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## East-West co-operation of small and medium sized enterprises: evidence from the Berlin region

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# Kieler Arbeitspapiere

# Kiel Working Papers

Kiel Working Paper No. 724

**East-West Co-operation of  
Small and Medium Sized Enterprises:  
Evidence from the Berlin Region**

by  
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## Contents

1	INTRODUCTION .....	1
2	SCOPE AND IMPORTANCE .....	3
3	SOURCES OF COMPARATIVE ADVANTAGE .....	4
4	MECHANISMS.....	8
5	SECTORAL PATTERN .....	12
6	REGIONAL PATTERN.....	13
7	DYNAMIC ASPECTS .....	16
8	IMPEDIMENTS .....	21
9	SUMMARY AND CONCLUSIONS.....	24
	APPENDIX .....	26
	REFERENCES.....	27

### **Abstract**

Globalization opens new opportunities also for small and medium sized enterprises (SME). However, empirical information on SMEs' international activities is still fragmented. The paper adds another piece of evidence in analyzing how Berlin SMEs are co-operating with partners in transition economies. To identify the size impact, co-operation activities of SMEs are contrasted to those of large enterprises. It is explored where SMEs identify sources of comparative advantage, which mechanisms, which sectors and which regions they prefer to co-operate and which impediments they face. As a result, the impact of enterprise size often appears to be modified by sector adherence (D21, F00, L2).

## 1 Introduction<sup>1</sup>

Small and medium sized enterprises (SME) are said to be the yeast which raises the cake of the market economy. SMEs are appreciated for operating innovatively, flexibly and competitively. For these reasons they are expected to contribute crucially to the process of marketization in transition countries. However, the relation between success of transition and development of SMEs is of reciprocal causality. Transition benefits from SMEs, hence growth occurs. SMEs benefit from successful transition, hence growth intensifies.

The paper contributes to an ACE-project which is designed to explore the necessities and possibilities of integrating eastern SMEs into European trade flows and co-operating schemes. For this purpose a sequence of papers is scheduled to be produced.<sup>2</sup> The paper in hand serves to consider the reverse case, namely the activities of western SMEs in transition countries. It confines to co-operation activities which Berlin enterprises develop in central east European transformation countries.<sup>3</sup> Although the empirical foundation is still narrow, data allow to draw

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<sup>1</sup> The research for this paper was undertaken with support from the European Commission's Phase ACE Programme 1995: "Integrating Small and Medium Sized Enterprises in Transformation Countries into the European Trade Flows and Co-operation Schemes", project no. 94-0724-R. The paper has been prepared for the workshop of the research group to be held in June 1996 in Gdynia. I am indebted to Alexander Eickelpasch from Deutsches Institut für Wirtschaftsforschung, Berlin, who provided data and did additional calculations. Klaus-Dieter Schmidt offered helpful comments and critique.

<sup>2</sup> A first paper [Schmidt 1996] surveys recent literature on SMEs in international business. Further papers will be written to discuss incentives for cross-border activities of SMEs and to compare evidence from border economies in Central Europe, South-East Asia and North America.

<sup>3</sup> Further surveys cover eastward co-operation on part of Berlin public and semi-public institutions [DIW 1993b] and eastward co-operation on part of Brandenburg enterprises [Brandenburgisches Wirtschaftsinstitut 1993]. However, these surveys do not offer a break down by size of western co-operation partners.

first conclusions. In this respect the paper serves to prepare subsequent empirical investigations of our own. In the course of the project, one or several surveys on SMEs in central European border regions are scheduled to be conducted.

Table 1 – Survey of Berlin Enterprises

	Manufacturing		Services		Note: Share of totals	
	SME	LE	SME	LE	Manu- facturing	Services
Number of enterprises <sup>a</sup> thereof in	480	45	614	97	32	27
West Berlin	354	36	385	57	34	24
East Berlin	126	9	229	40	27	34
Persons in employment thereof in	35,000	70,900	6,900	15,200	58	
West Berlin	27,200	59,700	4,400	9,400	61	
East Berlin	7,800	11,200	2,500	5,800	47	

<sup>a</sup>Covered by the survey.

This paper is based on a survey among Berlin enterprises which has been conducted by the Deutsches Institut für Wirtschaftsforschung, Berlin (DIW) in the first quarter of 1993 (Table 1). Berlin is the gravity center of economic activity in eastern Germany and Berlin enterprises display a higher than average eastward orientation [DIW 1993: 17]. In east-west co-operation they can capitalize on valuable assets: first, geographical nearness and second, market room experience on part of west Berlin enterprises, respectively experiences in economic transformation on part of east Berlin enterprises. Furthermore, many enterprises, especially in east Berlin, can rely on traditional business contacts. Thus, it appears justified to take data from Berlin enterprises as a suggestive piece of evidence with respect to the comprehensive topic of economic east-west co-operation. The specific feature of this paper is to directly compare the pattern of activity for

SMEs<sup>4</sup> and LEs (large enterprises). Thus it sketches not only what SMEs do when they go eastward, but it goes beyond and focuses on what they do differently.

## 2 Scope and Importance

It is conventional belief that small and medium sized enterprises are less integrated into international economic relations than large enterprises [Schmidt 1996: 8]. This is supposed to be true for international relations in general as well as for the specific case of east-west economic relations. Empirical investigation among Berlin enterprises confirms this basic hypothesis. The involvement of SMEs in co-operating with partners in the transition economies of Central East Europe is indeed significantly smaller than the involvement of large enterprises. However, it is not at all negligible. About every fifth Berlin SME in the survey is exploring one or several of the eastern markets (Figure 1).<sup>5</sup> Roughly one third of employment of Berlin's SMEs depends to some extent on eastward co-operation. Size seems to matter more for manufacturers than for service enterprises, as for manufacturers differences between SMEs and LEs result to be much larger than in services. Small service enterprises are involved in east-west co-operation as much as or even slightly more than small manufacturing enterprises, while large service enterprises are significantly less involved than large manufacturing enterprises. To put it differently: size matters, but sector adherence often matters more.

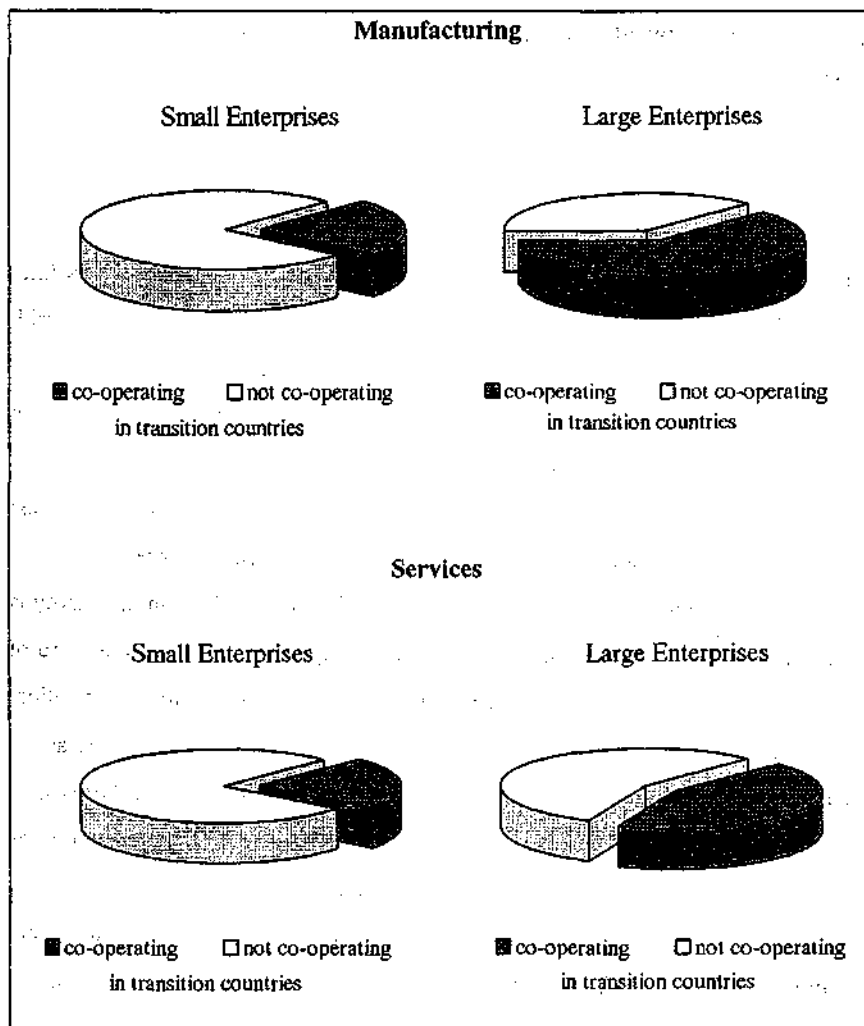
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<sup>4</sup> In manufacturing, enterprises with less than 500 employees and in services, enterprises with less than 50 employees are considered as SMEs.

<sup>5</sup> In Brandenburg, roughly half of all private enterprises which are co-operating eastward have less than 50 employees [BWI 1993: 6].



Figure 1 – Scope of Co-operation



### 3 Sources of Comparative Advantage

East-west co-operation is governed by the paradigm of comparative advantages. The motivation pattern of selling resp. purchasing in transformation countries in-

dicates where enterprises identify sources of such advantages (Figures 2 and 3). Successful sales of Berlin enterprises mainly rely on their conformance quality and technological lead while purchases are mainly motivated by a favourable price-quality relation offered by the eastern partner. In manufacturing, there are only slight differences between small and large enterprises. The ranking of motivations appears to be identical for small and large manufacturers, although the importance of major selling motivations — quality, technology, relations — appears to be less pronounced for smaller enterprises. In services, however, enterprise size seems to play a larger role than in manufacturing. With respect to selling, small service enterprises rely more strongly on offering high quality and a favourable price-quality relation than large service enterprises do which in turn rely more often on supplying advanced technology. With respect to purchasing, small service enterprises choose more often to acquire products for their content of advanced technology and for their quality features than large ones do.

Also historical reasons still seem to govern a good deal of present day business co-operations. Former trade relations and the peculiar situation of being only recently privatized or of not yet being privatized can be assumed to have a significant impact on motivating co-operation (Table 3a). Large east Berlin enterprises — both in manufacturing and in services — are considering traditional business relations by far more often the reason for sales success than other enterprises do. In contrast, small western and large eastern manufacturers heavily rely on conformance quality when selling eastward. In services, the pattern appears to be reverse, although less pronounced: large western and small eastern enterprises rely relatively more on offering conformance quality than their respective counterparts.

Figure 2 – Conditions for Sales Success in Transition Countries

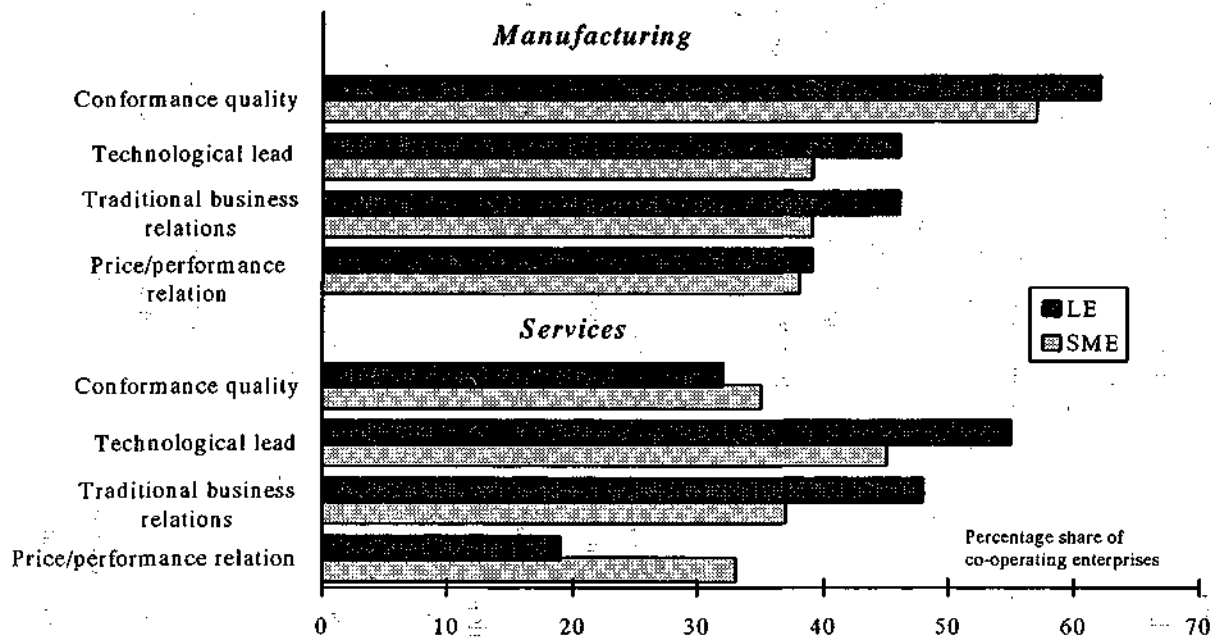


Figure 3 – Reasons to Purchase in Transition Countries

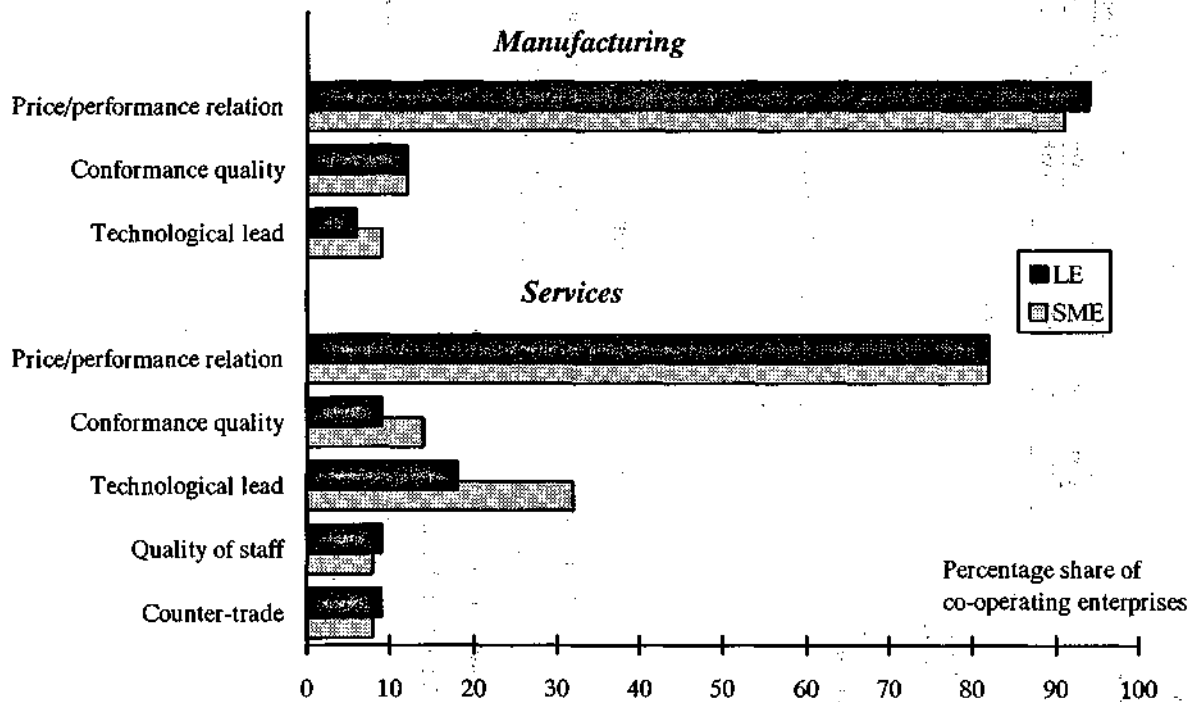


Table 3a -- Conditions for Sales Success of East and West Berlin Enterprises in Transition Countries<sup>a,b</sup>

	Manufacturing				Services			
	West Berlin		East Berlin		West Berlin		East Berlin	
	SME	LE	SME	LE	SME	LE	SME	LE
Conformance quality	72	58	26	71	35	42	36	24
Technological lead	45	47	26	43	51	71	39	41
Traditional business relations	32	32	52	86	27	29	45	65
Price/performance relation	36	26	44	71	29	7	35	29

<sup>a</sup>Percentage share of all co-operating enterprises in the respective category. - <sup>b</sup>Multiple entries.

#### 4 Mechanisms

The overwhelming part of east-west co-operation is conducted among enterprises (Table 4a). A smaller but still important part of co-operation is conducted among western enterprises and eastern research institutes.<sup>6</sup> Partnership with research institutes is more important in services than in manufacturing and more important for large than for small enterprises. On the whole, differences in partner choice are mostly explained by the sector of operation (manufacturing or services) rather than by enterprise size.<sup>7</sup>

<sup>6</sup> This is the main route on which eastern technology is channelled into the west.

<sup>7</sup> Location in east or west Berlin only seems to be a weak determinant of partner choice (Table A1).

Table 4a – Co-operation Partners in Transition Countries<sup>a,b</sup>

	Manufacturing		Services	
	SME	LE	SME	LE
Enterprises	95	96	82	86
Research institutes	14	33	38	45
Governmental or other public bodies	2	3	19	12

<sup>a</sup>Percentage share of all co-operating enterprises in the respective category. – <sup>b</sup>Multiple entries.

It is conventional belief that SMEs are not only less involved in international activities than large ones but also that those which are involved prefer forms of shallow integration, namely trade, specifically exports. Deep integration, like international production based on equity arrangements, is much less likely to occur among small enterprises [Schmidt 1996: 1, 8]. Surveying Berlin enterprises' eastward co-operation seems to confirm this hypothesis, at least with respect to manufacturing (Table 4b). Sales activities, i.e. exports, are the main subject of co-operation for all types of enterprises: commodity exports are dominating manufacturers' co-operations, service exports are dominating service enterprises' co-operations — both irrespective of size. This general dominance of shallow integration reflects that although system transformation is under way in the Central and East European economies they are still less integrated internationally than western industrialized countries. In manufacturing, small enterprises' preference for shallow integration by exports appears to be considerably stronger than that of large enterprises. Small manufacturers' commodity exports result to be about three times as important as imports while for large manufacturers exports are just twice as important. In services, too, selling eastward appears to be more important than purchasing. Although size differences are less pronounced than in manufacturing.

Table 4b – Subject of Co-operation<sup>a,b</sup>

	Manufacturing		Services	
	SME	LE	SME	LE
Selling commodities	80	93	24	14
Purchasing commodities	26	44	16	5
Selling services thereof				
Product related services	8	26	44	40
Marketing	3	-	38	26
Engineering	6	33	21	37
Education, training	2	30	23	23
Other	5	11	16	26
Purchasing services thereof				
Engineering	3	7	10	5
Subcontracting	18	22	6	5
Marketing	-	7	6	7
Other	2	4	6	12

<sup>a</sup>Percentage share of all co-operating enterprises in the respective category. – <sup>b</sup>Multiple entries.

In manufacturing, trade in product related services reveals two interesting features:

- Small manufacturers are much less involved in selling services to transition countries than large ones are. For large manufacturers trade in services appears to be an important complement to their business. This mainly reflects that SMEs tend to be less vertically integrated than large enterprises.<sup>8</sup>

<sup>8</sup> Large manufacturers thus realize a completely different choice in the internal-external (or: hierarchy- market) dimension than small ones do. Large manufacturers provide a much larger proportion of services internally. Thus they display a higher degree of vertical integration. This makes them more hierarchical on the one hand. On the other hand, just their higher degree of vertical integration enables them — via scale economies — to integrate more intensively horizontally on international markets, namely by internationally selling their services.

- Large and small manufacturers are similarly strongly involved in subcontracting, i.e. offshore production. This seems to reflect that transformation countries are mainly linked into the international division of labour by offering cheap labour. Obviously, western enterprises are responsive to this incentive with only small consideration of their own size.

As a special form of trading services, technology transfer (TT) is much more important for large enterprises than for small ones and it is more important in services than in manufacturing. However, in manufacturing enterprises size seems to matter more than in services (Table 4c). Interestingly, manufacturers — both small and large — which are involved in TT nearly entirely rely on selling their know-how while service enterprises are much more involved in mutual exchange.

Table 4c – Importance and Direction of Technology Transfer<sup>a,b</sup>

	Manufacturing		Services	
	SME	LE	SME	LE
Technology transfer is relevant especially with respect to				
purchasing know-how	26	54	60	79
selling know-how	3	0	14	5
reciprocal exchange	22	50	40	53
	0	4	15	21

<sup>a</sup>Percentage share of all co-operating enterprises in the respective category. — <sup>b</sup>Multiple entries.

Eastward co-operation of Berlin enterprises is mainly organized by simple modes of co-operation which constitute shallow forms of integration (Table 4d). Shallow integration dominates for transformation specific reasons: as far as enterprise restructuring lags behind and the institutional framework does not yet appear to be fully reliable, western enterprises are reluctant to take the risk of equity arrangements. In this case they prefer loose forms of co-operation. Only large manufacturing enterprises rely to a considerable extent (30 p.c.) on establishing their own



enterprises. Small manufacturers focus on the loosest form of involvement, namely to establish information offices. In contrast, small service enterprises co-operate in nearly every form except by establishing affiliates. Again, enterprise size matters more for manufacturers than for service enterprises.

Table 4d -- Organizational Form of Co-operation<sup>a,b</sup>

	Manufacturing		Services	
	SME	LE	SME	LE
Co-operations	6	26	26	28
Affiliates	8	30	6	9
Information offices	17	52	26	40
Joint ventures	9	19	17	16

<sup>a</sup>Percentage share of all co-operating enterprises in the respective category. -- <sup>b</sup>Multiple entries.

## 5 Sectoral Pattern

With respect to the sectoral pattern of co-operation small manufacturers display the same preferences as large ones: they co-operate most intensively in the field of basic and intermediate goods, followed by capital goods, consumer goods and finally food. Small service enterprises, however, display preferences which clearly differ from those of large ones. Small service enterprises most intensively co-operate in the fields of science, research and education, while large service enterprises focus on consulting, both technical and economic. Data processing seems to be a less promising field of activity at least for small service enterprises. There is no economic model at hand which might explain this pattern.<sup>9</sup> Still it is possible that it is random rather than systematic. Probably it tells more about eastern

<sup>9</sup> The scope of possible resp. profitable international activities of SMEs probably depends less on the sector or branch in which they operate but on the specific spot they occupy in the core-periphery dimension of production. Literature suggests that SMEs can develop comparative advantages more easily in the periphery of production than in the core [Schmidt 1996: 13].

economies' progress in transition than about western co-operators: manufacturing in the east is still dominated by basic, intermediate and capital goods; the production of services is dominated by knowledge goods which figure as important intermediate inputs in the process of economic restructuring.

Table 5 – Sectoral Pattern of Co-operation<sup>a,b</sup>

	SME	LE
	Manufacturing	
Basic and intermediate goods	29	100
Capital goods	20	68
Consumer goods	15	25
Food	11	33
	Services	
Science, research, education	39	50
Economic consulting	27	55
Technical consulting	19	56
Marketing	30	-
Data processing	12	32
Other		

<sup>a</sup>Percentage share of all co-operating enterprises in the respective category. - <sup>b</sup>Multiple entries.

## 6 Regional Pattern

The regional pattern of co-operation reflects the country choice of western enterprises which is driven by distance, resp. nearness, reform progress and historical relations. The largest part of co-operations is taking place in the neighbouring leading reform countries (Poland, the Czech Republic, Hungary and partly the Slovak Republic) and in the large CIS countries (Russia, Ukraine, and partly Belorussia) (Table 6a). Manufacturing and service enterprises have developed quite different preferences in country choice and, additionally, enterprises size appears to play a much larger role in services than in manufacturing. Manufacturers' first preference is for Poland, followed by the Czech Republic, Russia and Hungary. Service enterprises most frequently choose Russia, followed by Poland, Czech

Republic and the Ukraine.<sup>10</sup> The relatively high preference for the Ukraine does not seem to be motivated by geographical nearness or by impressive reform progress. Rather it seems to be driven by historical business relations. This hypothesis is supported by a more detailed break-down which allows to separate east and west Berlin enterprises (Table 6b). East Berlin enterprises co-operate more frequently with partners in Russia and the Ukraine than those in west Berlin do — irrespectively of size and sector — and large east Berlin enterprises display an even stronger preference for Russia and the Ukraine than small ones do.

Obviously, historical business relations are such important that they may substitute for the advantages of co-operating in small geographical distance and/or the advantage of co-operating in a fast progressing reform environment. In this perspective, historical relations appear to be an asset which east Berlin enterprises were able to preserve in the process of transformation.<sup>11</sup>

Another puzzling finding is that Hungary appears to play only a relatively small role in Berlin enterprises' eastward co-operation. This again qualifies the importance of geographical nearness and reform progress in motivating enterprises' eastward co-operation. In terms of geographical nearness, Hungary results to be less attractive than Poland or the Czech Republic, e.g., as it has no common border line with Germany. And due to an early beginning of reforms historical rela-

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<sup>10</sup> In manufacturing, Poland is especially attractive for subcontracting. In services, Russia is mainly chosen for purchasing engineering results [DIW 1993: 21].

<sup>11</sup> This does not contradict the widespread recognition that the break-down of former Soviet markets severely hurt the east German economy [DIW, IfW 1991: 19ff; DIW, IfW 1992: 12ff]. Three aspects have to be kept in mind when evaluating survey results. First, values of 100 p.c. stand for "all", not necessarily for "many" enterprises. E.g., the number of large east Berlin manufacturing enterprises is rather small. Second, co-operation of Berlin enterprises with Russia frequently refers to research and technology rather than to trade. Third, many deliveries into the CIS, especially investment and consumer goods, are heavily supported by government guaranties.

tions, especially to east Berlin enterprises, may be loose or lacking compared with relations to other former CMEA-countries. Probably, Hungarian westward co-operation relies predominantly on relations to west Germany and other west European countries.

Table 6a – Regional Pattern of Co-operation<sup>a,b</sup>

	Manufacturing		Services	
	SME	LE	SME	LE
Poland	76	86	40	44
Czech Republic	54	79	35	54
Russia	45	68	58	86
Hungary	45	64	19	30
Slovak Republic	26	54	12	26
Ukraine	23	61	31	47
Bulgaria	19	50	14	23
Belorussia	11	57	16	28
Lithuania	14	32	14	26
Latvia	6	36	12	30
Estonia	12	25	7	23
Romania	6	29		
Other	11	47	13	50

<sup>a</sup>Percentage share of all co-operating enterprises in the respective category. – <sup>b</sup>Multiple entries.

Table 6b – West and East Berlin Enterprises' Country Choice in Co-operation<sup>a,b</sup>

	Manufacturing				Services			
	West Berlin		East Berlin		West Berlin		East Berlin	
	SME	LE	SME	LE	SME	LE	SME	LE
Russia	40	57	58	100	46	70	68	100
Poland	82	86	62	86	51	50	31	39
Czech Republic	53	76	54	86	41	60	30	48
Hungary	48	62	39	71	27	35	13	26
Ukraine	22	48	27	100	27	45	34	48

<sup>a</sup>Percentage share of all co-operating enterprises in the respective category. – <sup>b</sup>Most important partner countries; multiple entries.

Apart from country preferences, the regional pattern of co-operation reveals a further important — and robust — difference between small and large enterprises. On average, each enterprise which is involved in eastward co-operation displays its activities in several countries. However, small enterprises are doing so to a significantly smaller extent (Table 6a). Both in manufacturing and in services, small enterprises' multicountry activities — indicated by multiple entries — are only half as frequent as those of large enterprises, and among small service enterprises they are even less frequent than among small manufacturers. This is clear evidence that SMEs' limited amount of resources is an important or even the most important restriction to the scope of their international activities. This hints to the argument that further co-operation can probably best be promoted by measures to initiate and design small enterprises' co-operation networks which allow to pool resources.

## **7 Dynamic Aspects**

The time structure of starting and developing co-operation projects correlates with enterprise size (Table 7a). Generally, SMEs tend to start later than large enterprises. SMEs, especially in services, tend to be the typical followers, while large enterprises are the typical early starters: even before 1990 half of the large manufacturers and two fifths of large service enterprises had started to co-operate with partners in eastern European countries. This finding is supported by conventional wisdom which argues that market entry in a foreign, especially in a transforming country is a resource consuming and risky undertaking. This gives an edge to large enterprises which dispose of a greater resource endowment than SMEs and thus enjoy a greater ability to absorb risks.

Table 7a – Beginning of Co-operation<sup>a</sup>

	Manufacturing		Services	
	SME	LE	SME	LE
Before 1990	39	48	20	41
1990	18	24	19	9
1991	19	14	25	29
1992	19	5	28	15
1993	5	9	8	6
Note:				
Share of all enterprises	19	62	23	44

<sup>a</sup>Percentage share of all co-operating enterprises in the respective category.

Service SMEs, on average, have a later start than manufacturing SMEs. This confirms the hypothesis that services, namely enterprise related services, much depend on the development and restructuring performance of the industrial sector. Irrespectively of size and sector, the bulk of co-operations started in the early stage of transformation, in the late 1980s until 1991/1992.<sup>12</sup> In this period markets in transition countries have been created, reinstated and reorganized. Obviously, enterprises in general have been aware that pioneering profits as well as future market shares have to be captured in the early stage of transformation.<sup>13</sup> A salient feature of this period has been an intense activity of setting up new enterprises, many of which embarked on eastward co-operation, especially when they have been founded in the process of privatization and were able to capitalize on former business contacts.

<sup>12</sup> Note that entries for 1993 only reflect the first quarter of the year.

<sup>13</sup> A break down by west and east Berlin points to different behaviour only with respect to large manufacturing and large service enterprises (Table A2).

Enterprise size does not only matter for the beginning but also for the subsequent development of co-operation (Figure 4). About three quarters of all enterprises which are presently co-operating in the transformation countries intend to expand their businesses there.<sup>14</sup> However, small active co-operators — both in manufacturing and services — are much less expansionary than large ones. This finding might reflect that for small enterprises the choice of scope and intensity of co-operation seems to be more limited than for large ones. This might also explain why SMEs, on average, are entering into co-operation later than LEs. As they enjoy fewer degrees of freedom when deciding on scope and intensity of international activities, they have to search longer for an adequate opportunity to initiate co-operation.

The role of enterprise size in explaining behaviour and expectations of non-co-operators appears to be rather vague. Small non-co-operators are interested in initiating co-operation at least as much as large non-co-operators. However, the share of small non-co-operators which do not intend to co-operate is much higher than the share of large non-co-operators, especially in manufacturing. Similarly, small non-co-operators feel much less able to assess prospective co-operation than large. Non-co-operators on the whole see themselves much more confronted with uncertainty than co-operating enterprises.

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<sup>14</sup> DIW 1993: 25, 37.

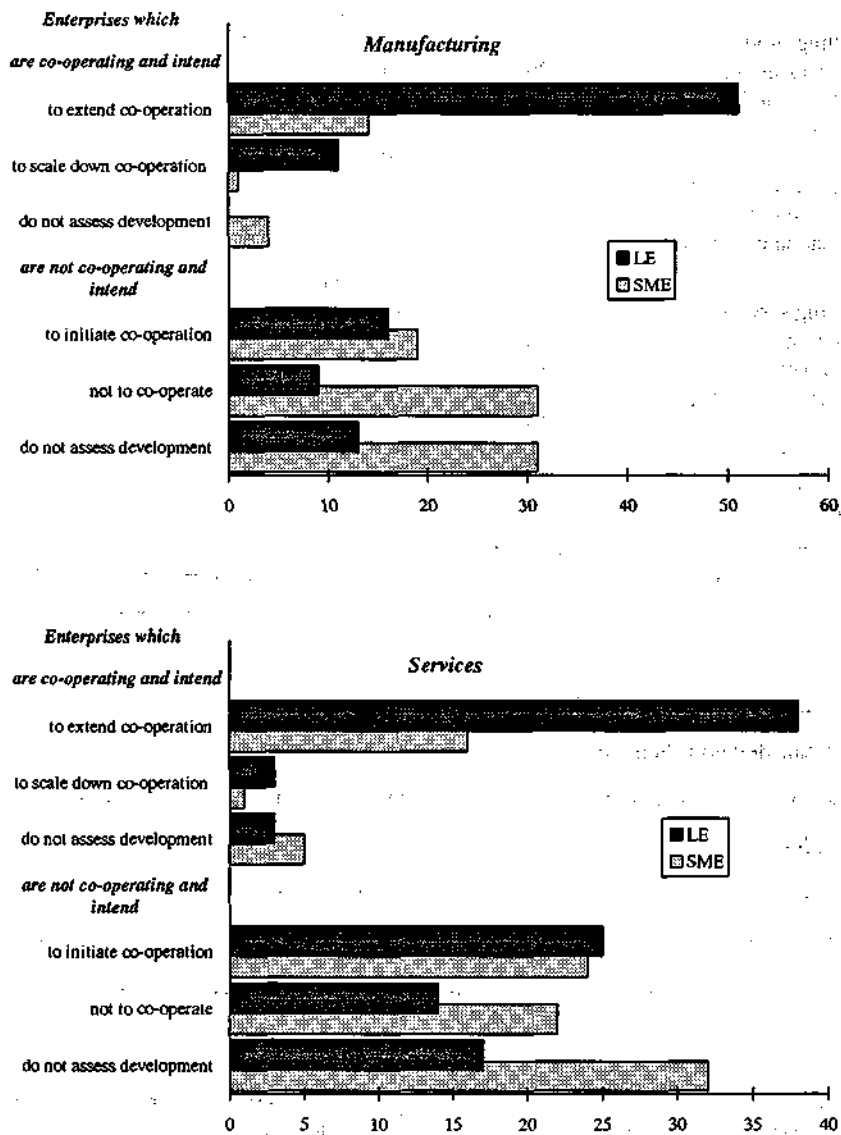
Figure 4 – Present and Envisaged Intensity of Co-operation<sup>a</sup>



Table 7b – Present and Planned Type of Co-operation<sup>a</sup>

	Presently <sup>b</sup>		Planned <sup>c</sup>	
	SME	LE	SME	LE
	Manufacturing			
Selling products	80	93	78	83
Purchasing inputs	26	44	14	14
Subcontracting	18	22	14	21
Trading	.	.	14	10
Production	8	30	6	10
Purchasing services <sup>d</sup>	.	.	2	0
Joint ventures	9	19	4	10
Research co-operation	.	.	3	3
	Services			
Selling services	24	14	80	81
Trading	.	.	15	2
Joint ventures	17	16	6	9
Research co-operation	.	.	5	5
Purchasing inputs	16	5	5	.
Purchasing services	.	.	1	2
Subcontracting	6	5	4	3
Production	6	9	2	2

<sup>a</sup>Multiple entries. – <sup>b</sup>Percentage share of all co-operating enterprises. – <sup>c</sup>Percentage share of those co-operating enterprises which intend to extend co-operation. – <sup>d</sup>Export subcontracting.

Size matters only to a small degree when enterprises think about in which fields they can develop their businesses in transformation countries (Table 7b). Enterprises which are planning to extend their businesses in eastern Europe continue to consider sales activities as the most important subject of co-operation.<sup>15</sup> In services, sales even seem to strongly gain importance. Purchasing, in contrast, seems to be less extended.<sup>16</sup> The same appears to hold for producing abroad and for running joint ventures. Given that preferred subject and organizational form of

<sup>15</sup> Not being export oriented ranks highest among the reasons for abstaining from co-operation in the transformation countries, especially among small enterprises (Table A3).

<sup>16</sup> Note that entries in Table 7b are related to the number of enterprises which prefer the respective activity. They do not relate to the intensity with which the activity will be pursued.

co-operation do reflect how western entrepreneurs do assess results and prospective progress of reforms, one might conclude that westerners are not very enthusiastic about economic development in Central East Europe. This pronounced preference for loose forms of co-operation seemingly contradicts the general intention of expanding co-operation. However, rather than a contradiction this might present a specific approach to encounter transformation specific chances and risks: exploring new chances may call for new initiatives, while at the same time containing or reducing risks may call for lowering the degree of integration.

## 8 Impediments

The majority of enterprises which are maintaining co-operations in transformation countries are confronted with one or several problems which impede co-operation to be developed as it has been planned initially (Table 8a). Interestingly, small enterprises — both in manufacturing and in services — seem to feel less embarrassed with problems than large enterprises. This is just the opposite of general belief. But perhaps it explains quite easily: institutions in transformation economies, including markets, are still more emerging rather than well-established. They are not yet working smoothly but are beset with imperfections. Such an environment strongly challenges enterprises' flexibility and inventiveness. In this respect, SMEs typically have the edge on large enterprises. Furthermore, to the extent that a later beginning of co-operation indicates a longer process of search and a more deliberate planning and design of co-operation, this, too, may explain why small enterprises feel less concerned with impediments than large enterprises — once they have passed the threshold and have started operations in the transformation countries. Large manufacturing enterprises are much in conflict with eastern bureaucracies. This may result from the nature of their projects

which are often large in size and often touch the public sphere like projects in infrastructure or co-operations with state enterprises.

Table 8a – Problems Encountered in Co-operation<sup>a</sup>

	Manufacturing		Services	
	SME	LE	SME	LE
Total thereof <sup>b</sup>	65	89	69	74
Payment delays	49	68	44	53
Bureaucratic impediments	21	50	43	33
Legal problems	13	14	21	14
Insufficient market information	6	7	12	12
Product quality	7	4	11	2
Other	6	11	9	7

<sup>a</sup>Percentage shares. – <sup>b</sup>Multiple entries.

The most disturbing problems which enterprises encounter in co-operation are payment delays, bureaucratic impediments and legal problems. Insufficient market information and insufficient product quality appear to be far less disturbing. The latter are much more susceptible to be solved by the enterprises' own initiative and probably they will have already been solved to a larger extent before entering the market. Should they appear to be unsolvable, one would expect enterprises to abstain from co-operation. In contrast, problems like payment delays, bureaucratic and legal trouble may often emerge only in the course of operation.

Consistent with the high rate of problems, the majority of enterprises demand external support from public bodies (Table 8b). And again, SMEs are not necessarily those who cry loudest. SMEs which are currently co-operating and intend to expand their activities are demanding slightly less support than large co-operators, while SMEs which are not yet co-operating but consider to do so are demanding more support than large enterprises. This may reflect that — just as starting later — they face higher barriers to entry than large enterprises. Support

then might be needed in order to facilitate market entry. However, it remains puzzling why small service enterprises which intend to scale down co-operation demand less support than large ones, while small, prospectively downsizing manufacturers demand much more support than large ones.

Table 8b – Demand for External Support by Kind of Involvement<sup>a</sup>

	Manufacturing		Services	
	SME	LE	SME	LE
Enterprises which currently are co-operating and intend to extend co-operation or to scale down co-operation or do not give an assessment	81	83	90	95
are not co-operating and intend to initiate co-operation or not to co-operate or do not give an assessment	80	20	33	56
	47	-	71	-
Note:				
All enterprises	79	57	91	83
	10	-	21	7
	37	-	51	31
All enterprises	43	53	61	69

<sup>a</sup>Percentage shares.

The most important purpose for which small enterprises demand external support is to establish business contacts (Table 8c). This is a further hint that small enterprises see market entry as the most difficult problem to solve. In services, small enterprises are demanding more support with respect to each purpose — except finance — than small manufacturers do. This might reflect that the service sector in transforming economies is still less developed than the industrial sector and thus confronts small foreign enterprises with more difficult problems.

Table 8c – Demand for External Support by Type of Measures<sup>a,b</sup>

	Manufacturing		Services	
	SME	LE	SME	LE
Information	12	38	25	26
Business contacts	22	33	40	36
Fairs and expositions	15	10	21	21
Other means to facilitate market entry	2	4	4	7
Education and training	2	17	6	5
Financial support	8	6	4	6

<sup>a</sup>Percentage share of all co-operating enterprises in the respective category. – <sup>b</sup>Multiple-countries.

## 9 Summary and Conclusions

Surveying eastward co-operation of Berlin enterprises yields just one single piece in the mosaic of SMEs' role in transition economies. Nevertheless, it suggests following conclusions:

- In accordance with conventional belief, small enterprises are facing higher barriers to market entry in transition countries than large enterprises. They tend to start later and to have a stronger preference for shallow forms of integration. However, once they have passed the threshold and have begun displaying activities, they seem to fare at least as well or even better as large enterprises.
- The impact of enterprise size on the pattern of co-operation is modified and partly even dominated by sector adherence (Table 9). The same is true for historical business relations as a determinant of present day co-operation.

Rather than to offer answers this paper may serve to pose further questions and to prepare subsequent research. It still has to be proved in how far the pattern of co-operation which has been described here is systematic, Berlin specific or even only random. Similarly, it still has to be explored the role of enterprise size on

part of the eastern co-operation partners, the sources of comparative advantages in the core-periphery dimension of production and the role of networks in promoting or supporting SMEs' international activities.

Table 9 – Size and Sector Impact on Co-operation

Size impact Sector impact	Large size differences	No or small size differences
Manufacturing	Scope of co-operation Export-import relation Service exports TT Information offices Own enterprises Joint Ventures Beginning Expansion Contraction Impediments Market entry	Motivation to co-operate Partner choice Export orientation Export-import relation Subcontracting Sectoral pattern Country choice
Services	Motivation to co-operate TT Information offices Sectoral pattern Country choice Beginning Expansion Contraction Impediments Market entry	Scope of co-operation Partner choice Export orientation

Source: Own compilation.

## Appendix

Table A1 – West and East Berlin Enterprises' Choice of Co-operation Partners<sup>a</sup>

Co-operation partners <sup>b</sup>	Manufacturing				Services			
	West Berlin		East Berlin		West Berlin		East Berlin	
	SME	LE	SME	LE	SME	LE	SME	LE
Enterprises	94	100	96	86	79	84	83	91
Research institutes	15	30	9	43	33	37	42	52
Governmental or other public bodies	4	0	0	14	24	19	15	9

<sup>a</sup>Percentage shares. – <sup>b</sup>Multiple entries.

Table A2 – West and East Berlin Enterprises' Start of Co-operation<sup>a</sup>

	Manufacturing				Services			
	West Berlin		East Berlin		West Berlin		East Berlin	
	SME	LE	SME	LE	SME	LE	SME	LE
Before 1990	46	40	24	75	36	47	7	43
1990	20	24	14	25	12	-	25	14
1991	17	18	24	0	22	27	28	28
1992	13	6	33	0	20	14	34	14
1993	4	12	5	0	10	13	6	-

<sup>a</sup>Percentage share of all co-operating enterprises in the respective category.

Table A3 – Reasons for Abstaining from Co-operation<sup>a,b</sup>

	Manufacturing		Services	
	SME	LE	SME	LE
No export orientation	74	33	68	44
Financial Risk	9	22	15	38
No potential market	8	0	9	-
Language barriers	-	-	3	-
Sales are effected among affiliated companies	6	11	-	-
Other	4	33	12	31
Note:				
Share of all enterprises	32	20	23	18

<sup>a</sup>Percentage share of all co-operating enterprises in the respective category. – <sup>b</sup>Multiple entries.

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