

## **Situational Forces in the BDS Market and BDS Providers' Strategic Responses: Empirical Evidence from Kenya**

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*The paper presents situational analysis of the BDS market in Kenya showing how BDS Providers (BDSPs) respond in each situational context. The study was done through the use of grounded theory on eleven BDSPs, four small-scale entrepreneurs and two BDS facilitators in Kenya over twelve months between May 2008 and August 2010. The study established that BDSPs operate under weak regulatory framework which encourages unfair competition alongside donor agencies some of which continue to give free and/or subsidized services. BDSPs respond to the situational contexts in their environments using client, product, price, focus, diversification, and simultaneous competition and collaboration strategies.*

### **Introduction**

Business Development Services (BDS) refers to a wide range of non financial services provided to micro and small enterprises (MSEs) to help them operate efficiently and to grow their businesses. The services include; consultancy, training, counseling, marketing support, provision of technology, policy advocacy, infrastructure and access to finance (Miehlbradt & Mc Vay, 2003). Besides lack of funds, MSEs are frequently hampered in their business growth by non-financial factors such as inadequate business management skills, lack of information and poor market access. BDS can be operational, addressing an enterprise's day-to-day operations, or strategic, addressing medium and long-term issues related to the market access or competitiveness of a business (Altenburg & Stamm, 2004). They may be provided directly or indirectly, as stand alone or as so-called embedded services, and free of charge or at a price. A vibrant BDS sector is a requirement for small enterprise development particularly for African economies where most small enterprises lack effective organization and knowledge of modern management techniques (OECD, 2004).

BDS has two main objectives namely; meeting MSEs' needs with quality services and making these services self sustaining (USAID, 2008). Historically a number of BDS support programs have been initiated to promote small-scale enterprises (SE) in developing countries with little success in terms of outreach, impact or (Caniels & Romijn, 2005). The early BDS programs were viewed as public goods, with providers acting as the agents of governments and the donor community (ibid. 2005). Over time this has changed. The client for BDS is no longer the government or donor agencies but SE clients themselves. BDS came to be viewed as business itself selling the services that MSEs demand at a market price (McVay, 2000).

However, there are obstacles to the immediate success of the business model since field conditions in general do not support its effective implementation. On the demand side, SE clients may not have insight into their needs for BDS. On the supply side, there are only a few quality BDS providers who are able to provide actual benefits to SEs (USAID, 2008). Furthermore, there are distortions on both the demand and

supply side that may prevent the market from functioning efficiently (Altenburg & Stamm, 2004). Despite the obstacles and distortions in developing countries, there are organizations that continue to offer BDS (CDAs, 2001). In Kenya for instance, there are a range of providers offering BDS to small enterprise sector (Havers, 1999). The purpose of this paper was to analyze the situational contexts in which BDSPs in Kenya operate and show how they respond to these forces. Academic research on BDS business is insufficient particularly in developing countries, with agenda being driven mostly by donors. Most donor funded research has focused on how the concept of BDS has evolved over the years (McVay & Miehbradt, 2001; Bear et al, 2003). Furthermore, as Miller and Toulouse (1986) caution, research findings often differ systematically across different groups of firms and under different business environments hence findings in one business environment may not be applicable in another environment.

## **Methodology**

Grounded theory (GT) is an interpretive qualitative research method originally conceived by Glaser and Strauss (1967). GT was chosen because it is not influenced by explicit expectations about what the researcher might find; instead it allows the researcher to make discoveries without a priori knowledge (Jones et al. 2005). GT allows actors to define situations and the definitions to be produced in their natural contexts. BDS market is still evolving with many issues still unresolved.

Sampling was not planned in detail before the start of the field study. The sampling decisions evolved during the research process (Strauss & Corbin, 1990). The study was conducted on eleven BDSPs, four small sale entrepreneurs and two BDS facilitators. Data collection and analysis took twelve months spread between May 2008 and August 2010. First, telephone contacts of some BDS providers were obtained through a managing director of one of the local microfinance institutions. The first few people, who were contacted, provided information that was fuzzy and disconnected. These interviews were used as a pilot study. From these contacts one information rich BDSP who was willing to participate in the interview process was identified and requested to tell her story. This respondent gave contacts of four other BDSPs who were also contacted to participate in the interview process. From these four respondents six other BDSPs were identified.

The initial open ended question posed to the respondents was intended to capture their start-up motives. Some of the answers to this question touched on the situational contexts under which BDSPs were operating. Subsequent questions evolved from these answers and sought to analyze these situational contexts and how BDSPs responded to them. BDSPs were asked to describe the market environment in which they operated; the challenges they encountered in the course of conducting your business and how they were countering them. The answer to this question touched on the nature of competition, on the role of the government and the regulatory framework, the influence of donors, the nature of the BDS products and on the attitudes of the SE clients and the relationship between BDS Providers and their clients and on the relationship among the BDSPs themselves. Subsequently, questions were formulated to capture each of the emerging issues.

BDSPs' responses regarding the situational analysis were triangulated with those of four MSEs entrepreneurs and two BDS facilitators whom they identified. The interviews were allowed to take a natural course. However, during the interviews the researcher focused, refocused the interviews and probed based on the emerging issues. The interviews were voice taped using a digital voice. After the field interview, the voice tape was transferred to the PC and later transcribed. A total of 27 interviews were done with the longest taking two and half hours and the shortest one hour.

Data collection, coding and analysis occurred immediately, concurrently and throughout (Glaser & Strauss, 1967). Coding consists of naming and categorizing data. It is an analytical process through which "data are fractured, conceptualized and integrated to form theory" (Strauss & Corbin, 1998). The study

used the following levels of coding: open, axial, and selective coding (Glaser & Strauss, 1967). Open coding process involved looking at the transcribed tapes, paragraph by paragraph together with the field notes for meanings, similarities and differences (Strauss & Corbin, 1990). The open coding process generated a large number of incidents (*see table 1*). Constant comparison and theoretical sampling process reduced the number of concepts to relatively fewer and higher concepts called sub categories and eventually categories (Assad, 2001). During the axial coding process, incidents from open coding were analyzed and compared with new insights that emerged from additional data collection by looking at the categories and relating them to their sub-categories in order to form more precise explanations about the emerging phenomena. Two of categories that emerged that related to the situational contexts were *situational forces* and *BDSPs strategic response*.

Selective coding process sought interrelationships between the emerging categories and in this case between situational forces and BDSPs' strategic response. Selective coding requires selection of a core category (Strauss & Corbin, 1990). A core category is a central phenomenon which results from the axial coding process. All other categories (concepts) must be related in some way either directly or indirectly to the core category (Strauss & Corbin, 1990). BDSPs' strategic response' was chosen from the emerging phenomena as the core category and positioned at the centre of the process being explored. All other categories were related to it.

## **Findings**

The study revealed that BDSPs face a number of challenges in their environments and; that they respond to different situational contexts using different approaches. The challenges were conceptualized as 'Situational Forces' while the approaches were conceptualized as 'Strategic Response'. The 'Situational Forces' were unfair competition, weak regulatory framework, intangible nature of BDS products, presence of donors and characteristics of MSE entrepreneurs. These are discussed below:

### ***Regulatory Framework***

Regulatory framework in the BDS market was described by BDSPs largely as weak. BDSPs mentioned that because there were no standards in the market anybody could venture into the industry. One BDSP explained that; "Some of these quark consultants are charging low prices and giving substandard services. Some BDSPs mentioned that they had been conned by fellow service providers while others mentioned they did not get paid for services rendered on credit either to fellow service providers and/or to clients. They explained that because of weak regulatory framework, legal redress was too time consuming and too costly and so many did not seek legal redress. These negative experiences appeared to influence the relationships between BDSPs and their clients and among themselves. For instance, one BDSP explained: "Sometimes I subcontract consultants to do specific assignments or whenever I have so much work that I cannot handle. But this is purely on a short term basis since I do not know the quality of their work".

BDSPs felt that the weak regulatory framework was impacting negatively on the sector. Some of BDSPs have taken a proactive role to address some of the regulatory weaknesses. Some BDSPs have initiated lobby groups which they believed would drive the BDS policy agenda forward. The study established that there were some BDSPs who were actively involved in pushing this agenda forward. For instance, one BDSP explained: "there is a lot of lobbying going on and I am the chairman of the pioneer group". Another explained; "We have started a lobby group and I have facilitated some of the workshops". Regarding the role of the government, some BDSPs felt that the government was either doing nothing or doing too little to address the challenges in the sector. As one BDSP put; "the hand of the government is very far away". Another explained; "the government does not even understand what is happening in the sector".

### ***Competition***

BDSPs described competition in the sector as largely unfair. The nature of competition seemed to be shaped by the regulatory framework; and MSE entrepreneurs' level of awareness. BDSPs explained that weak or lack of regulation meant that anybody could venture into the sector. One BDSP explained; "Because there are no standards in the industry, there are very many quark consultants who are charging low prices and giving substandard products. This is spoiling the image of the whole industry".

BDSPs felt that lack of control in terms of who should provide BDS was giving bad image to the sector. Unfair competition meant that those who were doing genuine business found it very hard to survive. It encouraged unscrupulous consultants to thrive through unfair means. Another respondent added; the problem is exacerbated by the fact that many MSE entrepreneurs are ignorant about quality and so are easily cheated; many small scale entrepreneurs cannot differentiate low quality from high quality services". Another BDSPs also added; "Many SE clients are very sensitive to price- for many SE clients the cheaper the better". The ignorance and price sensitivity of SE clients make them very susceptible to unscrupulous consultants.

### ***Presence of Donor Agencies***

The presence of the donors in the market appeared to have both negative and positive impacts. On the positive side some BDSPs explained that they had benefited either directly or indirectly from donors. For example, some had attended trainings that were either fully or partially funded by donors. Others had launched their products in the market with donor support. On the negative side, most BDSPs felt the presence of donors was distorting the market hence making it difficult for BDS business to be commercially sustainable. They attributed the SE entrepreneurs' unwillingness to pay for services largely to free or subsidized services by donors. They explained that in an effort to encourage SE entrepreneurs to use BDS, donors created a culture of dependency by paying everything for them to access training. BDSPs felt this culture of dependency was so deeply rooted in the minds of some MSE entrepreneurs and that it had to be changed if BDS was to be sold successfully on a commercial basis. One BDSP explained; "as long as somebody is giving free services, entrepreneurs will not be willing to pay. In fact when you are asking them for payment they wonder where you are coming from". It was established that some donors were still in the market although some were beginning to exit.

### **Nature of BDS products**

The nature of BDS product was conceptualized into a dichotomy of 'more difficult' to sell' and easier' to sell. The product exhibited the following dichotomies: intangible vs. tangible; statutory vs. non statutory; single service vs. package; and those having immediate returns vs. long term returns. These dichotomies seemed to influence clients' willingness to pay for services. For example, one BDSP explained: "The greatest challenge in selling BDS is that it is intangible; yet clients need to see value for them to be willing to pay for the services". Different BDSPs use different strategies to make entrepreneurs see value in their services. One BDSP explained; "By negotiating for our clients higher prices for their products and assuring them (clients) of a steady market, we are able to demonstrate value to our clients. Because of this we have no problem selling our services". Another BDSP explained: "My strategy was to initially charge very little and even occasionally give free services because I believed that once the entrepreneurs experienced my services; they would begin to see value and would not only buy the product but also sell for me-advertise my services: the 'effect of word of mouth advertising'".

BDSPs explained that selling intangible BDS was more difficult because it required clients' trust in the provider. Different providers used different strategies to build trust and customer loyalty. One BDSP who provides market linkage to small holder farmers explained; "We have earned client loyalty by making them own the process. We have employed field officers who stay among the clients who are farmers; this enables them (officers) to live the experiences of our clients". "Being in constant touch with my clients has enabled me to build close relationship with them. It has also enabled me to appreciate what they want.

I have come to realize that most entrepreneurs want practical solutions to the problems they are facing”. This suggests that establishing a close relationship with clients may make it possible for them (clients) to develop trust in the provider. But trust is built through a process and it takes time and effort.

BDSPs mentioned that they had no problem selling statutory or services required by law like compiling tax returns or preparing books of accounts; and that clients were more willing to pay for such services. One BDSP explained; “Most SE entrepreneurs will pay you to compile tax returns because they know these are required by law or to prepare their books of accounts for them because the banks need them when they are applying for a loan but the same entrepreneur will not be willing to pay for training”. Another BDSP explained; “Clients’ willingness to pay for the services also depends on whether BDS is provided as a single product only or as a package. The respondent explained that; “many providers are forced to offer BDS as a package or bundle because many small scale entrepreneurs cannot afford to pay for single services. You see for many small entrepreneurs many things are going wrong; their tax returns, their books of accounts, they have a problem marketing their products, accessing funds etc and they want someone who can fix for them all these problems and they pay one price. So if you specialize; you lose out because they would not afford”.

### **The Type of Clients**

BDSPs perceived SE clients as largely unaware of and/or ignorant of the benefits of BDS because many had not experienced it. They also felt many SE clients were unwilling to pay for the services because they had been encouraged by donors who paid for them everything for them to access training. This created a culture of dependency among SE clients which has stuck with them. One BDSP added that: “The challenge of selling BDS is even bigger if you are dealing with women entrepreneurs”. Some BDSPs attribute SE entrepreneurs’ unwillingness to pay for the services to be partly an African culture. One BDSP explained; “We have not developed a culture of taking charge of our own existence even when we can afford it”. BDSPs also seem to think that SE clients suffer from what they (BDSPs) described as self deception i.e. that many SE clients think they know. This self deception appeared to prevent SE entrepreneurs from benefiting from the services. One BDSP explained: “Some SE clients even tell you ‘I have been doing this business for a long time so what are you coming to tell me’”. Another added; “Many SE entrepreneurs do not appreciate professionalism; they want to do business *kienyeji* (a Swahili word for local; traditional or unprofessional).

BDSPs also explained that many SE clients were very price sensitive. One BDSP explained; “the types of clients we are dealing with are very sensitive to price and so if they find somebody who can give them the 'same' service at a lower price they will not hesitate to move because for such clients the cheaper the better”. Another BDSP added: “Many entrepreneurs cannot differentiate low quality from high quality services. Some of the small scale entrepreneurs face serious resource constraints and so their priority is making quick cash hence are not willing to purchase BDS with long term returns”. BDSPs’ responses were triangulated with those of MSE entrepreneurs’. The following statements from MSE entrepreneurs illustrate these:

One MSE entrepreneur, a director of a private primary school explained how she benefited from the BDS training: “I came to know this BDS provider through a friend of mine. When this guy came to the school to help me compile my tax returns, he heard the way I was shouting at my employees. He told me, mum I can show you how you can handle your employees. After I went through the training, I came to realize that I had been the enemy of my own business. There has been a big improvement in my business since then. Before I was trained I used to making money in thousands, now I am banking money in millions”. This statement suggests the respondent’s appreciation of the training and her ability to link her success to the training she received. Another respondent, a sole trader of carpentry and joinery business explained; “Before I received training, I did not know how to keep records and I did not think it was important. The

training taught me how to keep records .I came to realize that I was using so much money for my personal expense at the expense of the growth of my business”. “I also liked the way the training was organized. It came at intervals, and so it was like a refresher course for me. I have seen a lot of improvement in my business”.

Regarding ability to pay for the services the study established that indeed some SE entrepreneurs are facing resource constraints which compromise their ability to pay for the services. The respondent who was in the carpentry and joinery business explained: “I would be willing to pay for the services because they (BDS) are very important. However right now my business is facing a lot of financial problems and so it may be difficult for me to pay. When my business was doing well I did not have a problem paying”.

### **BDSPs’ Strategic Response to the Situational Forces**

In response to the aforementioned situational forces, BDSPs use the following strategies: client; product; differentiation; price; simultaneous competition and strategic alliance or collaboration; diversification; and leveraging on donor support. The responses were conceptualized as ‘strategic’ because they seemed to be closely related to the specific situational context. The strategic responses of BDSPs are explained below:

**Self Regulation:** Some BDSPs explained they initiated self regulation because they felt the regulatory framework was too weak and that the government was not doing enough in the sector. One BDSP explained: “the hand of the government is very far away from the sector. In any case the government hardly understands what goes on in the sector”. Self regulation was also initiated as a way of countering unfair competition in the industry which was largely attributed to the weak regulatory framework. The aim of self regulation was to shape the conduct of business e.g. regulate who ventures into the industry; as well as the quality of the services being offered.

**Collaborations:** Some BDSPs explained that some of the challenges they were facing in the sector could not be solved by one provider. Some of the challenges that necessitated collaboration were regulatory weaknesses and clients’ willingness to pay and unscrupulous providers. Collaborations were initiated and maintained at two levels namely; at individual level between BDSPs and at the industry level which involved many BDSPs coming together to form lobby groups and/or associations. The degree of individual involvement differed from one BDSP to another. While some BDSPs were actively involved others were not. One BDSP who was involved in collaborations explained; “I have even facilitated some of the SME workshops”. On the other a provider who was involved explained; “I am not aware of any kind of collaborations between consultants in the industry”.

The nature and strength of collaborations seemed to be influenced by BDSPs’ past experience conceptualized as negative or positive. The nature of alliances and collaborations were described as temporary or permanent. One BDSP explained: “I rely on a pool of consultants to get work during bad times when jobs are not forth coming. I also subcontract them to do specific assignments or whenever I have so much work that I cannot handle. But this is purely on a short term basis since I do not know the quality of their work. These associates also give me work during bad times when no assignments are forthcoming”. Another BDSP explained: “I have been conned by associates in the past and so I am very cautious whenever I enter into any kind of association.

**Price Strategy:** Price strategy was used by different BDSPs in different circumstances. Some use price as a start-up strategy (charging low prices until entrepreneurs begin to see and appreciate BDS); other use it as differentiation and as a focus strategy. One BDSP explained; “Initially I was charging very low prices to allow clients to experience and develop interest in the product”. Another BDSP explained how they use pricing strategy. “When we started, we had intended to start small. However, we did not start small. We

realized that we had carried ‘everybody’ and so we decided to cut off some of these micro-entrepreneurs who are notorious for not paying for services. We raise our prices and we only remained with few serious clients, we formed business clubs and so we able to add value to them”.

**Diversification Strategy:** One BDSP explained what motivated her to diversify her services. “When I started I was offering what I call the traditional HR services like recruitment, staff motivation etc. because this is where I thought I had the strength. I did not want to compete where I knew I would not succeed. But I was forced to relook at my approach to business because I realized that my initial strategy of offering only HR services could not work. I had to diversify and look at BDS in its totality in terms of what value addition I could give to entrepreneurs especially start ups. I started offering none HR services. I had to do this in order to survive”.

**Client Strategy:** In an effort to appreciate what their clients’ needs really are, some BDSPs have initiated close relationships with their clients. One BDSP who was offering market linkages to small holder farmers explained: “We have employed field officers who live among the farmers (our clients). Thus our officers live the experiences of the farmers. This has made the farmers to own the process. It has made them identify with us”: This suggests that staying close to clients not only make clients own the process but also enables providers to serve their clients better. Another BDSP explained: “We formed business clubs. We are now meeting more regularly and so we are able to pay more attention to the needs of our clients”.

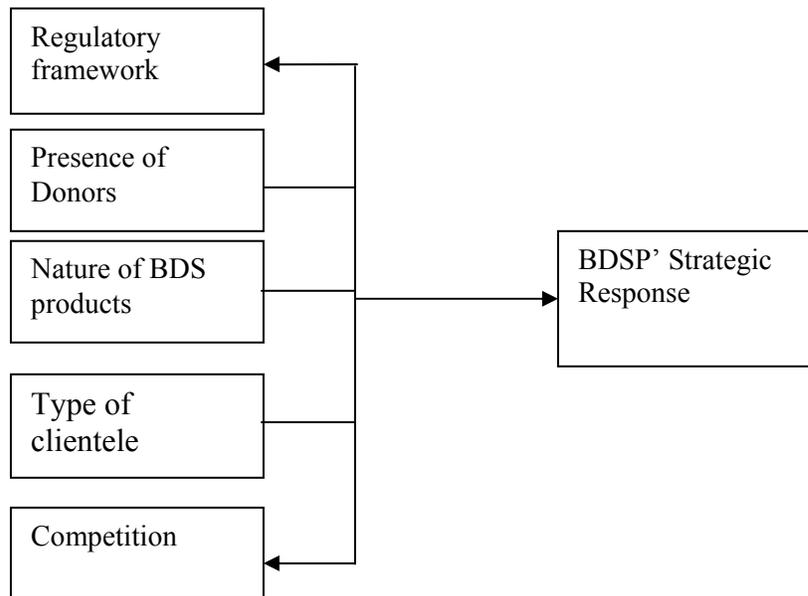
**Leveraging on Donor Support:** Some BDSPs were using donor subsidy as way of leveraging themselves; some used donor subsidy to cover some of their overheads (irrespective of whether their businesses were financially viable or not). As one respondent explained; “I have discovered that many providers are using donor agencies to cover some of their costs. Some providers use donor support when they are launching new products and/or to cover part of their trainings costs. This is what I intend to do as I nurture the market”. However, even BDSPs who have benefited from donor support seemed to consider donor support a temporary strategy. Asked whether provision of BDS should be subsidized or not; their responses seemed to suggest that BDS should not be subsidized. As one BDSP explained; “If BDS is adding value to the entrepreneurs, they should be able to pay for the services.

**Product Strategy:** In response to the clients’ needs, product strategy was used in a variety of ways. One BDSP explained: “The reason why some consultants fail to make it is that they are trying to sell what they have not what clients want”. This underscores the need to provide products that meet the needs of the market. Another BDSP explained: “staying close to my clients enabled me to appreciate what they want. I came to realize that many small scale entrepreneurs want practical solutions to the problems they face. This realization made redesign my products. I started to look at my services in terms of what value addition I could make”. Some BDSPs try to differentiate their products so that they could have a competitive edge over their competitors.

The relationship between situational forces and BDSPs strategic responses are summarized in table 2 and presented in figure 1 below:

**Table 1: Situational Forces and BDSPs' Responses**

<b>Situational force</b>	<b>Strategic response</b>	<b>Description of the Response</b>
<ul style="list-style-type: none"> <li>Lack of awareness</li> </ul>	<ul style="list-style-type: none"> <li>Collaboration Strategy;</li> <li>Price strategy;</li> <li>Client strategy</li> </ul>	<ul style="list-style-type: none"> <li>Partnering with other organizations in the environment;</li> <li>Running awareness workshops; give free services occasionally to allow SE clients time to experience services;</li> <li>Charging very low services as a temporary strategy to give SE clients time;</li> <li>Using word of mouth by clients who have experienced the services to advertise services.</li> </ul>
<ul style="list-style-type: none"> <li>Type of clientele: unaware of the benefits of BDS; price sensitive; lack professionalism ; under self deception; face resource constraints</li> </ul>	<ul style="list-style-type: none"> <li>Price strategy,</li> <li>Client strategy</li> <li>Price strategy;</li> <li>Leveraging on donor strategy</li> <li>Empowering clientele</li> </ul>	<ul style="list-style-type: none"> <li>Building close relationship with clients;</li> <li>Using already successful clients who had been trained as show case make clients own the process;</li> <li>Occasionally giving free services;</li> <li>charging low prices temporarily;</li> <li>Leverage on donor subsidies;</li> <li>Initiating savings and lending groups for SE entrepreneurs.</li> </ul>
<ul style="list-style-type: none"> <li>Weak of regulatory framework</li> </ul>	<ul style="list-style-type: none"> <li>Collaboration Strategy;</li> <li>self regulation</li> </ul>	<ul style="list-style-type: none"> <li>Forming lobby groups to champion self regulation and regulation in the industry;</li> <li>Forming partnerships with existing consultants;</li> <li>Forming very short term contracts with existing consultants</li> </ul>
Negative perception of BDS	Product strategy Price strategy Client strategy	<ul style="list-style-type: none"> <li>Demystifying the concept of BDS;</li> <li>Setting high professional standards;</li> <li>Charging affordable prices;</li> <li>Forming close relationships with clients;</li> </ul>
<ul style="list-style-type: none"> <li>Unfair Competition</li> </ul>	<ul style="list-style-type: none"> <li>Collaboration Strategy;</li> <li>Price strategy;</li> <li>Product strategy;</li> <li>Client strategy;</li> <li>Differentiation strategy</li> </ul>	<ul style="list-style-type: none"> <li>Forming strategic alliance;</li> <li>Forming a pool of consultants to bid for jobs together;</li> <li>forming reference alliances; Building partnerships to take advantage of market opportunities;</li> <li>Differentiating the products;</li> <li>Offering higher quality products;</li> <li>Building niche markets from the scratch</li> </ul>
<ul style="list-style-type: none"> <li>Intrinsic and/or intangible nature of BDS</li> </ul>	<ul style="list-style-type: none"> <li>Client Strategy;</li> <li>Product strategy</li> </ul>	<ul style="list-style-type: none"> <li>Using trained clients as show case;</li> <li>Providing services that add value to clients;</li> <li>Differentiating the products;</li> <li>Offering higher quality products;</li> <li>Building mutual relationship with clients;</li> <li>Making clients own the process</li> </ul>
<ul style="list-style-type: none"> <li>Presence of donor agencies</li> </ul>	<ul style="list-style-type: none"> <li>Price Strategy;</li> <li>Product strategy;</li> </ul>	<ul style="list-style-type: none"> <li>Leveraging on donor support to cover some of the costs;</li> <li>Charging low prices to differentiate themselves;</li> <li>Using donor support to launch new products;</li> <li>Redesigning the products</li> </ul>



**Figure 1: Relationship between BDSPs' Strategic response and situational forces**

### Discussion of Findings

Different studies have established a relationship between strategic response and different dimensions of the situational forces e.g. between strategy and competition (Peng & Bourne, 2009) strategy and regulation (Barnet & King, 2008). However, the relationship between strategy the nature of the product and between strategy and the presence of donors has not been established the extant literature. Furthermore, the bidirectional relationship between some strategic response and some situational forces (e.g. competition; nature of products and regulation) has not been established in the extant literature. Simultaneous strategic alliance and competition between BDSPs is similar to Peng and Bourne's (2009) coopetition strategy. However, unlike in their case, where strategic is structured, strategic alliances and collaboration between BDSPs seemed appears to be a loosely defined and appears to take place under conditions of low level of uncertainty and trust among the individual BDSPs.

The study also showed that BDSPs change their strategies in response to the changing situational contexts. This is similar to what Sarasvathy (2001) defined as effectual strategy where entrepreneurs ventured into the market with no specific goals or strategic plans but allowed strategy to emerge as they took the products to the market and as they interacted with the customers. However, unlike in Sarasvathy's study, the current study showed that some BDSPs ventured into the market with specific strategic plans and only changed their strategies when they realized that they were not working.

There are extensive studies on firm strategy each having a different focus. Miles and Snow (1978) developed a comprehensive framework that addresses the alternative ways organizations define and approach their product-market domains and construct structures and processes to achieve success in those domains. Porter (1980) classified the competitive advantage sources into two principal categories: cost leadership and differentiation. To be successful, differentiation strategies require that a company distinguishes itself from its competitors along a dimension which is valued by customers (Porter, 1985). This requires an in-depth understanding of the nature of the organization's clientele and their preferences (ibid, 1985). The current study established that the characteristics of the clients influence the strategies that BDSPs adopt.

Kickul and Gundry (2002) also demonstrated that the small owners' proactive personality is linked to their strategic response that permits flexibility and change in response to surrounding business conditions. They showed that strategic response also influences the types of innovations developed and implemented within the internal and external framework of the small business environment. The current study showed that BDSPs' strategies were not static but rather changed as the market conditions changed. The study further showed that some BDSPs were flexible; adopting a trial and error strategy. Some designed a product and if it did not work they redesigned it.

## Conclusions and Implications

The study shows that BDSPs operate in a difficult environment, providing a service that is highly unappreciated by the recipients. In addition, BDSPs attributed the 'culture of dependency' of the MSE entrepreneurs and their unwillingness to pay for services to the way BDS concept was developed by the donors. The study established that the continued presence of donors in the market reinforces the MSE entrepreneurs' unwillingness to pay for services. Some BDSPs believe that MSE entrepreneurs suffer from what they (BDSPs) referred to as self deception and generally lacked professionalism in the way they run their businesses. MSE entrepreneurs' resource constraints and their lack of awareness (or ignorance) about the benefits of BDS all work to shape the general environment under which BDSPs conduct their business. The study showed how BDSPs respond to each of these unique factors in the market. The study adds to the existing relationship between strategy and presence of donors and the nature of BDS products and a bidirectional relationship between strategy and regulation. The study shows the need for partnership between policy makers and BDSPs to address the regulatory weaknesses in the sector. The fact that some BDSPs have already initiated self regulation process is a good starting point for this kind of partnership. The study reveals a paradoxical role of donor agencies in the BDS market. The study shows that the presence of donor agencies distorts the market making it difficult for BDS business to be commercially sustainable. This suggests a need for donor agencies to review their terms of engagement in the sector.

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