuring is the most important precondition for a successful transformation. The implementation of this restructuring is an extremely difficult task of entrepreneurial character. Although having to cope with mainly constantly changing problems entrepreneurs in Eastern Europe have achieved some distinct successes. The change of the whole industrial structure is based on several processes as privatisation and restructuring of former state owned companies and creation of new small business ventures. In spite of having been in progress for more than six years the bulk of work related to transition has yet to be done. The major doers in this process have to be the dynamic entrepreneurs, needing appropriate entrepreneurial system that is a controversial process of creation, development, growth, failure and success.

P.S. Roda Car Ltd. stopped its existence two months after the submission of this paper. That outcome was suggested by the authors as a possibility, that emerged from the analysis in the paper

## References

Arendarski, A. and T. Mroczkowski (1994): A Study of the Redevelopment of Private Enterprise in Poland: Conditions and Policies for Continuing Grows. In *Journal of Small Business Management*, Vol. 32, No. 3, pp. 40 - 51.

Bartlett, W. (1993): Privatisation and Small Firms in Bulgaria. Working Paper 116. University of Bristol: SAUS Publications.

Brunner, H.-P. (1993): Entrepreneurship in Eastern Europe: Neither Magic nor Mirage. A Preliminary Investigation. In *Journal of Economic Issues*. Vol. XXVII, No. 2, pp. 505 - 513.

Dubravcic, D. (1995): Entrepreneurial Aspects of Privatisation in Transitional Economies. In *Europe - Asia Studies*, Vol. 47, No. 2, pp. 305 -316.

Haskins, G., *et al.* (1986): A Guide to Small Business Assistance in Europe. London: Gower.

Hatton, L. and B. Raymond (1994): Developing Small Business Effectiveness in the Context of Congruence. In *Journal of Small Business Management*, Vol. 32, No. 3, pp. 76 - 94.

Marinov, M. A. (1993): Small Private Business in Bulgaria - Organisational and Marketing Characteristics. In Proceedings of the 23rd ESBS: Small Business in International Markets, 15 -17 September, Belfast, Vol. 1, pp. 459 - 480.

Miles, R. E. and C. C. Snow (1978): Organizational Strategy, Structure and Process. New York: McGrow-Hill.

Mintzberg, H. (1978): Strategy Making in Three Modes. In *Academy of Management Review*, 16, pp. 44 - 58.

Puchev, P. (1990): A Note on Government Policy and the New Entrepreneurship in Bulgaria. In *Small Business Economics*, Vol. 2, No. 1, pp. 73 - 76.