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# Targeted Consultancy Services as an Instrument for the Development of Rural SMEs – A Brazilian Case

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## 1. Introduction

Rural SMEs play an important role in the process of economic development, absorbing excess labor force from agriculture and leading the transition to non-farm employment. The periphery generally has difficulties making the structural adjustments needed to accommodate national growth, leading to growing unemployment rates, regional gaps and continuous migration to metropolitan centers. SMEs face serious difficulties in their attempts to integrate into the national trends of economic growth. Inadequate skills and information at the disposal of the business management, and in some cases a lack of awareness of the importance of these fields, are some of the reasons. The government support systems for small businesses do not always provide an adequate response. Public consultancy programs and other support programs for small businesses are mostly provided within the urban sector, and may not be adapted to the needs and the characteristics of the peripheral rural sector. The outcome is that although there is a potential need among small businesses in the interior for business consultancy services and in spite of there being a wide range system of support for small businesses at the national and regional level, there is probably a market failure and therefore access to such services is limited.

Our argument is that there is a discrepancy between the supply of consultancy services by the government and the demand for such services by the rural SMEs. The services that are offered by support agencies do not suit the specific conditions of the rural area since they are mainly adapted to the structures and needs of urban economic activity. Consequently, the needs of the rural SMEs are not met, and the demand for such services may actually be a “hidden demand”, not quite openly expressed, which results from the apparent lack of access to those services. The detection of a meeting point between the supply and the hidden demand may provide important support for the ability of SMEs to resolve some of their business administration constraints and enable them to contribute to the integration of the peripheral area into national economic growth.

Our hypothesis is that the discrepancy between supply and demand can be explained by a few related factors. The first is that the distance between the dispersed rural SMEs and the consultancy services that are generally supplied in more central cities reduces accessibility and exposure to those services. The second is that supply is mostly focused on specific consultancy issues (such as marketing, administration, etc...) while the rural SMEs face a wide range of problems that emanate from the transition of a basically rural agricultural region to non-farm urban-like economic structures. The third is the inability of the rural SMEs to identify the main problems that hinder their efforts for economic success: they may ask for consultancy in a certain area while their main problem may lie in another one. The fourth is the lack of

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awareness of the SMEs of the potential differential contribution of consultancy services in various areas.

We are testing this hypothesis by means of the implementation of a pilot experiment in three regions in the interior of the State of Ceara in Northeast Brazil, led by three secretaries of the State: the Secretary of Rural Development (Pedro Sisnando Leite), the Secretary of Planning (Monica Clark) and the Secretary of Irrigated Agriculture (Carlos Matos). The experiment is made within the framework of the Sao Jose Project, targeted at the diminution of poverty in the rural area, and implemented by the Secretary of Rural Development. The experiment is an effort to find the correspondence between demand and supply by adopting an outreach approach in which the consultant comes to the SME entrepreneur, spends a few hours in the firm helping the owner to analyze and identify the main problems, and together with the owner evaluates the optimal intervention approach for consultancy.

## **2. Previous Studies**

Our starting point is that small businesses are important to the local and regional economy, the community and national economic growth. The importance of small businesses is in job and wealth creation and economic regeneration. Small businesses are of special importance in the rural area in peripheral regions. They contribute to creating new sources of income in regions where there is a reduction in agricultural sources of employment, they utilize non-exploited means of production (infrastructure, labor force), encourage local entrepreneurship and have a high local and regional multiplier. It is the small firms that tend to seek supplies, services and capital from local businesses thus causing a positive domino effect on local businesses, while being less vulnerable to closures than branch establishments that have no loyalty to the local community and are influenced by outside decisions (Winders, 1999; Henderson et al, 2000).

However, despite their importance, small businesses encounter problems that are detrimental to their development. A significant number of the problems are generally related to business aspects: management, business skill and marketing deficiencies (Townroe and Mallalieu, 1990; Hung and Brown, 1999; Smallbone and Welter, 2001), obstacles in human resources (Hung and Brown, 1999), obstacles in the development of external linkages and network relations (Rothwell and Dodgson, 1991), difficulties linked to the institutional environment including bureaucracy (Bartlett and Bukvic, 2001, Ren, 1999), and the inability of existing financial institutions to cater for the needs of small business including the high cost of capital (Binks, 1979, Bartlett and Bukvic, 2001, Deakins, 1999, Felsenstein and Schwartz, 1993). The supply of assistance programs available in many states is intended to provide the entrepreneurs with services that will help them to overcome these problems (Lowe and Talbot, 2000; UNCTAD, 2000; Chrisman, 1999; Winders, 2000).

However, it is apparent that the entrepreneurs do not necessarily avail themselves of the existing supply. There are situations in which, despite the supply of services available, and despite the existing need for the services, demand does not meet

supply, and the penetration rate of the assistance programs is low (Patton, 2000, Curran and Blackburn, 2000).

The discrepancy between supply and demand can result from the following factors: (1) Distance to the location of service (Bennet et al, 2000), because time availability has been found to be a dominant factor in SMEs with regard to the acquisition of support services (Henderson et al,2000); (2) Lack of information regarding assistance programs (Patton et al, 2000); (3) The supply is usually focused on specific areas, and SMEs usually face a wide range of problems, rather than a specific difficulty; (4) The supply is usually characterized by fixed structures that do not provide a response to the existing heterogeneity among businesses, and the various problems that they face. A standardized solution does not provide an appropriate response to this heterogeneity (Huang and Brown, 1999), neither do the programs respond to niches in need of services (Robson and Bennett, 2000); (5) The SMEs find it difficult to identify the problems correctly. This is, among other reasons, due to lack of knowledge or motivation on the part of the business owner (Pounds, 1969, as quoted in Huang and Brown, 1999); (6) Sometimes the problem is not a failure of identification but rather the business owner's failure to concentrate on the main problems he faces, either due to time and money constraints (Devins, 1999), or because he acts in response to events and not on the basis of rational long-term thinking (Gelderen et al, 2000); (7) The business owner might find it difficult to identify the type of consulting he needs, and the risk of waste and error is high (Deakins, 2000). He may therefore avoid seeking consulting; (8) The supply, in many cases, does not meet the expectations of the entrepreneurs (Fogel, 2001); (9) The existence of discrepancies in the compatibility between the small business CEO and the external advisor. This lack of compatibility can be in the culture, concepts or familiarity of the consultant with the environmental conditions of the business. Any advice that conflicts with the culture, modes of communication and learning styles is destined to be ineffective (Dalley and Hamilton, 2000); (10) Entrepreneurs may also be suspicious, and lack the trust and the desire to reveal themselves to the establishment.

This situation, in which demand does not meet supply, is relatively more common in the rural area of lesser developed peripheral regions. This is true in the very areas that are in greater need of assistance from the public system, where the alternatives offered by the private market are extremely meager (Bennet et al, 2001). The SMEs in these regions are located relatively far from the service centers and concentrations of economic activity. There is a lack of information regarding assistance programs in these regions, as well as a lack of awareness as to their importance. The relatively difficult economic situation in the periphery leads to a situation where the businesses are smaller and less innovative, often focus on niche-markets (Lowe and Talbot, 2000), and deal more with immediate problems than with problems essential to their functioning. The unique conditions in the rural sector necessitate special programs that usually do not exist. In many cases there is a lack of consultants that have a high level of understanding of these businesses, who are immersed in the local culture, familiar with the needs and characteristics of this sector and able to speak its language. All these make the phenomenon of discrepancy between the supply and demand very common in the rural area, especially in less-developed peripheral regions.

### **3. Research Approach**

In this study, we have attempted to understand the considerations of the entrepreneur/SME owner in deciding to acquire assistance services. Our assumption is that the entrepreneur is rational, and acquires consultancy services on the basis of considerations similar to those that dictate the consumption of other products or services (Bennet et al, 2000). The entrepreneur will take advantage of the services only if in his estimation, the anticipated benefit from the services is higher than their anticipated cost (at present values), provided he has full information about the services.

The costs include the direct cost of the service (the price is subsidized), and the cost of the time it takes to reach the service and receive assistance, which constitutes a crucial factor in the acquisition of business assistance services (Henderson et al, 2000). These costs include also indirect expenses such as the cost of hiring a substitute at the business, loss of work due to the absence of the entrepreneur, the revelation of information, etc.

In calculating the benefit, the entrepreneur estimates the contribution of the assistance to business parameters (profitability or any other parameter). This estimate is subjective, and dependent, among other things, on the positive or negative experience accumulated by the entrepreneur or in his surroundings with regard to the benefit derived from the services. In general, the more the services focus on the specific problems of the business, and provide the entrepreneur with a solution that can be internalized, the greater the benefit that the entrepreneur can derive from the service.

Business support services can be classified according to a number of criteria: (1) Consulting/assistance provided on an individual basis or in groups, using short or long training sessions, courses, seminars, business meetings and more; (2) Location of the consulting in a central location or on the business premises; (3) The type of consulting, general or expert, in areas such as marketing, advertising, funding. In this study we have adopted the distinction made by Schein (as quoted in Deakins, 2000, p. 181) between two types of consultants: the expert consultant and the general consultant. Schein advocates a collaborative, non-expert role for the consultant with the focus on process and helping the client to define diagnostic interventions.

The study assumes that the alternative involving a diagnostic consultant that comes to the client is the one that will resolve the discrepancy between supply and demand, and therefore be the one that enjoys a high benefit-cost ratio. Conversely, the ratio for other alternatives is lower, and in the rural sector it might even be lower than one (where the benefits are lower than the expected costs).

Costs – all the other alternatives, which involve the entrepreneur having to leave the business, are costly in terms of time and the need to commit in advance. Since the businesses in the rural area are located relatively far from the location of service, their cost is higher. In order for them to acquire the services, they must estimate that they will benefit more than urban entrepreneurs.

Benefits – the diagnostic consultant alternative is the most beneficial. The other alternatives of expert consulting, as was mentioned above, make it difficult for the entrepreneur to identify the problems and the type of consulting that he needs, and thus increase the likelihood of him receiving inappropriate consulting (Deakins, 2000). In addition, there are the multiple problems that the entrepreneur encounters, and the costs that arise from the need to approach many expert consultants.

The services of a diagnostic consultant who comes to the business can help raise the ratio for the other alternatives as well, since the diagnosis will increase their anticipated benefit. This manner of assistance can therefore assist in bridging the gap between the demand and the existing supply.

In the current study we will try to confirm the hypotheses regarding the importance of operating a non-expert business consulting program administered at the place of business, for the development of SMEs in the rural area. Some claim that this consulting approach is costly in resources, and that limited resources make the other alternatives preferable: assistance in groups, assistance at service centers or expert assistance at the request of the business.

This intervention is economically justifiable, partly because of its external economies. It helps develop competitive capacity in businesses in the rural sector, integrates them in national processes of economic growth, strengthens local entrepreneurship in regions that lack this resource, encourages development of new activities and branches and assists the growth of these regions and the reduction of the gap between them and large urban centers. Therefore, in choosing the businesses that receive assistance as a first priority, the assisting agencies should consider the multiplying effect that each business may have.

#### **4. Survey and Methodology**

The empirical tests detailed below are intended to confirm the research hypotheses that refer to the discrepancy between supply and demand in the peripheral rural area, and the efficiency of the program involving a diagnostic consultant who comes to the place of business in order to address this discrepancy, thus becoming an important component of the network of assistance services for SMEs in the rural area.

These hypotheses served as the basis for implementation of the pilot experiment in three regions in the state of Ceara in northwest Brazil: Ibiapaba, Quixeramobim and Baixo Jaguaribe.

The program consists of a diagnostic consultant who comes to the SMEs. Two levels of consulting were determined: Level A lasting up to 15 hours, and Level B with up to 85 additional hours of consulting. At level A, consulting is general, assists in diagnosing the problems, and provides on the spot immediate recommendations. At the conclusion of the first stage the consultant must write a summary report, in which he summarizes the main problems that were diagnosed together with the entrepreneur. The consultant also reports his recommendations, including with respect to whether the entrepreneur should proceed to Stage B of the consultation, and if so, in which areas and at what extent. The consulting at the second stage can be general or expert,

according to need, in coordination with the business owner. The consulting at the pilot stage is fully subsidized. At the second stage, the entrepreneur will be required to pay for the consulting, with a certain amount of subsidization.

In the course of the study, two types of questionnaires were administered to each entrepreneur who received assistance; a preliminary questionnaire and a diagnostic questionnaire that was administered after the level A consultancy of up to 15 hours.

(1) Preliminary questionnaire – as a preliminary to operation of the program, a survey that encompassed 224 SMEs taken at random from the businesses in the three pilot regions was carried out by means of a questionnaire. The purpose of the questionnaire was to identify whether there is potential demand for the consultancy services, and if so, in which areas. The questionnaire asked the entrepreneur to identify the problems he faced, and the areas in which he wished to receive consultation.

(2) Diagnostic questionnaire – the second questionnaire was filled out after the businesses had received 15 hours of consulting and diagnosis. The questionnaire was structured, and it was filled out in the course of the study by the consultant on the basis of information supplied to him by the business owner. The questionnaire contained information pertaining to the main problems encountered by the entrepreneur. The questionnaire also included a section to be filled out by the consultant alone, in which he recommends whether the business owner should receive additional consulting, in which areas, and the recommended quota of hours. 78 businesses participated in this stage of the study.

This group of 78 businesses was chosen out of businesses covered by the preliminary questionnaire, who were interested in consulting and met the predetermined criteria of size (number of employees) and growth potential. The selection was carried out by a government-appointed committee, in cooperation with local officials familiar with the businesses. These businesses were eligible for 15 hours of consulting, and based on the opinion of the consultant, could also continue to Stage B of the consulting, with up to 85 additional hours. This process is still underway; some of the businesses have completed their quota of hours, and others have yet to utilize their full quota. The businesses received consulting through a consultant who came to the place of business.

Out of this group, 37 businesses completed the process of the first 15 hours stage of consulting. We have the two questionnaires with regard to this group: the first, which was filled out before they received the consultation, and the second, which was filled out afterward. The following analyses are based on these questionnaires.

## **5. The Empirical Test**

### **5.1 Potential demand that is not addressed by the available supply**

We tried to confirm this hypothesis based on the preliminary questionnaire that was filled out by 224 businesses in the three regions of the experiment. Assistance programs operated by Sebrae, which is a public company for consulting and training, are available in these three regions. The company's service centers are located in

major cities in each region, usually at a distance reaching up to several dozen kilometers from the entrepreneur's place of activity.

The questionnaire was partially closed and partially open-ended. The questions referred to the characteristics of the business, factors that make it difficult for the entrepreneur to evaluate the functioning and growth of the business, whether the business owner is interested in consultancy services, and if so, in which area. The questionnaire was filled out by the business owners, collected by representatives of the local Ministry of Irrigation who operate in the field, and passed on to Sebrae for analysis of the results.

Approximately a third of the businesses stated that they are in a state of inertia or even deterioration, and all the businesses reported that they are experiencing difficulties in business-related areas. In the questionnaire, the businesses were asked in detail regarding each of the following areas: funding, management, marketing, infrastructure, technology and production, personnel, planning and strategy, layout (physical conditions) and others. It was found that at least a quarter of the businesses encounter difficulties with regard to all areas together, except layout and planning and strategy. In response to the question asking which of the above factors was the main obstacle to expanding the business, a third of the businesses ranked funding as the central factor, about a quarter specified marketing and approximately half the businesses were distributed between the other five factors, with no single factor specified as central by more than 10% of the businesses. In response to the question whether they were interested in consultancy services, 94% of the businesses responded in the affirmative.

Despite the situation that emerged in the survey (in which nearly all business owners face difficulties, nearly everyone has a need for consulting in a variety of areas, a sizeable number of businesses are in crisis to the point of collapse, nearly everyone expressed an explicit desire to receive consulting) and despite the existence of consulting institutions within accessible distance, it became apparent that almost none of the business owners actually receives consulting. These findings confirm the hypothesis regarding a market failure, which is reflected in the discrepancy between supply and demand. However, when the consulting program was presented to them, and the consultants conveyed their willingness to help them identify their problems, the business owners expressed willingness to avail themselves of the program, even when it was clear to them that they would have to pay for it.

## **5.2 Multiple problems**

The findings in this part of the study are based on the sample of 37 businesses for which we had both questionnaires: the preliminary and diagnostic. The findings confirm the research hypothesis. A majority of businesses specified more than one factor that hampers their development.

The average number of problems per business mentioned in the preliminary questionnaire was 2.9, with a standard deviation of 1.5. It should be noted that at this stage, the two factors of layout and planning and strategy were barely specified or not specified at all by the businesses. At a later stage, after the visit by the consultants and their help with implementation of problem diagnosis, the entrepreneurs were asked

once again about the problems they face. At this stage, nearly all the respondents specified more than one problem, and the average number of problems specified by each entrepreneur reached 4.4 out of the 9 factors mentioned, with a standard deviation of 1.4 (Table 1). The difference between the two averages, before and after the diagnostic stage with the assistance of the consultants, seems to indicate an increased awareness of the existence of new problems that were at first not identified.

### **5.3 The entrepreneur's difficulty in diagnosing the problems, and the consultant's role as a facilitator in diagnosing the problems**

Do businesses know how to diagnose the factors that hamper their functioning and growth? The hypothesis in the study is that businesses find it difficult to diagnose the factors that hamper their functioning. They fail to identify some of the factors, or attribute difficulties to the wrong factors. The likely result is that they will not know which type of assistance to seek, or will seek the wrong type of assistance.

The responses presented in Table 1 indicate the gap we have already mentioned between the average number of problems specified by the entrepreneurs in the preliminary questionnaire before consultation (2.9) and the number of problems specified after consultation (4.4). This may indicate the existence of an average of 1.5 problems of which the entrepreneur was not aware, in addition to the 2.9 problems of which he was aware. It may also, however, indicate a gap in the entrepreneur's perception of his problems before and after consultation. According to our hypothesis, both possibilities are correct: the entrepreneur is not aware of all the problems he faces, and the problems that he identifies without the aid of a consultant are not necessarily the central problems in his business.

#### Test 1: Differences in problems specified in the two questionnaires

The hypothesis was tested by comparing the two questionnaires, with regard to the factors specified by the businesses, before and after diagnosis. For each of the nine factors, we calculated – for the preliminary questionnaire and the diagnostic questionnaire – the number of business owners who specified it as a problem. The figures are presented in Table 1 below in absolute numbers and percentages. We remind that the preliminary questionnaire was filled out by the business owner before the diagnosis, and the diagnostic questionnaire was filled out by the consultant together with the business owner after the diagnosis.

The table shows that there are essential differences between the two questionnaires in several aspects of the identification of problems:

- Exposure of factors that were not included in the preliminary questionnaire: Two factors were added in the diagnostic questionnaire, which were not specified in the preliminary questionnaire: planning and strategy, and layout, despite the high proportion – after diagnosis – of those who encounter difficulties in these areas.
- Change in the responses following the diagnosis, and change in the ranking of factors: Following the diagnosis, an essential change took place in those factors that businesses deemed detrimental to their functioning. Before the diagnosis, three factors were dominant with regard to the proportion of businesses that deemed them detrimental to

their development: funding, marketing and infrastructure. Approximately half of the businesses specified these factors. The factors ranked second, which were specified by about a third of the businesses, were management and labor force. Following the diagnosis, the respondents changed their responses; the gaps between the factors were enlarged and their ranking changed. The management factor was ranked higher, and together with marketing became dominant. About three quarters of the businesses realized, after the diagnosis, that they were facing difficulties in this area. The funding factor dropped to second level, and is ranked together with the production process, technology, and planning and strategy. This was diagnosed as a detrimental factor in approximately half of the businesses. The labor force and infrastructure factors dropped in ranking, from the second and third ranking in the proportion of business owners who encountered difficulties in the preliminary questionnaire, to the fourth ranking in the diagnostic questionnaire – Table 2.

- From factors related to the external environment to factors dependent on the entrepreneur: The diagnosis revealed an apparent tendency of the entrepreneurs to blame external factors not under their control, such as infrastructure, funding difficulties and particularly market difficulties, for their business problems, rather than factors related directly to the functioning of the entrepreneur himself, mainly management. Even after the diagnosis, the marketing factor remained central, as did the funding factor, though it dropped to second place. Another factor that can be viewed as beyond the control of the entrepreneur, labor force, was also afforded less significance after the diagnostic stage.

Table 1: Businesses encountering difficulties with each of the factors – absolute numbers and percentages of the total sample (n=37)

Absolute numbers									
	Funding	Marketing	Management	Infrastructure	Labor force	Production and Technology	Other	Planning and Strategy	Layout
Preliminary	22	21	14	20	14	6	9	0	1
Diagnostic	19	28	27	4	4	17	3	18	8

  

Percentages									
	Funding	Marketing	Management	Infrastructure	Labor force	Production and Technology	Other	Planning and Strategy	Layout
Preliminary	59	57	38	54	38	16	24	0	3
Diagnostic	51	76	73	11	11	46	8	49	22

Table 2: Ranking of the factors by percentage of respondents that report encountering difficulties:

	Preliminary	Diagnostic
Marketing	1	1
Funding	1	2
Infrastructure	1	4
Management	2	1
Labor force	2	4
Production process and technology	3	2
Planning and strategy		2
Layout		3

Second test: Change in diagnosis at the level of the individual entrepreneur

The study followed up after each of the entrepreneurs, according to his response in the preliminary questionnaire and the responses in the diagnostic questionnaire. Our purpose was to examine what proportion of the entrepreneurs changed their diagnosis after consultation.

There are 4 scenarios for each of the factors mentioned as problematic in the business: where the entrepreneur either gave an identical affirmative response in both questionnaires (encountered difficulties), or an identical negative response (did not encounter difficulties), specified the factor as a difficulty only in the preliminary questionnaire and not in the diagnostic follow up questionnaire, or specified the factor as a difficulty only in the diagnostic questionnaire and not in the preliminary questionnaire. Table 3 presents the distribution of entrepreneurs for each of the factors, according to this classification. In the first two cases, the identification of problems made by the entrepreneur before the diagnostic stage was shown to be correct after the diagnostic stage was carried out (correctly identified an existing problem or correctly identified the absence of a specific problem). In the last two cases, an error is made in identifying the problem (identification of a non-existent problem, or failure to identify an existing problem).

Table 3: Diagnostic indices: distribution of entrepreneurs according to the correctness of the diagnosis of each problem (n=37), percent of total.

	Fund- ing	Mar- keting	Man- agement	Labor force	Infra- structure	Produc- tion and Tech- nology	Planning and Strategy	Layout
Made a correct diagnosis	76	43	43	63	46	60	51	76
Problem exists	44	38	27	5	5	11	0	0
Problem does not exist	32	5	16	58	41	49	51	76
Made mistaken diagnosis	24	57	57	37	54	40	49	24
Identified non-existent problem	16	19	11	32	49	5	0	2
Failed to identify existing problem	8	38	46	5	5	35	49	22
Total	100	100	100	100	100	100	100	100

The findings show that half or more of the entrepreneurs err in identifying problems in a wide range of areas: marketing, management, infrastructure, planning and strategy. The mistake lies in failing to identify an existing problem, especially in the areas of management and planning and strategy; close to half of the entrepreneurs make this mistake, and without the diagnosis would not identify these factors as detrimental to their functioning nor seek assistance from systems that are part of the available supply. There is also a high rate of under-identification in the areas of marketing and production and technology.

The second type of error, incorrect identification of problem-causing factors, is most common in the areas of infrastructure and labor force. This does not, of course, mean that the entrepreneur sees a problem where none exists: it is quite possible that he has encountered problems such as a shortage of appropriate labor force or unavailability of appropriate infrastructure. The diagnosis carried out through the consultant enables him to understand in which cases the symptoms he has identified actually indicate the existence of a problematic factor in another area. It is also possible that after the consulting, the entrepreneur focuses on problems that he understands are within his power to solve, as opposed to problems over which he has no control. This introspective attitude towards the problems could certainly enable the entrepreneur to channel his energy in more efficient directions.

In conclusion: The consultation was beneficial in the diagnosis and ranking of the problems, and led from multiple problems being ranked at the same level, to ranking of the problems by degree of importance. It also helped the entrepreneurs to change their course of thinking, from attaching great importance to external factors such as labor force and infrastructure to focusing on factors that they can change, such as marketing and especially management. Even the issue of funding, which was still found to be a source of difficulties, dropped in relative importance, from a first level ranking to a second level ranking, after management and marketing. After consulting, the entrepreneurs realized that management is an essential factor, as is marketing, and that these are necessary conditions for their business development.

Another important finding is the fact that following consulting, the entrepreneurs became more aware of additional areas that are important for their development: layout, planning and strategy, technology and the production process. These factors were not specified by the entrepreneurs in the preliminary questionnaire, although it subsequently became apparent that they were indeed important.

## **6. Summary and Conclusions**

The study pointed to one of the problems that troubles policy makers who operate assistance programs for SMEs in the rural area in peripheral regions. It appears that in many cases, despite the existence of a varied supply of assistance services for SMEs, and despite the fact that these businesses are in need of the business services, there is a discrepancy between supply and the demand.

The experiment in this study indeed revealed the existence of hidden demand on the part of the SMEs, although they did not approach the existing consultancy services. We also confirmed the hypotheses regarding the causes of the discrepancy between

supply and demand. We demonstrated that the businesses indeed suffer from multiple problems, that the entrepreneurs find it difficult to diagnose their problems without expert assistance, and that as a result they may seek the wrong type of consulting. The result might be reflected by a high evaluated cost-benefit ratio. Benefit is low, since the correct diagnosis has not been made, and the cost is high, as a result of both the distance to the service center and the fact that they will have to receive assistance in a large number of areas before they receive the assistance they actually need. The low cost-benefit ratio from the service leads to a situation where, despite the existence of the above mentioned supply of consulting services, it is not used by the businesses.

The study referred simultaneously to supply and demand. The study indicated the existence of a supply of services to SMEs in the rural area, and indicated the factors that determine its rate of usage. A similar approach was taken in a study by Bennet et al (2000), which referred mainly to the distance factor and the size of the local service center in determining the rate of usage of consultancy services. The current study added additional factors related to costs that businesses incur as a result of the existence of multiple problems and their difficulty in diagnosing them.

This study examined the ability to bridge this discrepancy between supply and demand, using a pilot program which was operated in three regions in the state of Ceara in Brazil. The program was operated by means of consultants sent to the place of business to help it identify the problems and define the necessary type of consulting. This type of program raises the benefit-cost ratio. The findings of the study indicate that there was demand for this program, and that the businesses availed themselves of it. The identification of the problems increases the benefit businesses can derive from the existing supply of services, and the program can serve as an important link in closing the existing gap.

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