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From the Soviet to the European Union

A Policy Study of SME Assistance Organising in Lithuania
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Abstract

Establishment of a policy linkage between particular outspoken societal needs and their realisation via the body political is critical for recently democratised polities. In Lithuania, a former Soviet bloc country undergoing a complex transition, an urge from various societal groups for successful and adequate policies exemplify the importance of this linkage. The study inquires into its establishment during the transition from the Soviet to the EU by exploring collective action to assist Lithuanian SMEs—a new group of economic actors—with their transition period needs. Policy linkage is operationalised in terms of successful and adequate policies.

Methodologically the study examines the usefulness of bottom-up approach to policy organising for revealing policy process in the transition context. Theoretically, the study tests the explanatory power of the major bottom-up assumptions regarding the preconditions for policy linkage in the Lithuanian transition. Especially the role of the government and formal political-administrative institutions is explored.

The study findings indicate very limited government, EU and mandated actors’ success in organising adequate SME assistance policies. *Ad hoc* collective actions with mixed types of actors and alternative structurations were found to frequently supplement for the policy linkage. Useful explanations to this were provided by the employed context, structural and behavioural factors. Active self-organising of policy receivers was a precondition significantly increasing the adequacy of the collective assistance action. Also adherence to the rule of law principles in policy process should not be undermined to increase chances of policy adequacy. Especially a combination of behavioural factors characteristic of social capital in the localities studied was found important to consider further. Policy learning is yet underestimated as a factor structuring policy action and enabling policy linkage. Lack of policy structures has implications for policy learning. The study also proposes policy adequacy as a complimentary indicator of transition success.
Acknowledgements

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This book is for you, Lucian.

Inga Narbutaitė Aflaki

Växjö, October 2009.
From the Soviet to the European Union:

A Policy Study of SME Assistance Organising in Lithuania

By Inga Narbutaitė - Aflaki
Preface

This study can be traced back to the early years of my educational and professional life. Being a Lithuanian national while still a university student in Kaunas, the second largest city of Lithuania, I enjoyed the opportunity back in early 1992-93 to work at the Office of Foreign Affairs at the city municipality. These early years after the restoration of Lithuanian independence and the experiences gained while employed by the municipal administration opened my eyes to the wide range of issues this young democracy with high aspirations was struggling with. The ambitious aspirations of the local political and administrative decision-makers to some extent reflected the high constituency expectations for inducing a positive change to the social and economic development.

My career in Lithuania was soon interrupted by studies at Växjö University in Sweden and University of Oslo, Norway, which after some years of searching allowed me to narrow the focus to the topic of policy and institutional solutions for promotion of local development. I ended up in studying new organisational arrangements for regional governance in the then experimental region of Kalmar in 1997.

Residing in Sweden since 1996, I was continuously engaged in bilateral cooperation projects with Lithuania that gradually brought me closer to both the practical and analytical issues of planning and implementing projects of local development. Meanwhile Lithuania, as a country with very little experience of democratically legitimate and adequate policies for its development, was facing the huge challenge—how to achieve the positive development of its economic, social and cultural life? How to smooth especially the economic, political and social transition to a market economy and consolidate democracy? These issues could not wait for answers for too long as the negative effects of the transition were starting to overload the society.

Thus, during the 90s there were many heated and intense discussions on the Lithuanian national and local political arenas about the need for politico-administrative reforms, the role and discretion of local governments to steer their own development. In the euphoria that had followed soon after the independence declaration, local governments were enthusiastic about their chances in the new type of governance and their role as important policy maker on issues of local development. However, around 1997-98 the discussion on these issues took a particular turn mainly due to the political project aimed at joining the European Union.

These aspirations to join another union, albeit of a different kind, just after few years of independence heated the political tensions in Lithuania. It was often interpreted as if Lithuania was to adjust to someone else’s norms perhaps without regards to the domestic needs. Although sympathetic to the EU as a union of strong western democracies, Lithuanians looked precautiously at the anxiousness of their own national government about the whole EU membership project. What one feared, especially at the local level of government, was that its role will be strongly undermined in planning and managing local development issues and that the centralised EU fund administration will take over.

The discussions about the mandates and competences of the local governments in the development issues and self-government aspirations were gradually turned
into discussions about the need of regional development policies. In the debates on the division of the responsibilities between the local, regional and national levels, the national government became preoccupied with the notion of regional development and elimination of regional disparities. All regions and local governments were suddenly urged to in a short time period prepare their development programmes to be incorporated in, together with the regional development programmes, the national development plan. Many questions arouse at local governments. For what purposes and how was the planning to be done? How much say would local level have in the final product of the national development strategy? This shift of the focus from local level to regional level and an interest in strengthening diverse administrative institutions was a result of the influence from the EU regional policy and the starting membership negotiations with Lithuania.

From the perspective of the specialists working with local economic development issues the membership negotiation period raised questions about the abilities of the national government to acquire and make use of the multimillion worth support from the offered EU funds. Will and how the government would be able to foster its economic development in the frame of the EU and the evolving Lithuanian regional development policies and what role will be ascribed the local governments? Will the needs of particular municipalities or regions be taken into account?

The local and regional specialists I worked with in two regions of Lithuania—Kaunas and Alytus—shared a feeling that those regional programmes were just another ambition of the Lithuanian government to fit into the ‘old Europe’ club and get easy access to regional funds, not taking too seriously the local needs. Specialists at regional administrations wondered whether the regional development programmes will have a chance to keep the focus on the issues of importance or, perhaps, unique to those regions. The government gave instructions and guidelines on how these programmes were to be prepared in each region. In general, small groups of specialists at different municipalities or sometimes independent consultants had set to prepare the complex planning documents. Moreover, the tendency in Lithuanian regions in preparing those programmes was to bet on the safe cards by adjusting them to the recently highlighted national priorities. Somehow the national strategy was being formed ahead of the local and regional ones.

At that time, I was engaged in a common Swedish-Lithuanian project between Jönköping and Alytus counties, approved and financed from the Swedish development agency SIDA. The project was meant not only to introduce the southern region of Lithuania into methods used for strategic planning but, more importantly, engage a wide group of people, including local specialists, politicians, professionals, entrepreneurs, teachers, social workers, rural developers, to share the needs of their groups and analyse what issues demand for common projects or broader policies. In the Lithuanian context this project was unique as it took local and regional needs as the starting point in the planning process.

Also the EU intended to assist Lithuanian regions in developing their strategies and measures to tackle their needs. Three regions in Lithuania were recognised by the EU experts as trial regions for the development of which special EU financial assistance was to be allocated. To be professional enough, their regional
development programmes were by large part prepared by a few top and some foreign experts. The purpose was to prepare administrators at the regional level to administer the coming EU (Structural Funds) and national support. Other regions were supposed to learn from the trial ones how the regional development programmes could be taken into use.

Working with the projects of local and regional development, I gradually came to realise several facts. Firstly, that regional level in Lithuania was simply a relatively newly established administrative level with no allocations for regional development and over-dependency on the national level. The budgets of local municipalities were very tight with crucial issues as medical care, education or infrastructure fighting for financial allocations and their influence in the larger context of economic and social development programmes seemed to be marginal. Thus, local or regional economic development was to be in the large part financed from the state, but especially from the EU budgets. For those reasons, for example, local economic development priorities and measures were to be adjusted both to not only Lithuanian national but even external EU requirements both in priority setting, programme selection and coordination of financial allocations. Of course, also the Lithuanian national government had a say in this issue and an impact on how local economic development policies were to be formed. Regional planning and development—what at that time was called regional policy in Lithuania—turned out to be not so regional or local in itself after all.

Soon after the attempts with the trial regions, there was a change in the EU and national approach to the regional development and planning: the focal point was now centralisation as the whole Lithuanian territory was recognised as a single region in terms of EU assistance allocations. The effect of these and other related decisions awoke my curiosity and interest in the issue on ways to promote local economic development.

Economic development had already at that time been recognised as a top priority in all nationwide development strategies. Lithuanian economy was undergoing a great transition with privatisation of premises and state enterprises, liberalisation, own currency and many other reforms. However, my interest here is the importance of policies for local economic development at that time for the government.

As the economic transition was proceeding, local economic development, rural development and assistance to SMEs were soon realised to be important topics for the country to achieve prosperity, but also as a way of solving some problematic social issues. Given this context of local and regional aspirations as well as powerful and well financed instruments offered by the EU in cooperation with the national government, I gradually became preoccupied with how in this context of evolving new actors, resources and institutions adequate policies and institutional arrangements would be found to contribute to the economic development. How this adaptation to the new requirements from the EU helps to develop better policies and how adjusted those policies are for the local contexts? I have consciously chosen to focus on the development and survival of small and medium-sized companies as major economic actors and engines of the Lithuanian economic development.
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<td>Business Information Centre</td>
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<td>BPH</td>
<td>Business People House</td>
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<tr>
<td>CEE</td>
<td>Countries of Central and Eastern Europe</td>
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<td>CGA</td>
<td>County Governor’s Administration</td>
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<td>EU</td>
<td>European Union</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GHP</td>
<td>Good Hygiene Practice</td>
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<td>GTP</td>
<td>General Territorial Plan</td>
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<td>HACCP</td>
<td>Hazard Analysis and Critical Control Point</td>
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<td>INVEGA</td>
<td>State Credit Insurance Guarantee Institution in Lithuania</td>
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<td>KCCIC</td>
<td>Kaunas Chamber of Commerce, Industry and Crafts</td>
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<td>LBSA</td>
<td>Lithuanian Business Support Agency</td>
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<td>LEA</td>
<td>State Labour Exchange Agency</td>
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<td>LIC</td>
<td>Lithuanian Innovation Centre</td>
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<td>LMTC</td>
<td>Labour Market Training Centre</td>
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<td>LTC</td>
<td>Large Trade Centres</td>
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<td>LTL</td>
<td>Litas, Lithuanian currency</td>
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<td>NPM</td>
<td>New Public Management</td>
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<td>Non-governmental Organisation</td>
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<td>Real Estate Agencies</td>
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<td>State Food and Veterinary Service</td>
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<td>SMB</td>
<td>Small and medium-sized business</td>
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<td>SME</td>
<td>Small and medium-sized enterprise</td>
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<tr>
<td>SPD</td>
<td>Single Programming Document</td>
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<td>VTS</td>
<td>Vocational Training School</td>
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Part I

Researching Policy Adequacy in a Transition Context
1 Transition Challenges in Organising Policies to Support SMEs

The interest of this study is the societal and institutional transformation evoked by the collapse of the Soviet Union and the release of the 'Soviet' grip on the countries of Central and Eastern Europe. The transition period is of a special interest for the study as it demonstrates an abrupt shift in the contents of the public problems and presents important challenges to both policymakers and researchers—the success and adequacy of the collective public actions in alleviating the problems for vulnerable societal groups.

This chapter introduces the reader to the research problem of this study and provides some background to it before moving on to the discussion on how it might be approached and studied. The chapter therefore starts the sketch of the overall framework of the study presented in chapters 1-4. It also presents the outline of the study.

1.1 The Problem: Adequacy of Public Collective Action and Institutions

Transition processes from a non-democratic political system into a more democratic one have affected many countries. During 1989-1991, a whole range of states in the Central and Eastern Europe (CEE) initiated a multiple transition. In the political sphere, we talk of a shift from the Soviet single party dominated system of government towards a democratic regime and political pluralism inspired by liberal representative systems and, subsequently, also a democratic welfare state. In the economic sphere this implied a transition from a state planned towards a market economy, and in the social sphere—a turn from collectivistic society with guaranteed social rights and significant degree of social security into conditions of relative social insecurity, and limited social functions of welfare state. For the Baltic States, including Lithuania, this transformation process entailed an additional dimension—restitution of state independency and definition of undisputable state borders. Transition processes such as these are multi-faceted and complex phenomena and include transformations of political, administrative and market institutions, legal systems, but also difficult and lengthy changes in the civil and economic societies.

In general, the transition posed new types of challenges for the affected societies. Just like the shift from agrarian to industrial society the post-Soviet democratic transition the CEE countries have been experiencing is multifaceted (multilayered), occurring simultaneously on several arenas of human activity and overwhelming. The government actions and formal political and legal institutions were expected to be able to adjust to the developments in the newly re-
established democracy and market economy in ways that would benefit the population.

As most of the past institutional legacies are hardly worthy of preserving (Elster, Offe, & Preuss, 1998), in the transition context most institutions—understood as systems of rules structuring human interaction—transform and new ones evolve. The transition context therefore provides interesting opportunities for exploring what are the newly evolving collective ways—and especially what are the organisational forms of public policies—to successfully address specific societal needs, which is a focus of this study. The transition provides a fruitful context for studying the role and relevance of newly evolving institutions in public collective action addressing specific transition period challenges.

The variety of transition challenges presents a test on the ability of the new political systems and their institutions to cope with many of them. The transition, then, necessitates studies on the adequacy of formal (political administrative, legal, economic) organisations and institutions for serving the needs of the society that has created them. As will be soon explicated, institutionalisation and institutional adequacy in this study will be explored by policy process analysis.

Due to the manner of the transition in the post-Soviet countries and the variety of concurrently evolving social needs any of these countries provide a fruitful soil for empirical and theoretical investigations. For the reasons presented in chapter 4, I have chosen only one of these countries—Lithuania—to exemplify the transition context problems and public actions.

1.2 Transition Challenges in Lithuania and the Government Response

Lithuania was the first among the post-Soviet republics to declare its independence in March 1990, at the time when the Soviet Communist Party had been abolished, but Gorbachev struggled for his presidential powers over the republics. This post-Soviet pioneer is a country that has during the years 1990-2006 been undergoing an interesting period of transition—full of challenges as well as opportunities to fill the emergent institutional void with new policies, actors and institutions able to respond to societal needs of the transition period.

Similarly to most former Soviet bloc countries, as noted above, a quadruple transition has been taking place in Lithuania—political, social, economical and independent statehood transition. The transition brought about a shift in the state institutional arrangements on the national, but also on local and regional levels. A wave of administrative and policy reforms has swept over the country, including the establishment of a regional government, an active strive for self-governance at local political level but also, new forms of centralization of the government. The previously valid institutional patterns have been distorted. Formal institutions have been replaced or transformed into new ones.

The multiplicity of transition needs has challenged the Lithuanian government. While the 1990 democratic government programme focused on entrenching the Lithuanian independence, a year later, more efforts could be directed at

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1Lithuania enjoyed a short period of democracy with democratically elected representative government (1922-1926) during its interwar state independence 1918-1939.
introducing the economic reform. The third government starting its service precisely on 13 January, 1991, led by Prime Minister Gediminas Vagnorius (Conservative party) recognised thus in its programme “Market—Economy—Freedom” the aspirations towards a new type of society. The government programme stated:

*By this programme of reforms it is intended to release the human activity and initiatives suppressed under so many years. We intend to create conditions for good and prosperous jobs with according payment. Lithuania is going to be free and wealthy when its citizens will become free and well-off. (…)²*

(Lietuvos Respublikos Vyriausybė, 1991, p.5.)

What the government was hinting at was the transition towards free market and a democratic state. The Lithuanian economy was to be reformed from being a part of the integrated Soviet economy with ineffective use of human resources and forced collectivisation to an independent liberalised economy allowing a prosperous market.

However, Lithuania has also encountered an early Russian economic blockade in 1990, as President Gorbachev and his government acted against its independence declaration, and dramatic attempts of military resistance by the Soviet Union Government to revoke its independence and transition resulting in the so-called January 13th events in 1991. Therefore, the government also recognised in its programme the ‘extremely complex’ conditions under which Lithuanian economic transition and reform was taking place: *The government reform programme is not a simple one and its implementation will not be an easy task* (ibid.).

The new type of society was on the way and the national government undertook a major role in creating favourable conditions and shaping its institutions to address the transition needs. The Lithuanian government recognised its responsibilities in the reform processes and declared its intentions to counteract negative consequences of the transition for weaker social groups in society, such as social injustice, unemployment, inadequate for the market professional skills and similar (Lietuvos Respublikos Vyriausybė, 1991).

### 1.3 SMEs—a Special Group with Multiple Needs

In the economic sphere the transition in Lithuania not only brought about new institutions and strategies, but also brought back on the stage important economic actors, extinguished by the Soviet rule—small and medium enterprises (SMEs). To assist their development new formal institutions and public policies were needed which makes collective action to assist SMEs especially relevant and interesting for studying new types of public policy organising and institutionalising.

Companies that are defined as SMEs in Lithuania are those with up to 250 employees. They include micro, small and medium companies.³ In this study, ²Author’s translation.
³ Micro companies are companies with up to 10 employees, small—up to 50 employees and medium-sized—up to 250. There are additional financial criteria according to which companies are
SME transition period needs have been chosen to manifest a fraction of the outspoken societal needs in need of public action or policies.

Besides the above one, there are important additional reasons for the study concern with SMEs rather than some other societal group during the market reform and the overall transition process. Firstly, the choice is due to their importance in a market economy. In the Western market economies SMEs not only are important but also make up the major group of economic actors. Since Lithuania, similarly to the other countries of CEE, accepted market economy as its major point of reference (Lietuvos respublikos vyriausybė, 1990) in the transition small and medium businesses (SMBs) were gradually to become a dominant economic actor even in the Lithuanian market (Lietuvos statistikos departamentas, 2000). Indeed, a few years into the transition, SMEs significantly outnumbered other economic actors and started playing an important role also in the Lithuanian economy. In manufacturing industry SMEs, and especially companies with up to 50 employees, constituted the bulk part of the operating companies (i.e. 99.6% of 4,599 manufacturing companies in Lithuania in 2000, ibid).

However, their importance is demonstrated not only in how significantly they outnumber other economic actors, but especially, and that is my second point, by the role they played in the social transformation. Not only did they contribute significantly to liberating social awareness (Smallbone & Welter, 2001) necessary for the development of the whole private sector, but they also were a means to combat the massive unemployment resulting from restructuring economy based on large state owned industries.

Yet another reason for focusing on SME needs was the fact that in the eyes of the western observers and advisors the SME development in the post-Soviet transition countries was regarded as a principal issue of the economic reform to be addressed by the new more democratic governments. Also to assist the new democracies with that task the western governments, international institutions and diverse foreign agencies were quick to offer financial and technical support (Bateman, 2000).

However, while the transition process in the CEE countries has thwarted the expectations of both foreign experts and the local constituencies (Stiglitz, 1997; Bateman, 2000), the SME spread and growth in the transition countries has been widely accepted to be a success (Levitsky, 1996; Zecchini, 1997), although some authors are much more sceptical in their assessment (Bateman, 2000). This provides yet another reason for examining whether, and, if so, through whose assistance and how the SME sector succeeded in adapting to the harsh economic restructuring conditions.

And finally, the scope and the importance of the SME sector in restructuring the transition economies exerted a pressure on the government actors and formal institutions, arguably stronger in comparison to that by many other social need groups, to adjust to their specific transition period impediments. Here I do not necessarily refer to the narrow concept of direct SME assistance (in terms of financial or information support), but all kinds of influence related to alleviating transition period impediments to SME development.

subscribed in the particular subclass of SMEs, but the number of employees was the primary criteria for the choice of SMEs in this study, where they were not readily subdivided into groups by the official sources.
Thus, while the SME challenges represent only a fraction of societal problems during the transition they do represent an important group whose development the Lithuanian government recognised as crucial to nourish. Not only the Lithuanian SMEs were pivotal for transition, but they also were a group significantly affected by the development of the domestic market reform, macro political, legal and economic institutions, and foreign influences.

Before the end of the first decade of the Lithuanian transition, the government has approved a major step—preparations for the European Union (EU) membership. On 12 June 1995 Lithuania signed a special association agreement with the EU—a deal clearly stating its aspirations to join the EU, which indicated a significant shift in its transition character. Lithuanian aspirations to be an independent state, with its own type of political administrative system formalised in 1990, has shifted the character and contents. Since 1995 many policy areas in Lithuania came to be influenced by the outspoken and implicit norms and requirements of the European Union.

The Lithuanian 2004 entry into the EU meant a giant step—almost a jump—from a recent union with one type of political and economic system into another of a different kind, but also with specific demands. For the Lithuanian economic actors, such as SMEs, it implied important EU market influences and significant adjustments to the pertaining rules and regulations. Regardless of the opportunities it offered, the coming EU membership thus presented an additional challenge to Lithuanian SMEs besides the various transition specific development impediments pertinent to the Lithuanian context.

1.4 Using Policy Analysis to Study the Adequacy of Institutions in Assisting SMEs

Governments have due to their democratic responsibility particular pretentions to solution making power and, consequently, authority in every democracy, so even in the newly evolving or re-established ones. As was argued, the transition evoked challenges for the new Lithuanian government and formal institutions—to provide solutions to the numerous pressing societal problems, including those of the SMEs—is a burdensome task for any government in mature democracies, but in the transition context it is simply overwhelming.

That is why the success and adequacy of public solution organising ways in a transition society are of a special interest and importance to study. In the political arena, therefore, transition is primarily about finding adequate solutions (response) to societal problems (see Linde & Ekman, 2006) no matter what their major actors are. In other words, it may be viewed as a challenge of good governance.5


5 Good governance can be understood as “methods of seeking, setting, implementing and evaluating public policies which cover the various present and future public interests in a society.” (see Potuček, 2004, p. 92) Potuček identified ten criteria of good governance, such as analytic basis for decision-making, democratic mediation of interests, transparency and accountability of the government. Good governance has also been described as the striving for rule of law, transparency, responsiveness, participation, equity, effectiveness and efficiency, accountability, and strategic.
How pressing problems to society and government are solved and, thus, what organisational and other actors, institutions and patterns of interaction under what conditions are adequate for that is the focus of a multi-disciplinary research called policy analysis (DeLeon, 1992). More specifically, one of the tasks for policy analysis and, in particular, its sub-discipline—policy implementation research—could be also expressed as the exploration of: “how well does the body politic link good representation of societal aspirations (‘politics’) with their practical realisation (‘administration’)” (Hjern, 1982). The “how well” refers to the adequacy (and success, see ‘policy adequacy’ explanation that follows) of particular solutions to the given societal problems in a democracy. “Practical realisation” implies a search among a broad spectrum of governmental and non-governmental actors for instruments and institutions able to cope with those needs of society. Assessment of the outcomes of a particular solution organising for the societal problems at hand is the domain of the evaluation research.

Implementation research explores whether and how the linkage between the outspoken societal needs and their realisation via the body political has been established. However, Hjern (1982), Hjern and Hull (1982) have pointed out that search for this link has often been missing in political science and even implementation research, contrary to its original intention. Also the contributions of policy scientists on how to narrow the gap between the prevalent society and the one aspired or the “good one” were observed to be declining (Bobrow, 2002).

Policy adequacy in this study is understood as the ability of actors to exert a positive impact on policy problem solution by adequate organising structures and manner. This way exploring policy adequacy necessitates the focus on the structure, manner and the outcomes of the policies organised to assist Lithuanian SMEs. Policy adequacy presupposes the ability of policy actors to adjust their solutions to the specific and shifting transition needs (for further discussion on policies and institutions see chapter 3).

A discussion on the success and adequacy of public action in general and policies in particular relates to at least two other issues of relevance for this study: how adequate policy organising evolves and whose assessment counts? The first issue is dealt in more detail in chapter 2. It also guides the choice of the study’s methodological approach.

I will briefly mention here that there are divergent approaches as to what actors, including the government, are capable of achieving successful solutions to particular societal problems. On the one hand, difficulties, if not to say, the impossibility, for the politicians and the government to make authoritative decisions for society and then control their implementation has been widely accepted (e.g. Pressman & Wildavsky, 1973; Elmore, 1979; Andersen et al., 1999; Sørensen & Törfing, 2005) and their failure in addressing multiple societal needs recognised (Hanberger, 2003, Johansson, 2008). Others have stressed the need to empirically explore the role of the government in addressing the societal needs in the changing western contexts (Pierre & Peters, 2000; Peters, 2007).

The second issue concerns for whom a particular public solution works or is adequate. There are arguments that in the midst of the discussions on what mode
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of governance is “good” or “best” in terms of its efficiency or effectiveness (a topic I will soon return to), a frequently neglected issue is: how certain positive outcomes (of any type of governance) of relevance for societal development are achieved (Andrews, 2008). This study adopts the perspective of the receivers, i.e. the SMEs in discussing the success and adequacy of public assistance policies organised (see chapter 3).

The normative standpoint of the study in addressing adequacy of collective public action during transition could be explained by the policy analysis approach. In policy sciences value and problem orientation have been identified among its major characteristics (see e.g. Lasswell, 1971). Being value-oriented implies that policy sciences recognise both the importance of researchers’ values and the normative approach to societal and policy problems. This is due to the original intention with policy sciences to improve the quality of democracy, achieve a better society and safeguard the democratic values pertinent in it. This requires a system of governing responsive to citizens’ needs (Dahl, 1971). Being problem-oriented means that studies of how societal problems are solved should consider possibilities to alleviate them instead of simply studying phenomena for its own sake. This study recognises the normatively positive value of SME development for the Lithuanian social and economic development. Therefore, I set a value in policies to assist SMEs and their studies.

With support in the mentioned policy analysis characteristics, this study explores whether the formal re-institutionalisation in place after re-establishment of independence of Lithuanian state in the post-Soviet era has been successful and adequate in coping with the outspoken societal and market economy needs. On the other hand, it studies whether and what other adequate collective problem solving ways had evolved and with what impact for the transition of society.

In sum, given the importance of the small and medium enterprises to the Lithuanian social and economic development, I have chosen their outspoken needs to serve as a “thermometer” in assessing the ability of the government, civil servants, but also other actors’ to cope with the transition period needs and challenges, which in turn is argued to demonstrate their transition success. SME assistance success and adequacy are here used as indicators of this ability. But the reason for doing this empirical research is also, as we will see later, to look for more general explanations for the evolvement (or lack) of successful and adequate policy organisation we find in a transition context. This is, therefore, a study of SME assistance policy implementation and evaluation in Lithuania during a post-Soviet transition.

The concern with SMEs here is delimited mainly to the forms and outcomes of assistance policy organising that address their major challenges and development impediments. SME assistance organisation in Lithuania presented in this study covers several types of public policy areas (for more details see chapter 4).

In short, besides illustrating post-Soviet transition complexities, the Lithuanian context will also in this study serve to test the descriptive and explanatory power of policy analysis, and especially its sub-discipline—implementation theory—in revealing the evolving public policy organising to cope with the transition challenges. Observations of contemporary transition societies allow not only for tests on the validity of the theories of public action, such as the implementation ones, but also for their further development to better conceptualise the institutional
changes in the convergence processes those societies are undergoing on their way towards the new quality.

In the coming sections I will briefly introduce the development of the SMEs in the population, and will continue highlighting the situation with public policies for economic restructuring and, especially, SME assistance in Lithuania.

1.5 Manufacturing SME Development in Lithuania During 1990–2006

The empirical basis for this study is the manufacturing industry, which was not only a major industry in Lithuania, during Soviet times, but retained its strong positions in the economy in the period 1990-2006. Lithuania has only insignificant natural resources and the role of processing industry was therefore important. Indeed, the manufacturing industry in Lithuania played a more important role than both in many of the old EU states and the other two Baltic States and its role in the country’s economy is more similar to that of the CEE countries. However, during the first decade of transition both GDP figures and the industrial output declined dramatically. In the period from 1990 to 1999, its share in the gross value added declined from 44% to 23% (National Development Plan for the Republic of Lithuania for 2002-2004, 2002). The 1998 Russian economic crisis hit the Lithuanian manufacturing industry hard, but in a few years it managed to recover (Rudskis & Titova, 2006).

Then, at the start of the second decade of transition in 2000, a shift in the economic growth speeded to ca 7% annually in Lithuania during the period 2000-2006. The manufacturing industry’s share in the total value added created in Lithuania grew from 19.4% in 2000 to 22.1% in 2005 (as compared to the EU average of 17.4%) and the direct contribution of manufacturing industry to the real GDP growth exceeded 25% during the period 2000-2006 (ibid.). Thus, in around 2000, manufacturing industry has regained its role as prime mover of the Lithuanian market economy.

However, some Lithuanian experts maintain that the relative competitiveness of the manufacturing industry in 1990s greatly depended on domestic factors, such as surplus of the relatively inexpensive workforce, excessive production facilities and low production costs. The growth of the manufacturing sector in 2000-2005 was much dependent on such factors as increasing access to consumption loans, the opening up of the EU markets and partnerships with foreign partners as well as the growth of economy both in the EU and the Commonwealth of Independent States (ibid.). Nevertheless, this last period saw increasing problems in the sector – great increases in the energy, raw material prices and an extreme shortage of workforce, to name just a few, that had a significant negative effect on its competitiveness. Another fact of concern was that the labour force productivity in Lithuania was found to be several times lower than in the EU (ibid.).

The study focuses on the Kaunas region—the major industrial region in Lithuania and to the period between ca 2000-2006. This period presents policy analyst with an interesting and challenging context encompassing last years of EU membership preparations and the early membership period. It is also at this time that the first national SME support programmes and overall economic development
strategies evolved and started to be implemented in Lithuania. Besides, this delimitation was made due to the practical reasons described in chapter 5.

The transition process has significantly altered the structure of the Lithuanian economy and gradually transferred the manufacturing industry, as many other industries, from predominantly large state-owned to private micro and small businesses. In 2000 micro and small companies in Kaunas region significantly outnumbered other businesses amounting to 94% of all companies, while medium-sized companies amounted to 5%. In the studied manufacturing activities especially micro and small companies predominated (Lietuvos statistikos departamentas, 2000). This distinction between Soviet and post-Soviet company size and ownership forms is important to have in mind discussing very unequal possibilities to combat diverse business challenges and impediments.

However, this general economic and industrial overview says little about what challenges individual SMEs faced and how they succeeded in coping with them (I will return to this in chapter 6). The next section briefly introduces the position and the intentions of the Lithuanian government in the declared economic reforms and transition to market economy.

1.6 External Influences in Shaping SME Support Strategies in Lithuania

As was already indicated, in the first years after the restoration of its independence the Lithuanian government initiated a process of economic and politico-administrative reforms. During the 1990s in Lithuania and in the rest of the CEE proponents of the neo-liberal school of/at the World Bank (WB) and the International Monetary Fund (IMF) strongly influenced the way economic reform has been carried out and what economic actors were favoured (Bateman, 2000; Török, 2007; Rakauskiene, 2007).

Due to the dependence of the Lithuanian government on financial support from the influencing international institutions during the 1990s, the government did not actively take part in the creation of any systematic instruments to specifically support SMEs or to assist industrial development. As a result, while important structural reforms, such as privatisation and liberalisation, were promoted, the changes needed in the industrial sector were left to the market, not the state, to restructure. Bateman (2000) argues that it was not primarily the lack of resources that prevented building suitable institutions with focus on SME support and development in the CEE during the first decade of independence, but rather the lack of willingness and permission from the neo-liberal international assistance agencies.

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6 Among the SMEs of the region micro family companies with a maximum of 4 staff were predominant (about 59% in 2003), followed by micro companies up to 10 employees (17%). Small companies in the size 10–49 employees comprised 18% of SMEs. Only 4% of companies employed up to 99 employees, and very few (1%) were so-called medium-sized companies between 100-149 employees. Source: Smulkaus ir vidutinio verslo vystymo Kauno regione programa, 2005.

7 My usage of the concept “industrial policy” refers here to the total effort to influence sectoral development in Lithuania or the total industrial portfolio, a definition borrowed from Richard Bingham, 2006.
Different model of welfare and state involvement in the economy was practiced by the EU. Even though the EU did not have explicit industrial policy, it was more implicitly “packaged in technology policy, competition policy and regional policy measures” (Török, 2007). Especially by adopting the Lisbon Strategy the EU-15 Member States had recognised the need for an even stronger involvement of the EU, but also national governments in regulating the common market towards the ambitious goals of becoming the leading economy in the world. More specifically, “(...) the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion” was to be achieved by “an appropriate macro-economic policy mix” (Lisbon European Council, 2000). Among important measures this strategy proposed instruments for industrial and SME development.

It was only at the outset of the new millennium that the Lithuanian aspirations towards membership in the EU changed the Lithuanian government’s stand on its role in the country’s economy and made it to intensify its economic development strategies. Preparations for and the membership in the EU, therefore, not only accelerated the Lithuanian transition, but have also induced an important shift in its contents and formal goals. This period of transition was characterised by the Lithuanian SME adjustment, first, to the needs of a newly emerging “independent” domestic capitalist market, and then a quick need to re-adjust to the requirements and regulations, possibilities and threats of the EU market. The Lisbon Strategy aspirations to lift the common EU market to a new competitiveness level implied an extra challenge to the new Lithuanian economic actors—SMEs. The demands of this advanced transition, especially in relation to the Lisbon Strategy, adopted in 2000, together with significant negative effects of the Russian economic crisis in 1998, renewed the focus on the role of the state or government actors in providing policies to assist market actors to cope with the transition challenges.

Especially since 1998, Lithuania has intensified national and local strategies to support SMEs during the transition period. For example, the need and measures to support SMEs were highlighted in: “The Development Programme for Small and Medium Businesses”, drafted in 1998, “The National Development Plan for 2002-2004”, and “The Programme of the Lithuanian Government for 2001-2004”, to name just a few. Promotion of entrepreneurship, SME development and an increased rate of start-ups and survivors have been declared as important goals for those strategies. Also attempts to specify industrial development needs and the corresponding strategies have been made, such as “Mid-term Policy for the Industrial Development and its Implementation Strategy” or “National Development Plan for 2002-2004” (2002) among others. Active government involvement in SME development was on the EU and the Lithuanian political agenda during the whole period of study.

Interestingly enough, according to O. G. Rakauskiene, a prominent Lithuanian economist engaged in drafting the major Lithuanian long-term economic development strategy, the formal government goals to involve in promoting, for example, SME development sharply diverged from its actions in practice. As a result of the influences from the two different economic models, according to Rakauskiene, Lithuania during the studied period lacked a clear position on the direction of its economy:
The problem is that there are simultaneous attempts to proceed towards two opposite directions. While declaring in the strategic documents Lithuania’s as an EU member state strive towards a European welfare model, in fact we implement an American model of monetary economy, distancing Lithuania from the common EU goals.\(^8\) (Rakauskiene, 2007, p. 375)

Regardless of what is argued by the proponents of either of the market models, and regardless of what shape the transition economy of Lithuania attains at a given period, the counter-argument is that most market economies in the modern democracies, and especially those in CEE countries, is a mixed type of economy with elements of free market and state intervention in it (see, for example, Barr, 1992; Sanford, 1997). What is, therefore, at issue also in this study is not if, but the way the state or “the political” becomes involved in allocating goods to the wants of the market actors.

The particular path of the Lithuanian transition and the shift in (or duality of) the formal goals present additional challenges for the ability of the government and the formal public institutions to smooth the transition for important market actors—SMEs. In this study the influences of the foreign actors and institutions (such as the World Bank or the EU) are of interest that: a) directly or indirectly affected the Lithuanian government’s concern and the abilities to adequately address the Lithuanian SME needs (I will return to this issue in chapter 14), and b) were designed to eliminate Lithuanian SME development impediments. The EU accession playing a critical role for the SME challenges could be expected—due to the influences and experiences of its actors and institutions—to be of importance also for their solutions.

1.7 Official SME Strategies and Grass-Root Responses

Top-political decision-makers’ attempts to assist SMEs in Lithuania since around 2000 have resulted in their criss-crossing between public programmes and legislations some of which have dealt with promoting economic, industrial and SME development. The political and administrative transitions were expected to lead to more democracy and more adequate policies that would better address and cope with the problems of the new type of economic actors, Lithuanian SMEs.

SMEs are not a homogeneous group of actors and they experience a variety of transition period development impediments and, therefore, quite varying and individual assistance needs. With regard to this, the success of the government strategies has been questioned and the problems of local economic growth highlighted, notably by the umbrella organisation The Lithuanian Business Cooperation Network (Verslininku Bendradarbiavimo Tinklas). This informal coalition, comprised of a number of regional business associations, represents small and medium-sized enterprises in Lithuania, and has been continuously pressing for the need to attend the problem with effective coordination and implementation of various national and EU SME assistance measures in Lithuania in their contacts with Lithuanian Government (Verslo Bendradarbiavimo Tinklas, \(^8\) Authors’ translation.
2004). The network representatives, however, complained in 2004 about Lithuanian government’s persistent reluctance to attend to the many major SME development problems listed by the organisation.

Lithuanian scholars who attempted to assess the implementation of government goals to improve business conditions and remove market restrictions in Lithuania have come to pessimistic conclusions. A study of Government Sunrise Commission created for proposing improvements of business environment in Lithuania has revealed that diverse ministries and other formal organisations in Lithuania did not confirm to its proposed changes. Instead, their priorities were frequently attached on increasing budget revenues and higher control of business activities (Vilpišauskas & Nakrošis, 2002).

In addition, some Lithuanian scholars criticised the tendency to over-adjust the Lithuanian strategies and programmes to the EU requirements with resulting lack of attention to specific local conditions (Bagočiute & Burneika, 2002). Since 2002 the EU has intensified its financial assistance measures of direct business (mainly SME) support in Lithuania. However, allocation of the EU support has revealed that corruption and malfunctioning of those activities occur (Transparency International LT, 2006). Therefore, the success and legitimacy of the EU projects is threatened.

This type of criticism makes urges further inquiries of how successfully official programmes and other formal measures in Lithuania assist companies in eliminating their various impediments to growth. In addition, regardless of the variety of public programmes, some students of entrepreneurship and SME development have noted a considerable lack of research addressing linkages between business development, entrepreneurship promotion and governmental programmes (Stevenson & Lundström, 2001). Other scholars devoting their research to the post-Soviet economies have concluded the lack of government support and concern for SME development, but found businesses sometimes surviving or even growing despite government activities (e.g. Smallbone & Welter, 2001). In light of this, it becomes even more important to explore the ways successful solutions to SME needs are organised during the societal transformation.

The next issue is how the public action to assist SMEs can be approached and studied? Chapter 2 presents two major theoretical approaches to public SME assistance organising and provides the reasons for my choice of the approach. This choice is essential in formulating the research questions of this study and the use of a particular methodology to answer them.

1.8 Out-line of the Study

This thesis is divided into three parts with 17 chapters in total. Part I Researching Policies in a Transition Context introduces the reader to the study problem and its theoretical and methodological approach in the first five chapters. Chapter 1 introduces the problem for research in this study—institutional adequacy—and discusses its relation to theories of policy implementation and democratic transition. It also operationalises the research problem to be studied via policies organised to assist SMEs in Lithuania during the transition. In chapter 2 two major approaches within implementation theory are compared and their
relevance for studying institutional adequacy via SME policies in transition contexts is discussed to make an informed choice of the most appropriate approach for the research task. This theoretical choice enables study research questions to be specified. This chapter also outlines the intended contributions with this study in relation to primarily the implementation, but also transition theory.

The ontological and epistemological stance that guides the adopted bottom-up methodological approach is presented in chapter 3. Of special importance here is the approach to action-structure duality that guides the conceptualisation of policy in this study.

Chapter 4 explores the bottom-up theoretical approach in more detail. Policy adequacy and several other major concepts in this study are explained. This chapter introduces five hypotheses regarding the ways policies are expected to be implemented and some propositions of important success factors in the bottom-up approach. It also presents study design: the unit of analysis as well as procedures and indicators to assess policy adequacy.

The SME sample of the study and issues guiding its choice are explicated in chapter 5. Here also the methods this qualitative study employs to outline the policy processes and assess their adequacy are elaborated. This chapter closes with a discussion on study quality criteria.

Part II Exploring Policies to Assist Lithuanian SMEs with Transition Challenges presents the empirical analysis of public policies to address the selected sample companies’ challenges. The challenges—land acquisition, land use, attraction of workforce, financial shortages and technical reorganising—and their solution processes are the case studies devoted separate chapters each. It is the collective action and especially the assistance structures organised to address these SME challenges that are the units of analysis. Chapter 6 introduces the selection of the major sample SME challenges and the outline of the empirical chapters 7-13. The method for identifying policy structures and the three major groups of explanatory factors to be searched—context, behavioural and structural—are outlined.

Land related issues came to be important and one of the most problematic SME development impediments in Lithuania. These impediments have been in principle caused by a particular situation with land and territorial planning reform in Lithuania. To ease the understanding of the public action organised to assist SMEs with land related development impediments Chapter 7 introduces its particular background—the land reform and its consequences. Chapters 8 to 13 each deal with a particular challenge group according to the same model of analysis. Each analysis attempts to identify policy structures or ad hoc organising behind a particular impact and challenge solution. Each type of organising is analysed in terms of participating actor constellations (mandated, mixed or non-mandated) and level of structuring (ad hoc organising or policy structure). At the end of each empirical chapter, the identified context, behavioural and structural factors of the organised assistance (policy) success and adequacy are outlined and explicated.

Chapter 8 deals with the SME attempts to solve land acquisition and use issues—important development impediments—and the eventual assistance policies organised. In chapter 9 sample companies’ and public assistance with changing land use purpose to allow manufacturing activities are analysed. Assistance organised with yet another important challenge—an extreme lack of workforce—is presented in chapter 10. Chapters 11 and 12 both deal with the same challenge—SME shortages of finances—but different assistance types organised: via banks, or
in the next chapter—via the EU funds or other actors. And, lastly in chapter 13 solutions organised to a most complex sample SME challenge—that of technical reorganising—are presented. Being a major overall challenge it subsumes solutions organised to several of the previously analysed development challenges or impediments. Two types of technical reorganising challenges are compared in the chapter—externally and internally evoked ones resulting in somewhat different assistance structuring.

Part III Explaining Policy Adequacy and its Lack during the Transition examine different factors from the three factor groups—context, structural and behavioural—to assistance policy adequacy or more frequently its lack in Lithuania during the studied period. To avoid SME assistance policy processes being analysed entirely from the local and de facto organising perspective chapter 14 undertakes examining the formal government strategies, i.e. ideas and preconditions, on EU (where relevant) the national, regional and local government levels to adequately address SME needs in Lithuania. The chapter makes attempts to explore ideas, actors and measures suggested for each analysed SME challenge and discuss their possible (direct or indirect) influence on adequately addressing the SME challenges. The formal strategies and regulations are analysed in relation to the revealed factual solution organising processes to explore their impact and relevance.

Chapter 15 summarises the results of the empirical policy adequacy analysis. It compares identified assistance implementation structuring and more systematic structures to conclude on the evident lack of adequate SME assistance policies. It demonstrates how positive policy impact is insufficient to judge of policy adequacy. Among the identified assistance organising forms it explore the most successful ones regarding the positive impact. Further the chapter seeks to identify and make some general propositions on important reputedly occurring factors of policy adequacy and its lack in the studied transition context.

Further, in chapter 16, the study returns to the discussion of a larger phenomenon—transition success and ways to assess it. It argues that specific policy adequacy indictors also inform about transition success. It therefore presents arguments to complement the already existent and frequently employed transition success assessments with major indicators of policy success and adequacy.

And lastly, the final chapter 17 makes a modest attempt to guide further search for explanations to some prominent factors preventing or enabling policy and thus transition adequacy in the post-Soviet transition.
2 The Choice of Approach and the Research Questions

The previous chapter introduced the empirical and theoretical problem of this study: success and adequacy of collective action, especially policies, in addressing outspoken societal needs, here—those of SMEs. However, we have not yet addressed the issue of the forms this collective action might take during the transformation of societies and institutions. This chapter presents how the two major approaches in the implementation research conceptualise collective (public) solution organising to societal problems. Much of the discussion focuses on the normative versus empirical role of various government actors and formal institutions. It compares especially differences in their concepts of public policy and its implementation, and demonstrates how the choice of any of those approaches affects the formulation of the research questions for this study. I also present the arguments guiding the choice of the methodological approach in this study, which also explains the adopted SME perspective on the transition processes. Same methodology is also used to assess the success and adequacy of the public policies.

2.1 Policy Implementation and Institutional Adequacy

If we accept that the involvement of the “political” into the “economic” in some form is at work both during the transition of state planned economy into the market economy and, according to the Lisbon goals, its advanced dimension, then the researcher has to look for a proper lens to approach the issue of collective solution organising and institutional adequacy and to formulate the major research questions. I have previously identified policy implementation and evaluation research as a suitable framework for analysing policy and formal institutional adequacy.

What is important regarding the mentioned linkage between the outspoken societal needs and their practical realisation in a democratic society (see 1.4) is that implementation research searches primarily for systematic, repeatedly occurring collective action or solution organising called policy to assure the establishment of this link. Implicit in this definition of policy is the need to explore if any adequate ideas and resource organising structures are offered the group in need at all. The need to search for the mentioned linkage, however, has for long been undermined by the research focusing, in particular, on the solutions provided by governments according to their perception of societal needs, thus suggesting how the achievement of government programme goals (implementation via mandated actors) could be improved.

In policy implementation research there are two major divergent approaches regarding both the mentioned linkage, and especially what actors are able to
secure it. Both two of the posed research questions are the major ones for implementation research, but they diverge significantly in their ontological, epistemological and, therefore, theoretical and methodological approaches to the research object. The choice and further specification of the research questions in this study is dependent, thus, on the choice of the theoretical and the methodological approach to policy implementation.

To illustrate the differences, I present here how differently research questions to study the ability of the transformed political institutions to address particular outspoken societal (in our case SME) needs in the post-Soviet transition context could be formulated. The arguments presented below should be viewed as a critical consideration of both alternatives before making a choice on the most appropriate for the purposes of this study. Here, it is not the intention to provide a comprehensive comparison of the two approaches, but rather to illuminate the differences that affect, in the first place, the formulation of the research questions in relation to the topic of this study. Further arguments and elaborations related to methodology are presented in chapter 3.

The government role in public policies: top-down versus bottom-up

Following one of the traditions of the implementation research the major research question could be formulated the following way: when and how does the implementation of the government policies (programmes) to assist SMEs succeed in a post-Soviet transition context? This approach is concerned with the preconditions needed to achieve top-politically defined (government) goals or realise particular government programmes with the help of mandated actors and formal institutions. These programmes are taken to assist in addressing the presumable SME needs. It also presupposes that the government is capable of steering the achievement of its goals, i.e. delivering successful assistance results.

A common feature of this approach is the differentiation between policy decision (and therefore policy-makers) and policy implementation (administrative policy implementers) in accordance with the received view of a liberal representative form of government and the necessity of the elected representatives to steer the policy implementing administrators towards their predefined goals. Policy, according to this view is identical with a formal top-political decision and, at best, includes also (see e.g. Majone & Wildavsky, 1984) its implementation (a discussion I will soon return to).

Implementation as such is viewed, in principle, as realisation of top-political or formal programme goals. Also implementation success is related to compliance to these in accordance to formally prescribed goals and rules (Sabatier, 1986). Accordingly, this approach would assess as adequate those actors and institutions that would efficiently (at sufficiently low costs) and effectively (in accordance with top decision-makers’ expectations) implement the formally defined goals. The proposed research question 1) represents this approach commonly referred to as the top-down approach to implementation.

This approach, however, has been critiqued for paying too little attention to the problem with government knowledge or ability to reflect and address the great variety of specific needs of various actor groups, such as SMEs. Single
programmes, at best, are able to address a limited number of needs. To be of relevance, these programmes and formal regulations have to be informed on the particular needs and act in congruence when addressing them.

The over-emphasis on the formal political and administrative institutions and their ability or inability to solve societal problems has been quite frequent in implementation research and could be found in many classical works (such as Pressman & Wildavsky, 1973; Sabatier & Mazmanian, 1979; Kaufman, Majone and Ostrom, 1986). However, such studies seldom found examples of successful policy implementation in terms of compliance to formal goals.

The prevailing top-down conception of policy implementation process was, in particular, criticised as an unacceptable simplification of the actual policy processes. Critics of this approach, usually the proponents of the so-called bottom-up approach to implementation, maintain that it restricts policy researcher in at least two ways. Firstly, it does not allow taking into regard all other possible non-mandatory and private actors de facto participating in a policy implementation process. And secondly, it takes for granted the ability of the top-political actors to identify the outspoken societal problems and organise their solution on their own, i.e. entirely via formally mandated organisations and in accordance with the formal prescriptions or rules.

In late 1970s and early 80s a group of scientists (e.g. Hanf & Scharpf, 1978; Hjern & Lundmark, 1979; Barrett & Fudge, 1981; Hjern & Porter, 1981; Hjern & Hull, 1982; Hanf 1982; Elmore, 1979, 1985; Carlsson, 1996; Guba & Lincoln, 1989) draw attention to misinterpretation of actors’ roles and the involvement of non-formal actors and resources in actual policy processes and the fact that they (when involved) could be of importance for achieving policy objectives. Indeed, it was empirically proved that societal problem solution usually draws different actors with their ideas into a process of interactions and deliberations on how their and other resources can be organised to address particular needs. Such processes are not new to any democratic society.

This argument, however, required another approach to the unit of analysis in implementation research and consequently, methods for revealing the empirical or de facto network of policy delivery (Hjern & Hull, 1987). It also used another definition of policy, originally provided by Hjern and Hull, who defines it as: “... a set of ideas and the practical search for institutional arrangements for their realisation” (Hjern & Hull, 1983, p. 295).

This definition stresses the linkage between a set of actors’ ideas and conscious efforts to create systematically structured (i.e. institutionalised) arrangements to realise them. “A set of ideas” refers to their possible plurality why it also allows for multiplicity of actors pursuing those different ideas, not limiting them to formal top-political goals. Policy is, therefore, understood as ideas and resources repeatedly organised via actor interactions to realise these ideas. The bottom-up methodology allowed identifying policy actors from its lowest chain and upwards, hence the approach was named bottom-up.

The theoretical approach of the bottom-up to policy process does not presuppose a priori that any group of actors have the sole solution organising power in policy processes. Even though government programmes coping with the particular needs exist it is possible that solutions practiced are not necessarily in congruence with the formal goals or formal prescriptions. Hjern (2000) especially stresses that policies should not be confused with some official goals or strategies
as policies cannot be detached from the organising processes needed in practice to realise the policy ideas. Accordingly, the organised public policies have to be assessed in terms of their adequacy to particular expressed societal needs.9

**Single authority in policy process and its critique**

The top-down approach has been also criticised from several other schools of social research. Karl Popper, a critical realist (1966), for example, contested the over-emphasis of a sole concentration of power (also in terms of problem solving power) in democratic societies as naive and unrealistic. He contended that no decision-makers have been sovereign to exercise the sole power independent of some helpers, but there have always been several competing dispersed powers.10

Even earlier, in 1945, Herbert Simon presented similar arguments on the spread of authority in his *Administrative Behaviour*. Therefore, policy research cannot take for granted that the government is capable on its own to organise policies to outspoken societal problems, but its ability is rather to be empirically proved for every problem.

Some 10-15 years after the initial bottom-up appraisal the scientific community resumed its emphasis on the increasing need to adapt policy processes and their analysis in line with the general developments in society. Several implementation scholars mainly from the bottom-up “camp” (including Marin & Mayntz, 1991; Carlsson, 1993, 1996; Bogason, 1995; Bogason & Sørensen, 1998; Hjern, 1999 to name a few) started questioning anew the prevalent hierarchic government approach to the organisational society as contrasted to that of multi-governance or self-governance. Their major argument was that authority in modern organisational society is increasingly and predominantly dispersed among both state institutions, independent agencies, local and regional public and private actors, rather than centralised and hierarchical. Governance referred to the use of networks and other connections with civil society as an alternative way to delivering public services in contrast to the traditional single (government) control style of governing (Rhodes, 1997; Peters, 2007). The scholars contended that the shift in focus from the unquestioned role of the government and formal institutions requires a more in-depth and praxis-based approach to policy analysis.

Also a number of post-positivist policy researchers not directly associating with bottom-up implementation research normatively and empirically emphasised multilayered power distribution and the spread of authority in a modern, democratic and complex society. Authors such as Hajer & Laws, 2006; Hajer & Wagenaar, 2003; Rhodes, 1997, and Fisher & Forrester, 1995 expressed their criticism against the claims that power and knowledge of the political and economic elites provide economically efficient and technologically efficacious solutions to what they perceive as societal problems. Rather, the scholars emphasised contextual variables in policy processes, also pointing out that implementation implies politics (Fisher, 2003) with adaptation and learning in encountering unknown and changing situations (Hajer & Laws, 2006).

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9 Here it is worthwhile mentioning that there might be conflicting societal interests requiring different policy solutions. Therefore, in assessing particular policies the researcher has to make clear which of the interests the policy analysis is concerned with.

10 See especially Glemdal (2008), for an explicit explanation of the argument.
In addition, there are arguments that the omnipotent power, knowledge and resources that scholars sometimes ascribe state (read government institutions) in solving societal problems has been rather an effect of the historical development of social sciences and is of a more political kind affected by the willingness to find a collective actor to be able to better the society than an undeniable fact. The approach to the omnipotent role of the state also differs in the different cultural contexts, and has been more widespread in Europe than in the United States (Wagner, 2007).

The importance of the insights similar to those of Hjern and Hull (1982) have, however, been to a great deal overshadowed by the shift towards new public management (NPM) principles in policy implementation that have gained prominence especially in the United Kingdom, United States, Australia, New Zealand (Parsons, 2004; Hood, 1991; Bevir, 2007), but to some extent even in Lithuania and other post-Soviet states (Nakrošis, 2008). It propagated more effective policies by centralised steering and control of the desired outcomes. Barrett (2004) argues that NPM is just another type of compliance to the formal political goals of top decision-makers and that it suppresses actors’ dissent and abilities to challenge the prevalent policy processes in terms of their adequacy to specific societal needs or their democratic aspects. The focus on new public management principles in policy implementation had following consequences for policy research:

“This (...) served to reassert the dominance of normative, top-down, coercive process models of policy implementation or performance, and of ‘performance’ as conformance with policy targets.”

Barrett (2004, p. 259)\(^\text{11}\)

Interestingly, the renewed focus on the top-down processes of societal problem solution in principle disregarded the fact that policy implementation has been increasingly recognised to involve many context specific stakeholders and elements of politics or performance. Also Sabatier and Mazmanian (1979, 1981; Sabatier, 1986) who belonged to the so-called second generation of top-downers, recognised the importance of taking into account the actions of other than formally mandated actors in policy implementation studies and the seeming shortages in the top-down methodology for disclosing that. (1986) also recognised the need to put policy problem and not the formal policy decision in the centre of policy analysis.

**Differences in aims with top-down and bottom-up**

Sabatier (1996) has in fact proposed one of the most important models of synthesis between the top-down and bottom up approaches. However, the suggested synthesis in Sabatier’s “policy subsystem” framework (ibid., p. 41) even though accepting a particular policy problem as the starting point for policy analysis stresses the importance of formal government decisions and actors’ attempts to alter them. Hjern and Hull (1987, p.194) argued that it is far from always that the formal decisions have such relevance for local policy actors as to be worth of their attempts to alter it. Instead, they may adjust their strategies to the

\(^{11}\) See also Parsons, 2004.
existent rules. Alternative societal problem solutions might exist alongside or regardless of certain formal decisions and institutions.

Although accepting much of the criticisms towards the top-down approach, Sabatier, its leading proponent, suggested this approach as more useful in situations where there is a dominant policy or programme for solving a particular policy programme. As a response to that Hjern and Hull argued that the *a priori* knowledge of what other actors and programmes may be involved in addressing the particular policy problem might be limited or partial (1987, p.190). Indeed, the bottom-uppers argue that a choice of the approach lies not only in the matter in the *a priori* knowledge of the policy process or actor involvement in them. Instead, the choice is determined by different aims of the two approaches to either stress the importance of formal public administrative arrangements or, alternatively, the role of informal and mixed public-private arrangements (ibid., p.190) for organising adequate policies.

The alternative bottom-up approach to implementation enables us to state the study question as follows: what are the actors capable of delivering adequate policies to assist SMEs during the transition, seen from the perspective of their owners or managers, and under what circumstances and how is this policy delivery possible? Asking this question implies exploring what actors and resources organised with the help of what type of institutions or rules matter for policy success in particular transition contexts. For the policy research the mentioned bottom-up approach has implications in that the unit of analysis, i.e. the organisation of actors and resources in search for solutions to an identified policy problem, cannot be known to the researcher in advance, but has to be detected empirically using the particular “lens” (see further elaborations on that in chapter 3).

In sum, two distinct approaches coexist in the literature of implementation research—that of the primacy of the formal institutions or the need to identify the *de facto* policy process. Discussions of implementation research often point out that the two approaches differ in how they see policy process. O’Toole (2004, p.314) has formulated it as a choice between viewing it as the “action in support of the intentions and orders of the political leaders” or “of mobilising energies of disparate stakeholders to make sensible choices in congealing problem solving around a complex, context specific, and dynamic policy issue.” Choosing any of these approaches has implications both for what research questions are to be posed and also how the policy process or specifically implementation is to be studied and how policy success is assessed. The choice of research questions has, therefore, to be informed by the two implementation approaches illuminated here.

**Arguments for bottom-up approach**

The arguments that guide the choice of the approach in formulating research questions in this study are, thus, following. SMEs are not a homogeneous group of actors, but rather, one with multiple needs evoked by the transition situation. The complexity of their needs in Lithuania alludes to the difficulties for the government and also any other group of actors to exert a sole problem solving power. While evidence from the mature democracies indicate that governmental actors or formal institutions seldom have the sole solution making power, why should their sole policy delivery power be taken for granted in even more complex
2. The Choice of Approach and the Research Questions

post-communist transition contexts with pressing multiple needs? In the brief introduction into the SME situation in Lithuania it was noted that the official measures for particular SME needs (as expressed by their representative organisation) are not necessarily congruent with companies’ expectations or simply lacking.

Although we cannot know in advance whether the composition of Lithuanian society and formal institutions can be likened with the multi-organisational character of the mature western societies, Popper’s argument of the dispersed authority and solution power applies to any society undergoing democratisation. Besides, the choice of the traditional focus on formal policy decisions has been rejected even by some top-downers.

Laurence J. O’Toole has noted (2004, p.318) that “implementation challenges in developing countries that lack effective central regulatory regimes and plentiful budgets need the help of bottom-up analysts who indicate ways of mobilising stakeholders outside the official apparatus to lend legitimacy and catalyse effective collaboration.” And yet, what if top-political decision-makers do deliver some adequate policies via mandated actors and, thus, adequate formal political institutions exist to address given needs of society groups or companies (see Peters, 2007)? How then to pose the research question to allow to consider also this aspect? Does the bottom-up perspective allow exploring that?

My argument here with reference to the study question formulated with reference to the bottom-up approach is that the study of “who” is able of organising adequate policies allows encompassing both mandated and non-mandated actors or formal and informal institutions. Posing the research questions in accordance with the bottom-up approach implies simply a possibility that other than governmental actors and resources may be of importance or even pivotal for policy output, i.e. organising policies and thus exerting impact on policy problem. It does not, however, neglect a possible relevance of formal institutions in delivering of an adequate policy. What it claims is that that the relevance of these institutions for a given societal problem is proven if the empirically disclosed de facto policy delivery is in congruence (coincides) with its formal prescriptions (which also implies implementation via mandated public and private actors). If so, not only it is a sign of the relevance of the mandated actors and formal institutions, but it also indicates an ideal steering and accountability situation. However, when the formal and de facto are in disagreement, the de facto organising may well fill in the gaps in the performance of the formal thus possibly increasing the success of the total output. Accordingly, involvement of actors and resources in the policy processes and their reference to formal or informal rules has to be identified empirically. The bottom-up approach is also more suitable to disclose actor and resource relevance or their policy impact for the given societal needs.

An additional argument in favour of the bottom-up approach in formulating research questions is its recognised ability (see Sabatier, 1996) to be more appropriate in the policy areas dominated by a multitude of public (and private) programmes, where it is difficult to know in advance if any of them would be preeminent. The relevance of the plethora of SME development programmes in Lithuania could, thus, arguably be more adequately explored the bottom-up way.

However, an important distinction is to be made between the theory-like assumptions of the described bottom-up approach (see chapters 3.7 and 4) to
policy process and the referred bottom-up as a methodological approach advocated by Hjern et al. to reveal policy actors, resources and process without presuming a priori how the implementation manifests itself. The only major presumption that underlies the methodology is that local actors (or policy receivers) are an important starting point for recreating the implementation processes. Even though some proponents of the referred bottom-up approach mean that policy implementation frequently manifests itself via inter-organisational or mixed type of mandated–non-mandated actor structures, this is always up to empirical evidence. Therefore, posing research question in accordance with the bottom-up approach does not require us to presuppose a particular way i.e. theory of how policy implementation occurs (networked, bargaining or hierarchic, formally institutionalised or informal way).

Such an open approach to policy process requires a methodology and methods that would allow detecting “how” particular actors and institutions matter for policy results. In this study, it is rather the question of how (and how well) the bottom-up as a methodological approach is capable of revealing relevant policy actors and institutions.

Due to the reasons explicated above, I choose the second alternative for formulating the research questions as I find it better capable of highlighting important aspects of who and how creates adequate policies for transition needs. Before I specify those questions, a brief note on my position, as a researcher, on what guides me in my approach to the problem for policies in this study.

2.2 The Researcher’s Role in Formulating Policy Problem

We have already discussed the distinction between a policy problem and a formal policy decision in implementation analysis. Another related issue and still prevalent point of disagreement among the proponents of the formal or top-down and the bottom-up approaches is the policy researcher’s role in identifying policy problem. Formulating a policy problem implies taking a stand on from whose point of view the policy adequacy is to be assessed.

An outspoken societal problem in need of a collective action evokes a policy problem. In the top-down approach, as was noted, the researcher has to depart from the definition of the particular policy problem by the political top (e.g. formal programmes or laws) and assess political and mandated actors’ abilities to realise it. This adherence to the policy problem and goals defined at the political top is still regarded important for policy success regardless of the fact that implementing administrators utilise their discretion to re-define the policy goals (Sabatier, 1986, p. 22).

For the proponents of the bottom-up school, questioning the ability of the formal political and administrative actors to identify the shifting, multiple and context-dependent problems of a given group of society, a major issue is whose problem formal actors identify with and propose measures to address. Because formal actors are not necessarily seen as the only ones participating and capable of delivering adequate policy, bottom-up proponents find policy problem as such rather than formal decision a proper starting point of analysis. The researcher is
thereby allowed to take a stand on the normative values embedded in the fulﬁlment of certain societal needs and to critically assess their realisation, instead of taking a neutral stand. This standpoint is based on Myrdal’s (1973) and Lasswell’s (1971) approaches to the role of the social or policy scientist (see also Glemdal, 2008).

The standpoint of this study is that promoting SME development or eliminating their hindrances by adequate assistance policies has a value for society. This standpoint also allows the researcher to choose the perspective of policy receivers, here SME, to assess the impact of both formal mandated actors (such as national and local administrations), but also other involved actors’ actions. Besides, acknowledging possible plurality of problem perceptions bottom-uppers allow the policy researcher to deﬁne the evaluation standard for the addressed policy (Hjern & Hull 1984, Winter, 2006). In our case policy is evaluated in terms of its success and adequacy.

Hjern and Hull (1984) argue that there is no way to avoid attaching normative values in deﬁning policy problem neither in bottom-up nor in the top-down approach and it is advisable for the researcher to be explicit rather than implicit about the choice.

2.3 Why More Implementation Research?

The need for policy sciences evolved with the need to achieve a better, more harmonious social development than by simply allowing self-regulation of the society. The concern for implementation research can be described as “development of systematic knowledge of what emerges, or is induced, as actors deal with a policy problem” (O’Toole, 2000, p. 266). This perspective implies that the focus is on the process i.e. the organising of solutions to a given policy problem, and not primarily on the static institutions per se. Studying implementation therefore also implies studying evolvement of new forms of organising, their institutionalisation and change (see chapter 3).

It has been argued that after decades of research in the functioning of democratic societies the policy sciences research has neither achieved much congruence nor so much better predictability for how better policy success can be achieved (O’Toole, 1986, 2000). In his overview of the ﬁeld of the implementation research in 1986, O’Toole called for an investigation into what patterns of implementation facilitate various types of problem solving behaviour, especially in multi-actor settings. O’Toole has also-called for a larger case number implementation studies and a synthesis of top-down and bottom-up approaches. In his second overview of the status of the implementation ﬁeld in 2000 O’Toole examined the seeming lack of implementation research in the 90s (O’Toole, 2000).

By 2000, studies focusing on larger case numbers have been increasing, but O’Toole insisted that more were needed. The synthesis efforts offered did not bring sufﬁcient agreement, although the gap, according to O’Toole, (2000) was no longer so wide. Both top-down and bottom-up approaches have gained sufﬁcient recognition and validation among the scholars (O’Toole, 2000). And yet, even though there has been more implementation research in other disciplines or under
other names that “meets the eye” several authors (O’Toole, 2000; Barrett, 2004; Winter, 2007) called once again for the need of its revival.

At the start of the new millennium the compel of implementation research is in the interest to bring back the state policy responsibility (O’Toole, 2000) especially in the predominance of the new public management research (Barrett, 2004). Especially, there is an ever increasing need to explore different conceptualisations of the relationship between policy decisions and policy action—the more coercive or managerial and the more bargaining or bottom-up—their advantages and feasibility for desired outcomes (Barrett, 2004). The government has previously been criticised as “not very well suited” (Bardach, 1977, p. 283) in achieving some of the goals it undertakes. Therefore, more knowledge of implementation process is needed for understanding government and other actors’ capacities, what is doable and what not, how it might work and at what costs in different contexts, and take that into regard when formulating new formal policy goals. The focus of the present study serves well to illuminate those issues.

Implementation research has been blamed for its pessimistic results of policy success (Lin, 1996). This has also led some scholars to conclude that policies cannot always successfully remedy all political problems in society (Stone 2001). It has been argued, that some of the problems are irresolvable (i.e., they are dilemmas) or present irresolvable paradoxes (ibid). Therefore, at best they can be alleviated, superseded or transformed (Wildavsky, 1987, p. 386). Other implementation researchers contended that the distinction between solvable and unsolvable problems is not grounded as problems lacking solutions in some contexts or time periods may be solved in others (Hanberger, 1997). Nevertheless, while much implementation research conducted from the hierarchical or top-down perspective focused on explaining policy failures at the same time others argued (DeLeon & DeLeon, 2002) for sufficient evidence that a large part of government programmes or policies work.

Another important shortage of the implementation research is the variety of explanatory variables preventing the development of the general implementation theory. Implementation research has also been criticised for lack of accumulation of knowledge (O’Toole, 1986, 2000; Püzl & Treib, 2007). The divergent approaches, the complexity of policy studies, but also its multidisciplinary characteristics have been major factors preventing development of its meta theory. Other recognised weaknesses have been missing insights from other fields such as research on EU integration studies (Püzl & Treib, 2007). The focus on positivist ontology and epistemology ignoring the role of discourses or cultural patterns has also been criticised (ibid, 2007).

An answer to the above critiques that is worthy of mention is that some implementation researchers had directed their attention to context, country specific contingency theories and explanatory variables instead of developing some meta implementation theory (Ingram, 1990; deLeon, 2002). Yet, the potential of this approach has not been fully used (Püzl & Treib, 2007). Hopes for more theorising in implementation research have been expressed (deLeon, 2002; O’Toole, 2000). A possible contribution towards more theorising could be by consciously choosing different countries or policy types or institutional settings in the same study (Püzl & Treib, 2007). The major contributions of this study should be seen in the frame of the contingency theory or implementation in post-
Soviet transition contexts by exploring the adequacy of institutional settings for different policy types in a single country and their major explanatory variables.

**The appeal of bottom-up implementation research**

Policy implementation research bottom-up can serve to reveal in what contexts particular multi-actor interactions may have the capacity to solve policy problems on their own, possibly without the involvement of government or formal institutions (Hjern & Hull, 1987; O’Toole, 1986). Thus, with its focus on broader range of actors and resources it could possibly contribute in revealing and explaining more policy success (in certain contexts or policy areas) than the top-down approach is capable of. The present study can be seen as a test of this assumption. Besides, regardless of the amount of the undertaken bottom-up research, it has been argued (Carlsson, 1996) that its impact has been insufficient and there still is a lack of good theories of implementation and policy making in the contemporary society.

A frequent criticism against the bottom-up approach has been directed for its focus on the local actors’ discretions in implementation depicted as negotiation processes. It has been criticised for possible lack of attention to the indirect influence of formal institutions and mandated organisations in policy processes (Sabatier, 1986). Hjern & Hull (1987) have acknowledged that bottom-up implementation research has frequently insufficiently highlighted institutional structuring of the policy processes above the local level. To meet the criticism this study will particularly explore broader institutional contexts and those formal programmes and measures not identified in the local policy implementation processes, but with a possible affect on them.

To be of practical use for those in the policy process and the formal decision-makers implementation research often has an ambition to present some answers to the institutional adequacy and explanations of policy success or failure. Given their different approaches to the policy process, the top-down and bottom-up also differ in their explanations. Top-down proponents have presented arguments as to whether lack of policy success is due to insufficient clarity in goals, discrepancies in their execution, the power of legal constraints, the complexity of problems or something else (See Sabatier, 1986; O’Toole, 1986, 2000). The top-downers have also criticised the bottom-uppers for the lack of prescriptions on how government could increase its success. Bottom-uppers had insisted that it is impossible to prescribe without understanding how implementation in particular contexts works. They also raised the issue of the meaning of implementation research—conformance or performance—and what policy areas would benefit from which approach (Barrett, 2004). Therefore, an additional suggestion for continued implementation studies is the need to address the accountability and consumer responsiveness dilemma closely related to the issues of ethics and social responsibility (Barrett, 2004). This study has no larger ambition than to highlight the dilemma where relevant.

Notwithstanding the criticisms, implementation research has been argued to be of persistent importance for highlighting problems in policy process (such as the relationship between formal decisions and actions), sensitising others to them and bringing attention to persistently important variables and relationships (O’Toole, 1986). Implementation research has an overall ambition to account for, explain
and eventually improve policy performance. It is, therefore, arguably of sustained importance for policymakers and those in the policy process and a critical part of public policy studies (DeLeon, 2002). Even though during the recent decades implementation research has advanced and matured it still has not been able to provide satisfactory answers to the policy problems and thus plenty of work remains (O'Toole, 2000). It was gradually accepted that expectations of general, clear quick and practically useful answers is a challenge for implementation research solutions to which are prevented by much nuance and complexity of the studied processes. Against this background, there is a need for revived implementation studies especially in the transition contexts.

2.4 The Aim and Research Questions

Continuing the tradition of the bottom-up approach to policy implementation, or rather, policy organising, the overall aim of the study could be formulated as follows: if policies can provide the linkage between societal values and their effective realisation via the body political, this study explores whether this linkage has been ensured in Lithuania during the post-Soviet transition and integration into the EU. To be able to explore the linkage empirically, I have chosen policies to assist SMEs. Establishment of the policy linkage serves here as a “thermometer” to indicate important overall tendencies of policy and institutional adequacy in a post-Soviet transition context. The specific aim of the study therefore is to explore the existence of adequate policies, i.e. ideas and organisational arrangements (structures), to address the outspoken SME needs in the Lithuanian transition context (for policy adequacy definition see section 1.4).

In the transition context it is unclear whether the formal institutions and organisational arrangements to deal with specific social problems are in place. Even if so is the case, their existence does not in itself imply their relevance for organising solutions to the particular policy problem de facto and their role in it is to be empirically explored. Analysis of the collective actions SMEs make use of in organising solution of their challenges is aimed to reveal whether, whose policies and how matter for SMEs in coping with their particular transition period challenges and development impediments. Policy adequacy is here taken to signify the establishment of the policy linkage.

The theoretical focus of this dissertation is therefore twofold. Firstly, on ways one can find to organise adequate policies in a transition context and, secondly, — the underlying factors promoting or decreasing probability of their success and adequacy. Therefore, the task for this dissertation is theory testing and theory-developing. It intends to test some basic bottom-up propositions on the way adequate public policies are organised (in modern democracies) and some of their major propositions of policy success (see hypothesis in section 4.6) in the post-Soviet transition contexts. These tasks are intended to be achieved by exploring the success and adequacy of SME assistance policies organised in Lithuania during 2000-2006 within the auspices of EU, national and local decision-making.

The following research questions are therefore posed:
2. The Choice of Approach and the Research Questions

1. What actors, when and how are capable of organising adequate policies to assist small and medium-sized companies during the transition, seen from the perspective of company owners or managers?
2. What major factors and why are conducive to organised policy success and adequacy (or its lack)?
3. Can policy analysis and, if so, how contribute in developing assessments of transition success?

Answers to the two first research questions will be provided by exploring the ways Lithuanian SMEs were organised public assistance policies with their transition challenges and development impediments. The empirical study evidence provided to answer the two first research questions will also be used to test some theoretical bottom-up assertions on the way policies are organised.

The first question is expected to provide answers to whether, what actors and in what contexts are capable of repeatedly organising systematic and adequate assistance, i.e. policies. The study seeks to explore the abilities of actors mandated by the government, but also other public and private actors, to adapt to the transition changes by providing adequate assistance policies. Especially the contribution of formal prescriptions (institutions) in organising adequate policies will be analysed. In short, this study is concerned primarily not with whether there were formal institutions and actors to assist SMEs, but rather—if and how they were used in practice to achieve a positive impact in solving SME challenges.

Further exploration of the “when” and “how” questions requires restructuring and describing the collective action processes in more detail. The study will identify actors participating in public policy organising and the impact of their collective action in particular contexts on solving specific SME challenges. The bottom-up methodology developed by Hjern & Hull (1987) is adopted here to analyse structural, behavioural and context specific features of policy implementation and to assess policy adequacy in the Lithuanian transition.

The study will also explore whether and how policy and especially bottom-up implementation analysis as a method could contribute with complementary assessments of countries’ transition success used in transition and consolidation theories. Especially the formal actors’ ability to establish a policy linkage and institutional adequacy in addressing particular societal needs will be argued as a complementary indicator of their transition success. I will return to the third question after a short discussion of a transition phenomenon under section 2.5 below. And lastly, this study, as was already mentioned, could also be treated as a test of the relevance of the bottom-up policy implementation theory for the studied post-Soviet transition context.

Before we move on to specifying the chosen methodological approach to explore policy adequacy in transition contexts, I find it necessary to conduct a brief discussion on the importance of the specific transition contexts for the undertaken implementation research.
2.5 Particularities of Policy Processes in Transition Contexts

"Societas non facit saltus (societies are not made of leaps): ‘the old society’ shows significant inertia, and after normative institutional constitution of democracy, it doesn’t immediately create a ‘new society’ with new, democratic relations. After fifteen years and more, many post-communist transitions have not become real democracies.”

(Maldini, 2007, p.12)

Some words are in place here to denote the implications for the study of the implementation of successful and adequate policies and institutional relevance for achieving policy adequacy (seen from the lenses of bottom-up policy implementation approach) in the post-Soviet transition context. As was argued, given the complexity of changes and the “freshness” of challenges, the role and adequacy of the formal institutions as well as the adaptability and contributions of government and other actors is even a more relevant issue for the transition contexts.

Attempts to define transition

There have been many attempts to explore and assess transition processes (e.g. Rustow, 1970; O’Donnell & Schmitter, 1986; Przeworski, 1991; Schmitter and Linn, 1994; Linz & Stepan, 1996; Tomer, 2002; Maldini, 2007). Both studies on transition to democracy and its consolidation have been developed (for more details see chapter 15). Transition theories have, for long time, been preoccupied with developing assessments of whether democracy as the new regime is in place. In general, there are disagreements among scholars on whether and how it is possible to define democratic transition and consolidation (see also chapter 16).

In the widest meaning, democratic transition is perceived as a change from undemocratic to democratic political system. But it is important to note, that if democracy is in place in very general terms, society is acknowledged to have established political, administrative and legal institutions that are capable of securing the linkage between certain outspoken societal needs and their realisation. In that context, the mere establishment of formal institutions has been gradually recognised as insufficient (Maldini, 2007).

Establishment of the policy linkage is a feature of democracy. As we will see, there are important reasons why the policy linkage might be difficult to achieve in post-Soviet transition-contexts.

Recent transition studies point out to the specific character of post-Soviet transformations in the countries of CEE. Transition studies that were evoked by the developments in South America and South Europe some three decades ago have faced much greater complexity and specific transition features in the post-Soviet transition of the CEE and the former Soviet Union countries (ibid.). Therefore, mainly due to the new transition experiences from the CEE countries, scholars have moved from initially narrow definitions of transition to more complex and broad conceptualisations as the transition complexity has been acknowledged.

Because transition to a new democratic system requires more than a mechanic replacement of hard institutional features, some scholars use a broader conceptualisation of transition as “a period between the fall of an old undemocratic
regime and the consolidation of a new democratic political system” (Maldini, 2007, p.7). In this study, I refrain from demarcating clear lines among transition and consolidation processes perceived as stages as processes in different transition arenas that are discussed below may not be very congruent, and the comments should be based on empirical evidence. In making assessments of transition success I use the transition concept as it is suggested by Maldini (see further discussion in chapter 16).

**Difficulties to secure policy linkage in post-Soviet transition**

Difficulties in securing the policy linkage lie in the fact that the post-Soviet transition in the Central and Eastern Europe, as in many previous transition waves, is characterised by insecurity of the outcomes (O’Donnell & Schmitter, 1986; Linde & Ekman, 2006). Transition is characterised by the lack of clear rules of the political game or institutionalisation of those rules (O’Donnell & Schmitter, 1986) which might prevent establishment of systematic collective action (policies). Besides, there are no ready models to copy for successful transformation regarding the role of various institutions and societal agents. This is because society is still mutating into a new shape, not (yet?) necessarily resembling that of the western welfare societies, and the final destination is not quite clear.

Naturally, the relevance of western institutions or policy ideas (as solution organising models) can be questioned in a society struggling with different needs and cultural patterns. Possibly, they can only be guidelines. Therefore, each society has to figure out its own optimal ways of dealing with the specific transition challenges. The political, legal, economic and administrative institutions to serve the needs of the particular society in transition are to be built possibly using experiences from western democracies, but in such a way as to create “a new quality” (Maldini, 2007, p.8).

Without clear guidance, it is not easy to find an optimal role for sometimes hastily established formal organisations and institutions in delivering adequate policies. Besides, in the transition context there is normally a lack of prior knowledge of what agents, institutions and how affect policy processes (see also Maldini, 2007). Transition context, thus, provides even more ground to identify them and explore their role and impact in addressing particular societal problems.

**Policy linkage and transition success**

Transition has been recognised as a phenomenon simultaneously taking place on several arenas which, according to Linz and Stepan (1996, p.9 and on) are as follows: 1) civil society; 2) political society; 3) rule of law; 4) usable state bureaucracy; and 5) economic society. The authors especially emphasise the role of three political arenas for transition success: political agents and institutions, civil society and the rule of law. Economic and civil societies are experiencing most transition challenges to cope with which political, administrative and legal actors and rules (institutions) are established. However, in these transition processes, as some correctly noted, “the society that transition countries are aiming to become does not actually exist” and is yet to be achieved (Maldini, 2007, p.7). The same could be said of the transformation of the market. Therefore,
policies to assist various groups of civil or economic society with their needs are to be handcrafted in this complex transformation process to fit the specific, possibly transition unique, needs.

In addition, transition research informs policy implementation studies that political actors and institutions and their abilities to assist society in transformation are significantly affected by the processes on the other transition arenas (Linz & Stepan, 1996). In fact, the processes are interrelated so that a successful transition on one arena positively affects others, but they may not be simultaneous. Consequently, lack of success on one or several of them has negative consequences for the others. This would mean that entrenchment of the rule of law and, in the words of Linz & Stepan, the ability of “usable” bureaucracy as well as economic and civil society to adapt to transition challenges can significantly contribute to transition success.

However, it has been argued that what is characteristic of the Eastern European transitions is the *incongruence* of the formal democratic institutions with practices (Maldini, 2007). Contrary to previous transition to democracy societies those of CEE and the former Soviet Union had no difficulties in establishing formal democratic institutions such as democratic constitution, parliament, and basic state institutions. However, the formal institutions proved to be insufficient for assessing those countries as democratic or ready with their transition so that to “make the government’s policy depend on voters’ will, and other forms of expressing the citizens’ preferences” (Maldini, 2007, p. 11). Indeed, their political practices were frequently found undemocratic, corrupt and lacking in the rule of law. Therefore, authors such as Maldini (ibid.) called for distinguishing the formal (minimal) and the actual or what he termed “efficient” type of democracy in the transition countries.

While the starting point of the Lithuanian (or any of the CEE countries’) transition is quite obvious, it is much more difficult to define its target or destination. Because of that it also becomes more difficult to assess its success on different arenas especially by using some predefined measurements.

This study explores, therefore, whether using actors’ (governmental and other) abilities to organise adequate policies and the existence of relevant institutions to cope with specific societal needs *can be used as a complementary indicator of transition success*. In light of the expressed criticism it becomes pivotal to reveal the actual SME assistance policy—rather than focus solely on the establishment of formal institutions—and explore its impact and adequacy in assisting SMEs to cope with their transition needs. As was indicated, neither one arena nor a single policy area may suffice to deem of transition success in a more general sense as it is a multifaceted phenomenon. However, as this study relates to several arenas and policy areas it arguably might inform us on additional transition success or failure indicators alongside the established ones.

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12 This is arguably partly due to their Soviet experiences with for example, a democratic constitution in a non-democratic state.
Implications to analyse policy adequacy in post-Soviet transition contexts

How does the overview above inform the study of policy processes, here—to assist SMEs—in a transition context? Firstly, my point is that assessment of transition success cannot (and should not) be searched in regard to some formal political goals since the final product or destination of transition is unclear and the foreign models would not suffice. Thus, secondly, there are no ready prescriptions of how to achieve transition success on multiple arenas in the post-Soviet countries, why policies have to be tailored for the specific contexts to be adequate. In this context, the role of local actors and their rationality in the actual policy process at a given time (Lasswell, 1971, p. 120) are essential to explore. This supports the point of bottom-up research for assessing evolving institutions and organising patterns in term of their adequacy for particular outspoken transition needs of society.

Thirdly, actors in transition theories are important for causing the institutional change, but they as well as their actions and practices must be identified empirically. And fourthly, the formal institutions and the socio-cultural practices have been observed as frequently incongruent, with a negative consequence for the quality of democracy and transition success. In regard to this last point, bottom-up studies of policy processes can contribute with interesting insights as to whether the incongruence between the formal and the so-called de facto institutions can be proven and with what impact on policy problem solution.

In sum, I assume that the post-Soviet transition is a process towards a democratic destination with a liberal market the form of which is yet unfolding. Insights from transition theories makes it reasonable to assess transition success in terms of societal (here SME) adaptation to the ongoing processes and the ability of the government and the diverse other actors to help them to adapt by organising adequate public assistance policies. This study therefore builds on the presumption that successful transformation of SMEs (economic society arena) can be alleviated by adequate assistance policies. However, transition theories allow presuming that actors’ (and the government) abilities to organise adequate policies are affected by the development in the other transition arenas. What content this dependence obtains is the matter of empirical exploration of the particular transitions.

2.6 The Contributions of this Study

This study responds to some of the criticism and expectations from implementation and transition research raised in sections 2.3 and 2.5. I can summarise the contributions of this study in five aspects.

Firstly, the interest of this study for implementation theory research could be seen in what it reveals about the structures and behavioural characteristics of policy implementation in the post-Soviet transition context: i) whether bottom-up assumptions of mixed mandated–non-mandated actor constellations in organising adequate policies can be proven; ii) whether certain bottom-up assumptions on factors of policy success and adequacy are valid; iii) whether formal or informal rules dominate in structuring policy organisation and whether, and in that case
how, the manner policies are organised differ for different policy areas; iv) whether and what differences could be found between the identified policy organising structures (or ad hoc collective actions) in their success and adequacy; v) what is characteristic for those structures and behaviours and what explanatory factors are important for transition contexts. Since implementation studies using bottom-up methodology to analyse policy processes in post-Soviet transition contexts are scarce (at least to my knowledge) this can contribute to the development of an implementation theory of relevance for the particular transition contexts.

This study is also, and this is my second point, a test of the methodological bottom-up approach to implementation proposed by Hjern & Hull (1987), its relevance and limitations for the research tasks at hand. It explores whether the adopted approach allows uncovering relevant actors, resources, policy structures as well as explanatory variables in SME assistance policy organised. Given the differences between the policy problems explored in this study it also allows to test the usefulness of the bottom-up approach for studying policy implementation in both more negotiation or compliance like processes. Assessment of the usefulness of this methodological approach will also be based on whether, given the ability to include a broader spectrum of actors, it allows to identify more occasions of public policy success than the contending top-down approach?

Thirdly, the study contribution could be also seen in its attempts to join in the same study the focus on local implementation processes and the indirect influence of macro structures—the Lithuanian and EU (where appropriate) strategies and regulations—otherwise frequently excluded from this type of bottom-up implementation research. These efforts to combine a bottom-up approach with a more top-down search for formal policy implementation are used to better explore the manner of policy process, but also to attempt to generalise on important factors that increased or diminished the probability of policy success in the post-Soviet transition context (for study delimitations in regard to the EU integration and implementation studies, see section 3.7).

Fourthly, the present public policy study in Lithuania explores what the collective solution organising processes (policy action) can reveal of the transition success of formal institutions and organisations, and what indicators to assess it could be developed from the Lithuanian empirical context. Especially it attempts to contribute with important transition success indicators related the political and “usable bureaucracy” arenas (Linz & Stepan, 1996), but also outside them.

Lastly, by exploring the existence, success, and adequacy of policies this study adds up to the research dealing with whether and how public policies matter for SME development.

In sum, this study may be of interest primarily for its contributions to the implementation, evaluation and transition theories and the development of the methodological bottom-up approach to policy implementation research.
3 Theoretical and Methodological Interplay in Bottom-up Policy Analysis

This chapter aims at introducing the theoretical stand of this study and its underlying ontology and epistemology.

As has been discussed in chapter 2, who is capable at all to organise adequate policies to particular SME needs is an issue to be explored empirically; not taking for granted a priori neither the role nor adequacy of the formal political institutions. The focus on the de facto organising does not in any way neglects or diminishes the role of institutions. In fact, it views both actors and institutions as important explanatory factors for policy success. However, the chosen theoretical and the methodological approach build on certain ontological and epistemological perspective—to explore what institutions and actors matter in a policy process—presented in this chapter. Here I also provide definitions to some major concepts used in the study.

3.1 How and What Institutions Matter in Policy Organising: Ontological and Epistemological Guidance

No analysis of policy processes or institutional change can be undertaken without taking the continuous social sciences debate of the actor-institution primacy into account. Also in the literature on post-Socialist transition we can find discussions of whether the political agents (especially elites) or the formal institutions that matter more for the transition success. In the context of policy analysis the issue is rather what actors and institutions matter how for policy success. Yet another dimension that is often brought to a policy process analysis is the issue of formal and informal institutions or mandated non-mandated actors. While there are perspectives that emphasise the role of the state (mostly in terms of government and formal institutions), or the society on social development and policies (Evans et al., 1985), organising adequate policies might as well require a mixture of both efforts.

The actor-institution issue is relevant to this study in how it affects the definition and choice of the unit of analysis, i.e. how we identify the interaction structures of the pivotal policy actors. But it also is essential to the perception of policy implementation.

Chapter 2 has already presented reasons for why what exists as a policy process (in an ontological meaning) is not necessarily what is formally prescribed. How do we know then what actual processes count as policies? To respond to this the adopted bottom-up approach refers to Anthony Giddens’ (1984) ideas of how structures—also those of policies—evolve.

Giddens advocates the perception of an ontological actor-structure duality and treats them as inseparable and reciprocal. He perceives their relation in terms of a structuration process (1976, p.161). In short, he rejects a view of structures as
some “objective” units separate from human action. Giddens treats “structures” in terms of structural properties of social systems to be understood as “discernibly similar social practices (… that) exist across varying spans of time and space and which lend them ‘systemic’ form.” (Giddens, 1984, p.17) The important characteristics of a structure are rules and resources. Structuration, also understood as organising or institutionalising of social system activities, is reproduced or changed by individuals. In the context of policy analysis bottom-up, the structuration approach is taken to imply that actions of individuals on micro (local) level can result in policies if occurring repeatedly and with some system. Such practices that have the greatest time-space extension acquire a more solid form—institutions.

In this study, adopting Giddens’ approach, policies are perceived as systemic and repeatedly occurring practices organised to address particular societal needs (here those of SMEs). They may be institutionalised or not yet. This study does not primarily intend to trace the duration of institutions (especially the duration of informal institutions is more difficult to trace).

Also adopting Giddens’ and other authors’ approach, by the term “institutions” I do not have in mind authorities or other governmental actors, but rather “the rules of the game” (North, 1990, p.1) and ways of doing things (Elster, 2007, p.427) politically, judicially and economically in society. I use here a concept of institutions “as systems of established and prevalent social rules that structure social interactions” (Hodgson, 2006, p. 2). Structural properties of the social systems and, eventually, institutions are “both the ‘medium’ and the ‘outcome’ of the recursively organised practices” (ibid.). Structure is seen, thus, as both constraining and enabling individual action.

There is also a type of human interactions that occur in a less systematic form or ad hoc, and lack of repeated pattern. In this study such structuring, also organised to address particular SME needs, will therefore be distinguished from more systemic policies.

While human interactions may acquire a structured pattern more promptly, institutions normally evolve only gradually. However, in the case of transition countries, we witness dramatic changes in, at least, formal institutions in relatively short time perspective. Next, I will briefly look at what distinguishes formal institutions from informal.

Douglass C. North (1990, p. 4) refers to formal institutions as rules created by humans and informal institutions (such as implicit rules of behaviour)—as simply evolving. Helmke & Levitsky (2004, p.727) define their distinction as follows: formal institutions are openly codified, in the sense that they are “created, communicated and enforced through channels that are widely accepted as official, while informal institutions, are socially shared rules, usually unwritten, that are created, communicated, and enforced outside of officially sanctioned channels.” Helmke and Levitsky ascribe courts, legislatures, bureaucracies to the official channels. Thus formal institutions become constitutions, laws, regulations, but also the official rules that govern organisations (ibid.). Informal institutions are equally known, but not laid down in writing and they tend to be more persistent than formal rules (North, 1990).

With the term formal institutions I mean rules and prescriptions (such as strategies, regulations, laws) created by the official channels (top decision-makers) on purpose, enduring in time and repetitively structuring human behaviour.
Informal institutions then refer to equally enduring and structuring patterns that diverge from formal ones, and instead evolve from unofficial sources.

Since both formal and informal institutions constrain and enable political behaviour (Helmke & Levitsky, 2004) they need to be taken into account when analysing policy processes. Informal institutions have been found to perform several functions: enhance the performance of the formal institutions by solving specific problems of social interaction; create new problems like corruption; and reinforce or entirely substitute for the formal institutions (ibid, p.728). It is important to note, that besides informal institutions there are other types of patterned behaviour enabling or constraining human behaviour such as culture or patterned behaviour without shared expectations, such as removing ones coat in a restaurant.

How do the purposefully (often promptly) created formal rules affect policy interactions to obtain an institutional character, and how do we find out about them? Giddens’ view is that individual actors refer to various structures that constrain or enable their actions. Examples of such structures may be official political strategies or laws created by parliament, national, local government and similar formal organisations.

The bottom-up approach builds on assertion that a repeated output of individual interactions produces other structural qualities like “policy implementation structures”. These structures, in turn, may also both constrain or enable the actions of the policy actors that repeat the same pattern of behaviour. There might be both formal and informal dimensions of structuring, individual for each policy context. Giddens maintains: “To enquire into the structuration of practices is to seek to explain how it comes about that structures are constituted through action, and reciprocally, how action is constructed structurally” (Giddens 1976, p. 161).

Whatever their origin, my interpretation of Giddens (1984) and Hodgson’s (2006) ideas is that various strategies and regulations may structure the actual policy organising differently, depending on which of them individual actors treat as more influential in their actions. Enduring institutions and rules have another type of relation with individuals referring to them than the immediate and conscious co-creation of structuration. There are rules (both formal and informal ones) that the individuals did not agree upon, but are expected to mind in particular contexts. For these rules to retain their institutional status, Hodgson (2006 p.7) maintains that they are dependent upon the activities of individuals, their interactions and particular patterns of thought about them through which institutions can self-reinforce and self-perpetuate themselves. They have to be, so to say, respected and enacted to live on.

My interpretation of Giddens’ ideas in policy implementation, or rather “organising”, a term that I preferably use in this study (see explanations in section 3.7), is that the structuration process primarily reveals the de facto interactions in which formal rules and norms (institutions) are embedded in as much as they are repeatedly applied in the participating actors’ actions. In other words, formal institutions do not achieve anything by themselves if they are not referred to, applied and thus re-created by individual actors. For a particular policy structure to have (more predictable) effect on its outcomes it also has to be repeated or enacted. Regarding policy action as “constructed structurally” implies, in my view, that both the macro structures policy actors refer to and the structures
created in actors’ interaction should be taken into account when analysing policy implementation processes.

3.2 Organising, Organisations and Institutions in Policy Process

Implementation research is interested in what organisational rules (where relevant), formal institutions and informal patterns of behaviour are crucial in producing particular policy action, here understood in terms of organising. This study does not explore institutionalisation processes in more depth, but rather attempts to reveal when and how formal or informal institutions or other patterned behaviour matter for policy success and adequacy. Ad hoc structuring as compared to more institutionalised policy processes could be perceived as Giddens’ initial stages of structuration, not equally systematic or enduring in time as policies. I see it as possibly shifting, adapting to particular contexts and referring variously both to specific formal or informal rules (institutions). Both types of organising patterns can be revealed by analysing which type of macro (read institutions) actors refer to in their interactions in policy organising processes.

Institutions should not be confused with organisations or other actors. Organisations are seen here as purposefully created by a number of individuals for particular goals within the particular institutional structure of society (North, 1990). Normally, organisations are established by adopting some kind of regulations governing its activity. North acknowledged organisations as agents of institutional change (ibid, p.73), while using Giddens’ and Hodgson’s ideas this agency of change could be ascribed any enduring structuration processes. The much debated difference between organisations and institutions has been considerably clarified by Hodgson (2006). Organisations as such may be sometimes treated as a collective actor, and in other perspectives as structures of human behaviour. However, Hodgson tends to treat organisations in terms of a special type of institutions or social systems with boundaries, internal players and (possibly conflicting) systems of rules (ibid). What is important here is that organisations also provide structure to human interaction to achieve certain objectives. Similarly to institutions, there are formal (such as political parties, schools, universities) and informal organisations (clans, mafias) (Åberg & Sandberg, 2003).

This study is mostly interested in the distinction between organisations mandated with particular tasks relating to implementing SME assistance and those that are not, while both of them might be perceived as formal, i.e. adhering to formal type of rules.13 Consultancy companies or SME cooperation networks might be examples of non-mandated formal organisations. It is primarily the role of the participating organisations or, rather, their actors, that is in focus of the study. In this study, I prefer to use the term (organisational) actors referring to representatives of various organisations.

A distinction is also made in this study between organising and organisations or institutions. Organising is seen as synonymous with Giddens’ structuring, which,

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13 A useful explanation of the difference between formal and informal institutions and organisations is provided by Helmke & Lewitsky (2004).
if repeated, is regarded as policies, and if enduring in time, may acquire the characteristics of either formal or informal institutions (or organisations when understood as structures). This approach allows us to see the policy processes in terms of (purposive) individual actor-interactions in given institutional settings. What is important here is that organising may depart from the formally prescribed rules or roles, where such exist, leading into new forms of collective action within a frame of the existing institutional structures (Ostrom, 1990).

The output of actors’ strategies and interactions constitute the object of research in policy implementation analysis bottom-up. This output is then analysed in terms of its structural and behavioural characteristics. Policy presupposes systematic and repeated pattern of organising in addressing particular societal needs while other types of collective action may be less systemic (ad hoc). In this study to easier distinguish ad hoc and policy actions the term structuring will be used to denote their ad hoc character. Policy organising is related to the use of various resources to implement policy ideas.

Since in this study the interest with institutions is only in terms of their relevance for adequate policy organising, primarily those institutions (rules, norms) that are referred to by the actors participating in organising policies to assist SMEs with particular types of needs/challenges as constraining or enabling their behaviour will be considered. The study explores the relevance of formal institutions (such as SME assistance regulations) and also the role of the engaged actors from mandated and non-mandated organisations.

A related issue of high relevance for the transition context is how the policy change is achieved. In micro-interactions between individuals they are affected by the already established and known to them patterns of behaviour (e.g. previous structuration) and more durable institutions i.e. rules, prescriptions that structure repeated interactions. Depending on whether and how the policy actors take into account these patterns and institutions a particular structuration is either recreated or altered (see also March & Olsen, 1989). When the altered action evolves into a new systematic pattern we may talk of a new policy, which may transform into an institution in the course of time.

Normally, the policy change occurs gradually. However, government or formal organisations may purposefully attempt to change actors’ behaviour more immediately via various administrative or policy reforms. In such cases, formal prescriptions or laws are entrusted the power of change, although this power and relevance remains to be explored for different contexts and types of policies. Top-down implementation research witnessed (see chapter 2) of problems pertaining this issue. I will not, however, dwell here on the policy change as it is not a direct focus of this study.

In sum, this study stresses the de facto organising (structuration) in institutionalising interaction patterns. Thereby policy is both a process and a structure, but a structure that is recreated or altered by the participating actor interactions. The repeated pattern in policy interactions may be achieved by adherence to some formal rules or prescriptions. However, if and when these interactions start systematically and frequently diverging from the institutionalised rules, then a new structuration, and gradually policy, evolves.
3.3 Local Policy Structuration

Once structuration ontology has been accepted there is a methodological (or epistemological) choice to be made regarding the starting point of the policy study, i.e. starting with structures \((de \ facto)\) patterns, institutions) or with actors. Outhwaite (1987) argues that the researcher simply has to make a choice regarding the starting point for the purpose of simplification, which implies selecting the “appropriate levels of abstraction” (ibid., p.115) which is governed by the pragmatics of the research process. This way, ontological and methodological issues are, in a way, held apart.

The logic of the study suggests starting with the actors as the organising patterns and institutions do not reproduce or enforce themselves thereby demonstrating their relevance for the particular policy problems. Now, as interactions between actors in any policy process might occur at different levels—local, regional, national and possibly above—which one is the logical starting point for a policy implementation analysis?

Here we are assisted by the reasoning of Karin Knorr-Cetina (1988) whose reasoning suggests that it wise to start analysis of policy organising from actor’s interactions on the micro level and search for repeated patterns. She means that structural patterns cannot be studied from the macro level (here understood as institutions, laws, official programmes or similar), as we cannot beforehand know which macro structures actors in some micro situations refer to in their strategies and interactions. In other words, we do not know whether interactions of macro level (government) actors create structures that are referred to at micro level. It is not possible, Knorr-Cetina (ibid.) maintains, to predict in advance the output of micro interactions even in a similar context of macro-level structures as the control that macro exert on micro is unclear before the empirical investigation. Different participants in micro-interactions can refer to different macro why the output of the interaction in terms of structuration may be different in different contexts. This ambiguity in micro-macro relations is created also by the fact, and as asserted by Knorr-Cetina, that various micro interactions or situations affect one another. She argues we need to start at the micro-level because the first relevant structures are produced by repeated interaction patterns there. Micro situations could be interpreted to mean interactions between any types of actors.

Knorr-Cetina (ibid.) maintains that adequate descriptions of macro or large scale social phenomena as “the state” should be “grounded in statements about actual social behaviour in concrete situations”, for example, the transactions of government officials. (ibid., p.22) This approach recognises the possible impact of formal institutions as enabling or constraining and it allows establishing a direct link to the specific macro level institutions when studying micro-interactions. It implies that how and which formal institutions provide structure to the actual local policy organising is manifested via the actual behaviour of the participating actors and cannot be predicted in advance. They (some of them) might or might not be referred to in the process. Therefore, studying policy organising should not take the officially prescribed policy implementation as a starting point for analysis. A study of organising policies to assist SMEs should thus start with exploring the actual micro level interactions between the companies and the participating actors.

To conclude, structures exist on several levels of perception and they may both restrict or enable individuals’ actions (Outhwaite, 1987, p. 108 and on). A policy
researcher should, therefore, attempt to identify which of those structures various actors refer to as the most relevant or influential for their actions in practice. The perspective and experiences of the involved actors may serve as a point of reference in establishing the actual relevance of various macro structures (institutions). Using the approach of Knorr-Cetina to micro interactions, it is possible to argue that policy organising evolves via repeatedly occurring actor interactions on the local level, but need not end there.

Given these ontological and epistemological standpoints, we now move on to the discussion how the choice of methodology affects on which actor interactions are relevant for the analysis of policy implementation. But the methodological considerations are also coloured by the theoretical assumptions.

### 3.4 Effects of Theory on the Methodology

From what has been discussed in the previous section it follows that policies could be taken to evolve via repeated and systematic interactions between actors. Chapter 2 detailed on the two major approaches to studying policy implementation processes and discussed some of their differences regarding the ability of formal actors to implement adequate policies. The previous discussion relates closely to the issue of this section, i.e. which interactions count as the unit of policy implementation analysis. Which interactions should be considered in studying local SME assistance policies in Lithuania? Below, I will briefly account for how the two different theoretical approaches affect the methodological approach for identifying the unit of analysis in this thesis.

As has been mentioned, the two dominant approaches prominent in implementation research since early 1970s differ primarily in their starting point of analysis. The top-down approach to policy analysis takes as its starting point a formal policy decision and explores the extent to which and the reasons for why its objectives are attained over time. Such analysis is often based on the early Lasswellian (1936, 1971) stage division of policy process and presupposes a clear distinction both in procedural and analytical terms of decision-making and implementing phases.

To take this approach would imply being preoccupied with the analysis of the extent to which the formal SME assistance goals are implemented by the mandated actors the way they were intended in the formal policy strategies and programmes (in a wide range of these!). Then, the vertical (read hierarchic) pipelines of goal execution or, at best, implementation (Majone & Wildavsky, 1984) would have been the unit of analysis. It would take into account only the actions and resources of the authoritatively mandated actors (Mazmanian & Sabatier, 1981; Sabatier, 1986). Schematically such programme implementation analysis (called policy analysis by the top-down proponents) could be summarised as follows (see figure 3.1):
The arrows refer to the flow of policy implementation process. This is a kind of ex post process that implies searching after the possibilities to implement the top-politically set formal goals through the available instruments (formal institutional and other arrangements). In such a process, in fact, policy solutions all the way down from the political top to the bottom are taken to be institutionalised and formally accepted as optimal for the specific local—here SME—problems at hand.

This approach, however, delimits the actor interactions (also locally) to the formally mandated actors who supposedly are the major implementers (Sabatier 1986) and would not allow for adequately exploring the role (ideas, resources, behaviour) of other non-mandated actors. Besides, conducting analysis this way would imply studying programme implementation, but not necessarily policy implementation (see sections 3.6 and 3.7).

Chapter 1 presented the following major arguments by scholars of the bottom-up and deliberative policy analysis against the top-down approach to whose interactions count as a unit of analysis: i) dispersal of authority; ii) questioned knowledge and ability of the government actors and formal institutions to organise policies adequate to divergent local needs; iii) multiplicity of formal programmes (difficult to follow or delimit any of them for a given policy problem); iv) complexity of policy problems due to the multiplicity of needs, and v) rapidly changing transition contexts.

This is not to undermine the possible usefulness of the top-down approach in studying some policy issues. However, while in certain phases of welfare democracies adequate formal policies for the societal needs were institutionalised, possibly providing more arguments for usefulness of top-down approach, the shifting character of societal needs and their multiplicity constantly put such formal institutions on a test. Especially the transition context with its proven complexity (see chapters 2 and 15) presents evolving institutions in Lithuania with shifting and multiple social challenges, and that is why establishing and institutionalising adequate policies may take time.

The top-down approach is problematic also for studying SME assistance policies when the SME assistance needs shift over time or locally or when they mismatch the problem formulation in the formal programme goals. Besides, in case of incongruence between the SME needs identified by the researcher and those of the top decision-makers, the top-down approach would not necessarily be able to provide us with knowledge whether the formal programmes and mandated actors have been successful in targeting and assisting companies with their actual needs which is the intention of this study. It is also, therefore, that the top-down approach has not been chosen for the purposes of this study.
3. Theoretical and Methodological Interplay in Bottom-up Policy Analysis

The complexity of the transition contexts may, in general, raise doubt about the ability of any actors to cope with the particular societal needs. It is, therefore, the aim of this study to explore in particular whether and, then, by whom and how adequate policies to assist Lithuanian SMEs with particular transition period challenges have been organised. I regard the bottom-up methodological approach that allows disclosing all types of local actors and resources involved in policy structuration processes more appropriate for the purpose of this study.

This study employs a particular version of the bottom-up approach—the one advocated by Hjern and his colleagues, especially David Porter, Ken Hanf and Chris Hull (1981; 1982, 1983; 1987) initiated in mid-1970s as a response and criticism (see especially Hanf & Scharpf, 1978; Elmore, 1979; Hjern & Porter, 1981; Barrett & Fudge, 1981) to the predominant stage oriented hierarchical top-down model. Paul Sabatier, a major proponent of the top-down approach, has described this approach as “intersubjectively reliable methodological alternative” distinguishing it from other bottom-up approaches (Sabatier, 1986, p.34).

Before we turn to explications about appropriate methods of identifying the unit of analysis the bottom-up way, I will dwell in several of the coming sections on some of the theoretical bottom-up assumptions of the policy process. I will start with the particular approach the mentioned bottom-up proponents adopt to defining policy problem.

3.5 Tasks for Bottom-up Policy Analysis

From what has been said above it is clear that policy structuration is to be searched empirically starting with micro interactions, but around what policy problems, or, more specifically, problems defined by whom? Lasswell, acknowledged as one of the founders of the field of policy sciences, had normative aspirations to make policy analysis serve the purpose of improving democratic government (Lasswell, 1970). To be of practical use and to serve its aim policy analysis, according to Lasswell (1971), should identify those problems that can be solved or that solutions could be attempted at.

In accordance to Lasswell’s aspirations, bottom-up policy analysis is problem-oriented. For this type of policy analysis policy problem relates to questions “for whom?” or “for what?” policy measures are needed (Hjern, 1999). Policy problem is a problem or a need, a challenge that policy actors or a researcher deem to require a public action. Policy problem can, for instance, be expressed in terms of “how can public assistance to particular SME needs be organised?” Bogason, another bottom-up proponent, described policy problem as a “set of problems to be addressed by one or more organisations, mostly public, but maybe private, as when licensed to perform as authority under certain conditions” (Bogason, 2000, p.111). In other words, societal problems become public policy problems when they are outspoken and are in need of collective action to assist their individual solutions. When public actors undertake to organise their solution they turn into policy intentions or ideas. Defining a policy problem is definitely a value issue, but the researcher’s task from the bottom-up perspective is to reflect the values of the society he or she studies (see also section 2.2).

14 Later in the study referred to as Hjern et al.
In this study policy problem is the outspoken challenges or development impediments of Lithuanian SMEs in need of external assistance, i.e. policy measures, selected by the researcher. Declared intentions, especially of formal political authorities, to assist SMEs in Lithuania imply that they regard certain SME needs as policy problems. A bottom-up researcher’s task is to explore the congruence of the SME perception of their needs and the formal decision-makers’ or other policy actors’ perceptions guiding their actions.

Lasswell (1970, 1971) proclaimed the context specific, multi-method and practice enlightened knowledge of and in the policy process to be the task of policy analysis or what he termed as the “policy sciences of democracy”. Policy analysis, at least the bottom-up way, is about “describing and evaluating institutions in respect to their contribution to the reliability of policy realisation” (Hjern & Hull, 1983, p. 295). Therefore, it is to be treated as a method for a systematic linkage of explicit societal values (needs) and critical studies of what can be productive means to achieve those values (Hjern, 1999). Productive means refer to the studies of the employed institutional arrangements as conscious efforts (Carlsson, 1996) to realise particular sets of ideas. Accordingly, policy analysis implies exploring the participating actors’ policy problem perceptions, into what policy intentions they are formulated and how they are addressed de facto. The primary focus, though, is not on the individual actor’s perceptions, but on what actions they result into and the interaction outcomes.

Such an approach to policy analysis implies investigations into the rationality of top-political actors and formal institutions, and their claims of adequacy and authority in suggesting solutions to the contemporary problems and challenges. Some explicit societal values may be adequately expressed by the “established” power or formal political and administrative institutions, but it may like well be not. Positive outcomes in alleviating a policy problem often justify the formal institutions (due to the adequacy of their measures, their capability to positively respond and deal with societal problems). However, a more thorough practice enlightened policy analysis is required to reveal what actors, with what resources and actually with reference to what macro authoritative strategies (where relevant) achieved those outcomes. The bottom-up approach allows critical, context specific and practice enlightened studies off policy organising and their adequacy to the outspoken societal needs. In that it also takes a normative stand on improving the linkage between the policy problem and structures available for an adequate and successful policy action.

The second issue at hand is how to detect adequate policy organising. This requires a further explication of the policy process itself and the related concepts of policy implementation and evaluation that affect the choice of the research techniques. In the coming sections I present some reflections on how the chosen policy implementation concept affects on how policy process is to be analysed and evaluated.
3.6 The Linkage between Ideas and Action:
Implementing What?

Our search for ways to identify how public assistance and, especially, policies to the identified policy problems are delivered leads to a discussion on policy implementation. Policy implementation, as we shall see, bears its own complex of problems, some of which I regard as especially relevant for the post-Soviet transition context. Here questions, such as: “what does it mean to implement policy?” and “can there be a policy without its implementation?” will be considered.

Regardless of their differences, both of the discussed approaches to policy implementation analysis agree on that public policies are needed when there exists a societal problem that is in need of common solution efforts. Accordingly, policies exist in order to bridge a gap between what “is” and what “ought”, what society with what needs we have and what is aspired. To bridge this gap policy clearly needs to be more than a mere decision-making. It implicates a task to guide the achievement of its goals, but in what ways? This brings us to a discussion of policy implementation.

As mentioned, many early top-down implementation studies have proven implementation—understood as attainment of the goals prescribed by the top-decision-makers—to frequently fail (Hill & Hupe, 2009). Goals defined in the official strategies, programs and similar documents were discovered to be often redefined during the implementation process. This has caused the top-down proponents to think over whether policies “should entail ‘instructions’ of how policy goals are to be achieved or to allow more ‘space’ for policy implementers?” (see e.g. Majone & Wildavsky, 1984; Sabatier, 1986)

Understanding this, Majone and Wildavsky (1984, p. 7), both proponents of top-down approaches, had instead formulated policy implementation the following way: “attainment of a goal… is a unitary process or procedure, not a double process of setting the goal and then devising an implementation plan.” Implementation of a policy was recognised as dependent on the implementer’s perception of it. Although regarded as tightly linked with original decisions or goal directions, implementation research increasingly recognised the importance of the implementer’s re-definitions of the goals and active decisions on the appropriate means to achieve them on the ground, while in action. Such conceptualisation acknowledged the intertwining between policy-making and implementation. However, even if this was a hitting conceptualisation of implementation, the standpoint on who was authorised as the policy problem definer in a policy process and on the role of the formal policy goals in addressing the policy problem held the top-down and bottom-up approaches apart.

As solutions to policy problems were recognised to be incrementally linked to re-definitions or multiple ideas of policy problems, the bottom-uppers have given implementers a prominent role in policy processes. According to the logics of “backward mapping” (see also sections 4.8 and 6.2), policy implementation is a process by which organised problem solving occurs, and that starts at the encounter between local bureaucrats and policy receivers (Elmore, 1979). It is the specific behaviour where the administrative actors intersect private needs and choices that generates the need for particular policies. The knowledge and
problem solving abilities of lower-level administrators were regarded as important in achieving successful policy implementation (ibid.). It was the implementers that had to find tools to solve a particular policy problem by redefining and operationalising it for themselves.

The bottom-up implementation camp has especially stressed the meaninglessness of separating policy making (ideas) from policy implementation, thus defining policy as both a set of ideas and the search in praxis for organisational or institutional arrangements to realise them (see Hjern & Hull, 1983; Hjern, 1999). Besides, in their view, policies and their implementation should be normatively related to the policy problems against which they are evaluated. In other words, analysis of policy implementation (organising) should not take its departure from formally defined goals at the political top as their relevance for policy problem at hand is yet to be explored rather than taken for granted. Implementation analysis bottom-up searches to identify whose ideas and actions and resources are the most relevant for the policy problem.

Hjern (1999) cautions, that if policy analysts disregard analysis of the policy link and whether those defining policy goals have the tools for doing something systematic about those goals in practice, policy analysis cannot achieve its primary task, it no longer is a “craftsmanship” as its founder Lasswell saw it. Therefore, Hjern contends, those designing policy goals (be it formal mandated actors or non-mandated ones), should have the knowledge of whether the achievement of those goals can be organised in regard to the particular societal needs, how, and by whom and discuss the relevance and the role of particular formal institutions with regard to that. Many mandated policies are just political compromises by actors who are not familiar with the implementation terrain (ibid.).

At a first glance, the top-down and bottom-up approaches to implementation represented by Majone & Wildavsky (1984) and Hjern respectively, bear some similarities. However, a closer look reveals differences as to what goals or policy problems, defined by whom policy implementation as a creative process is to be related to. Here the two approaches differ. The creative top-down implementation perspective (implementation as evolution) discussed by Majone and Wildavsky (ibid.), although giving much attention and space to implementation, relates it in the first hand to an authoritatively defined policy goals although modified and redefined by the implementing actors. It does not preoccupy itself with the linkage between societal values (needs) and formal policy abilities to reflect them or the role of non-mandated actors in formulating their goals and offering resources in policy problem solution. The bottom-up approach to implementation also stresses the need for systematic action in terms of instrumental policy problem solution (Hjern, 1978). However, it advocates for an open methodological approach to discern the actual actors in the policy implementation, thus disclosing the causal links between policy action, its outputs and impact via an empirical inquiry (see chapter 5).

Implementation research is preoccupied primarily with implementation of policies, not \textit{ad hoc} solutions. For the purposes of the empirical analysis SME assistance policy is defined as ideas and systematic organisational arrangements to realise assistance to the SMEs with their particular challenges and needs. Implementation analysis in this study is understood as a study of which organisational (institutional) arrangements are able to provide adequate and
systematic solutions (policies) to some specific SME challenges and development impediments in the transition context.

3.7 Implementing How: Policy Organising Approach

Let us now move to the characteristics of policy implementation processes, as they are essential for identifying the actions and resources of our unit of analysis.

In general, implementation is highly affected by time, circumstances and various structural and behavioural variables. As these variables change, policy implementation becomes very difficult (if at all possible) to predict. Majone & Wildavsky (1984), proponents of top-down implementation approach, have also recognised that implementation, cannot be pre-planned into a formal policy decision which would otherwise entail only its blind execution, regardless of changes in circumstances. Implementation according to Majone & Wildavsky requires from implementing actors “the ability of selecting at each moment the appropriate types of behaviour and rules of conduct” or “knowing how” rather than behaviour based on “abstract knowledge of decision rules or blind obedience to directives,” i.e. “knowing that” (ibid, p. 14). This view of implementation as evolution of policy requires knowledge, flexibility, adaptation and creativity by those involved in delivering policy (see also Elmore, 1979).

Implementation complexity needs to be reduced in modelling it to ease its understanding. However, the tendency in the late 1970s and early 80s to depicture implementation either in terms of hierarchic administrative or network-like market model oversimplified it (Elmore, 1979; Hjern & Hull, 1983, Hill & Hupe, 2009). These models (and theories) were not accurate enough as they failed to account for the type of de facto policy processes revealed by the bottom-up implementation studies.

Three implementation models

Since the late 1960s several models of organising were used in policy analysis. Hjern (1999) has depicted the historical development of policy analysis in three stages: from policy output analysis to policy organisation analysis and, lastly, to organising analysis (figure 3.2). The three models differ in ways they see policy implementation process—both the starting point for its analysis and the involvement of the relevant actors. Also the goal with these models differed. While the first two, (basically top-down) models sought to primarily improve the predictive power of implementation theory, the third one was intended to improve the conceptualisation of policy organisation process (Hjern, 1978).

Policy output and policy organisation analysis models shared the perception of policy as ideas detached from the organising perspective. The first model treated policy implementation as the output of the political system and the implementation process was not researched in terms of actors involved or their interactions as this was regarded statistically insignificant for the results. Implementation of several sometimes contradicting programmes has been mixed-up and such studies could not produce robust results. Besides, it was unclear what
implementing actors in practice could learn from such a policy analysis (Hjern, 1999).

**Figure 3.2 Illustration of three kinds of policy-analysis according to Hjern**

Later, attempts were made to research policy implementation of a particular public programme within a hierarchically steered organisation which refers to the “policy organisation analysis” model in Figure 3.2. Firstly those attempts took into regard only formal structural (often hierarchic) interactions, but later, instruments were developed to take into regard even the informal ones.  

This model can be applicable in policy implementation when there is a specified programme and clear goals with identified actors and resources that successfully organise in achievement of these goals. However, Hjern (1999) argues that even this model increasingly misfits the empirically revealed patterns of organising.

The increasing number of public and private organisations in modern democratic society had implications on policy implementation research. Implementation researchers of the mature democratic societies have early drawn attention to increasingly multi-actor and multi-organisational character of implementation with complex links between various mandated and non-mandated implementing organisations and individual actors. The interaction and motives of various implementing actors in and between organisations brought a complexity

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15 See early discussions by Pressman and Wildavsky (1973) on governmental reform efforts in Oakland.
of the joined action (Pressman & Wildavsky, 1979; Elmore, 1979, Barett & Fudge, 1981) that affected how policies were implemented and with what impact on given societal problems. This complexity referred to the ability of top implementing actors to influence actions of those at other levels and the limited ability of organisations to influence behaviour of policy receivers.

Hjern (1999) calls such inter-organisational networking model of implementation “policy organising” (figure 3.2). According to this model, organisational policy implementation arrangements cannot always be known at the start of the study. The methodological standpoint of this approach is that policy study is to be designed departing from the description of policy organising by those that “own” the policy problem, for example SMEs, and the local policy delivering actors. The triangles in the model represent diverse programmes, organisations, authorities. The connecting line depicts how sometimes several organisations, but more often parts of them (certain actors) participate in policy organising. Sometimes, though, some of them might not become involved at all.

The third model allowed a search for various organisational forms that were successful in establishing a linkage between the “politics” and the “administration”. It brought in the organising perspective on policy implementation to highlight and explore ways by which various actors, also non-mandated ones, interacted to produce given outputs (Hjern & Hull, 1982). Its proponents advocated for taking into account the “full set of organisational arrangements and procedures that may link politics and administration”, instead of only considering the mandated organisations (ibid, p.109). In other words, one of the goals of the bottom-up research was reconstructing the institutional setting within which policy actors perform (Bogason, 2000).

**Policy organising model: policy structures**

The basis of the policy organising model is solution organising processes derived from organisation theory. For that task the researcher is to map the following processes of organising: 1) planning, 2) mobilisation of resources, 3) effectuation (i.e. translating the plan and the resources into action on the ground), and 4) evaluation (i.e. learning for the future from what had been achieved) (Hjern & Porter 1981). The identified organising whole was called an "implementation structure", a kind of “superstructure to understand who is linked with whom in helping bring about implementation” (Hjern & Hull 1987, p. 24). Organising around these four processes was described as “sub-implementation structures”. The overall implementation structure subsuming these four processes was conceptualised as the unit of analysis.

The initial attempts to conceptualise implementation processes bottom-up referred to official programmes as the organising rational. Hjern and Porter (1983) argued that many tasks for public policies were expressed in form of programmes the goals of which clashed and intersected boundaries, and the implementation rationality applied in single organisation, so-called “organisational rationale”. The essence of their argument was that actors in those organisations often chose to organise cross organisationally into (often informal) inter-organisational structures for implementation of such programmes. This type of de facto organising rationality was named “programme rationale”. Thus, it was difficult to apply single organisation as a unit of policy organising analysis.
The later bottom-up studies (e.g. Hjern and Hull, 1987; Hjern, 1999) observed that following a programme rational is complicated when a large variety of potentially relevant public programmes exist—some of which not even used by implementing actors—in policy delivery. Hjern & Hull have, therefore, modified somewhat the policy organising model in their book “Helping Small Firms Grow” (1987). Analysing implementation of ambitious and broad policies, such as helping SMEs to survive and grow, required adjustment of the implementation focus from a particular programme towards a broader policy problem such as maximising jobs in SMEs. To discover the actual policy processes the researcher was to start form an outspoken societal (or SME) problem in need of public policies with a research design based on revealing how actors identify the policy problem and organise resources (programmes or else) to solve it.

Implementation structures have been perceived as self-organising entities either to implement a particular programme or organise polices for some need group. It was noticed that normally only a part of available implementing actors and resources participate in particular public policy implementation and in a given locality. This explains why the term “implementation structures” was substituted by “local assistance structures” in studying SME assistance policy delivery in “Helping Small Firms Grow” (Hjern & Hull, 1987, p. 28). Assistance structures were regarded as conceptual constructs formed from parts of organisations from a pool of implementing ones. Besides, the term assistance structures allowed widening up the focus from a single programme implementation to include various types of formal and informal resources.

Some authors adhere to the concept of implementation structure; some others prefer other but similar conceptualisations to operationalise policy structures, such as “relevant social groups” (Friis, 1998). Implementation structure can in more general terms be conceived as “a group of individuals occupied by the endeavour of solving a common problem” (Carlsson, 1996, p.5.) Essential for implementation/assistance structures is that they develop not independently, but in relation to the policy problem and are not some legally defined entities.

In this study, the concept of “assistance structure” is preferred to denominate each systematic and repeatedly organised (patterned) assistance organising to selected SME needs. As we will see in chapter 4, an assistance structure is regarded as assistance policy output. Concepts of “policy structure” and “assistance structure” will be used interchangeably in this study.

In general, the inter-organisational approach to policy implementation implies a search for the practiced order of human interactions in delivering welfare policies rather than taking single organisations as major creators of such order. Public policy may be organised by formal organisations but also, more likely, in-between or simply outside them. In other words, organisations may not be the outcome of the de facto policy organising processes (Carlsson, 1993; Johansson, 2008). This reasoning makes sense to apply the organising model to different policies and contexts, also in the Lithuanian transition, to empirically discover the location and forms of policy structures.

Policy organising processes F1-F4

According to the policy organising model, the policy analyst has an important role in identifying policy problems and exploring policy organising to address
these problems. The major issue for policy analysis according to the organising approach is whether implementation to tackle the described policy problem can be organised, by whom and how (Hjern & Porter, 1983; Hjern and Hull, 1987; Hjern, 1999).

In the 1987 study, policy implementation was accordingly modified to comprise of the following processes (further in this thesis referred to as organising functions F1-F4):

i) problem definition (F1),
ii) resource identification (including search for alternative solutions) (F2),
iii) resource mobilisation for carrying out a chosen solution (F3), and
iv) evaluation (F4).

According to the policy organising approach, the need group (in this study SMEs) may interact with various actors in defining or redefining the problem in need of collectively organised solutions (F1, see figure 3.2). The next process in

Figure 3.3 Conceptualising assistance structure: organising processes F1-F4

![Diagram of Assistance Structure]


organising assistance policy is searching for solution alternatives to the particular problem among the available internal and external resources (F2). The chosen alternative requires diverse resources (such as knowledge, finances, influence) to be set in practice to address the assistance need (F3). Besides the organising processes, also the assessment of policy impact (F4) is crucial in learning what works and what not in what contexts. Policy learning is therefore an important function in achieving policy success and adequacy. Policy analysis should, therefore, reveal if and what assessment participating actors make of their contributions. It is important to note, as will be discussed later, that at least the first three organising processes (F1-F3) are necessary to conceptualise the collective action as a policy structure.
An additional point in conceptualising a policy structure is that its major processes are necessarily seen as linked by some actor(s) into a coherent structure (linkage indicated by arrows in figure 3.3). Because implementation or assistance structures were often found to engage actors from different organisations acting outside the organisational rational, self-organising processes were ascribed important role in linking their different processes into a more coherent whole (Hjern & Porter, 1983). In other words, self-organising is required to lead actors to resource organising for a particular identified assistance need (F1). Such a policy structure is often glued together by actors that participate in more than one of the policy organising processes (Hjern & Hull, 1982). The extent and the manner of such linking actor participation were seen as essential for the success and adequacy of such a policy structure.

In short, identifying actors in the four policy organising processes and exploring the linkages between them are the major processes in re-constructing the conceptual unit of organising analysis the bottom-up way. This study employs the assistance structure model with is four organising processes in conceptualising SME assistance structures in the conducted empirical analysis.

Hjern & Hull (1987) employed a special network technique to both discover and delimit the structure of the unit of analysis, called snow-balling to which I will return to in chapters 4 and 5. This methodology allows identifying empirical or de facto organising without any predetermining assumptions, especially in regard to formal prescriptions, about the structures to be discovered (Ham and Hill, 1984).

Besides depicting structuration of policy process another task of implementation research is to seek explanations of policy success or failure. In this study policy effectiveness is understood in terms of policy success and adequacy and in the next section I present how it will be operationalised and studied with the help of bottom-up methodology.

**Alternative approaches to policy process and delimitation of the study**

Inter-organisational networks have been widely recognised to play an important role in policy processes, some with focus on formal policy formation processes, others—on implementation as politics. Different approaches including those of cooperation within intergovernmental or broader networks have been proposed, among them: issue networks (Heclo, 1978), inter-organisational policy systems (Milward & Wamsley, 1982; Hanf & Scharpf, 1978), advocacy coalitions (e.g., Sabatier and Jenkins-Smith 1993), policy networks (e.g. Marin and Mayntz, 1991; Rainey and Milward, 1983) or policy implementation structures (Hjern & Porter 1981, Hjern & Hull 1987) to name a few. There are claims, though, that policy processes also in inter-organisational environments are not very well understood and consensus between the approaches is not that great (Imperial, 1998).

Carlsson (1996) has argued for the need to be very conscious of using a network approach as a theoretical departure in policy studies. Network and also governance approaches contrast to the traditional hierarchic rule, but many of them still predefine a (more) important role for the formally mandated actors. This actually implies pre-structuring the empirical world based on possibly false
3. Theoretical and Methodological Interplay in Bottom-up Policy Analysis

Theoretical assumptions why we again may end up with inadequate contributions to the theory of policy process.

Some authors (e.g. Ostrom, 1994; Wright, 1988) present arguments that policy processes in mature democracies might neither resemble pure hierarchic control systems nor actor interactions of bargaining type. Therefore, neither top-down nor bottom-up approaches to policy implementation can adequately reflect the specific polycentric structure with differentiated and possibly overlapping authorities.

It is possible that the critics might be right about some limitations of the bottom-up implementation model, such as the organising model in figure 3.2, as a theoretical approach, especially if applied to different types of policies or contexts. To repeat, this study is primarily interested in applying the specific methodology of the bottom-up implementation approach in its task to both map and delimit the unit of policy implementation analysis in order to discover the type(s) and characteristics of policy implementation in the studied transition context. The bottom-up approach was originally introduced as a methodological contribution to policy implementation research with the intention to open-up the units of analysis and approach them to the actual policy implementation. It is also for this reason that the methodology is chosen in this study. It is expected to help to identify the goals, resources and strategies of the de facto involved mandated and other actors and in particular, the output of their interactions.

Referring to the theoretical bottom-up approach to policy organising, important theoretical policy organising assumptions both of how policy implementation is organised and factors affecting its success and adequacy are not taken for granted, but tested on the studied transition context. For that purpose I will use the empirical data generated in this study with the use of the bottom-up methodology.

The bottom-up methodology is also used to guide the assessment of the adequacy of the overall assistance structure as well as of individual actors’ roles and resources in helping to implement SME assistance policies in a transition context. I will subsequently test its abilities and possible limitations on the empirical study.

The study position in relation to Europeanisation and EU implementation research

Lithuania’s continuing adaptation to the pressures of European integration, both prior to and after full accession in 2004, raises not just domestic challenges, but also as regards the adequacy of EU policies and institutions when handling transitional issues and problems. Indeed, there is an increasing amount of research on EU policy implementation affecting the Member States (Börzel & Risse, 2000; Knill, 2001; Falkner et. al, 2005). While initially these studies have been conducted, for the most part, in accordance with the top-down approach, the political characteristics and nature of implementation that are also envisaged and explained by the bottom-up approach have also been increasingly recognised by researchers (Puzl & Treib, 2007). These studies, for instance, have highlighted various implementation successes in different Member States and provided explanations that have largely focused upon identifying certain institutional and cultural patterns. However, implementation studies in the context of the European integration have, for a long time, been mainly preoccupied with the misfit between
political goals defined “at the top” and their actual implementation by local bureaucracies (Börzel & Risse, 2000). Some of the research on so-called “Europeanisation” has begun to analyse the impact of EU policies on local level and the extent of domestic institutional and policy change (Börzel & Risse, 2003). While it draws to the surface the problems with one-size-fits-all rules of the EU regulations for varying domestic contexts, the findings of the Europeanisation research are, so far, rather limited (Knill, 2001).

Implementation success of, for example, EU legislation, is not the focus of this thesis. Instead, this study is concerned primarily with whether and what role EU actors or formal institutions have had in relation to adequate policy organising, i.e. the specific outcomes of the EU contribution in terms of local SME policy delivery.

Exploring policy areas, where organising assistance to SMEs requires and necessitates compliance with EU legislation and regulations, may be regarded, for the most part, as a study of how particular EU policies are put into practice, and with a specific focus on the effects (in terms of compliance and/or non-compliance) for particular local needs (especially SME challenges). This study can, therefore, be seen as an indirect contribution to a wider discussion on whether, and in that case, how, the experiences of mature democracies and, where appropriate, their initiated formal rules can assist with achieving adequate transition period policies at the local level. In this context, of interest for this study alongside the preconditions for adequate domestic policy organising are also the institutional changes resulting from the implementation of the EU regulations in as much as this process relates to increasing policy adequacy in meeting particular societal needs.

The underlying approach of most EU integration, Europeanisation and implementation studies can be broadly summarised as focusing upon the search for identifying and codifying the optimal preconditions (such as, the shape, forms and adaptation of domestic institutions) for the enforcement of the EU regulations. From the perspective of this study, the vast majority of EU implementation studies (for instance, Börzel & Risse, 2000, 2003, Knill 2001) do not seem to be concerned with whether the compliance to the EU regulations, either nationally and/or locally provides for, and explains, the nature of successful and adequate solutions to specific local needs, (which remains the focus of this present study). On this basis, and largely because of the limited, even lack of, congruence with the underlying approach to policy organising taken in this study, this thesis does not focus upon, nor take into account this type of EU integration and implementation research.

In the next chapter 4, I will elaborate further on the assumptions relating to policy implementation using a bottom-up approach, and, in particular, present those to be tested more thoroughly in this study. Bottom-up methodology is used not only for outlining policy organising processes, but also for assessing their adequacy.
4 Exploring Policy Organising and Adequacy Bottom-up

The preceding chapter was intended as a guide in dealing with the first of the study questions concerning policy organising or structuring of collective action. My second research question intends to reveal some major factors and ways how they were conducive to the success of the collective actions, especially policies, to assist SMEs in Lithuanian transition context. This chapter elaborates further what assumptions about policy effectiveness (adequacy) underpin the bottom-up implementation theory. Here the approach to the object of policy evaluation adopted in this study for exploring SME assistance is presented. The chapter also elaborates on the assistance it can get from the chosen methodological approach in seeking answers to the second research question. In addition, it explains how the collective action and policy adequacy will be assessed in this study.

4.1 Explaining Policy Linkage

Besides improving conceptualisation of policy organisation processes, an additional task for the bottom-up implementation research is to explore how public policies, but also other factors, affect the policy problem solution (Bogason, 2000). The chosen approach, in contrast to much bottom-up research, provides a systematic methodology to reconstruct and describe policy implementation processes de facto (Sabatier, 1986) to increase our understanding of it. In addition, it makes attempts to explain (O’Toole, 2000) the final output of the implementation process (i.e. particular structuration) by depicting what was actually happening at the policy delivery/recipient level (the bottom) and exploring why (Barrett, 2004, p. 254). Methodological contributions combining these tasks could serve as a step towards fulfilling the promise of practice-oriented implementation research.

A clear causal relation between a given formal goal and the observed outcomes cannot be assumed in exploring policy process bottom-up (see section 2.1). The complexity of the problem, such as assisting SMEs, may require implementers to pursue a variety of different goals and organise multiple resources. Bottom-up policy analysis requires exploring a wider scope of the de facto engaged actors and policy structures than only those formally prescribed and their influence on policy success.

In assessing the actor’s abilities to establish the policy linkage the bottom-up approach often employs the concept of policy effectiveness (also preferred by Hjern & Hull, 1987). Hanberger (1997, p. 45) suggests the term “problem effectiveness” referring to actors’ ability to cope with a given societal problem. I find policy effectiveness concept, that focuses primarily on the policy impact, insufficient in analysing problem solution, and prefer “policy adequacy” (see section 1.4). In the bottom-up implementation literature policy effectiveness is suggested to be evaluated in terms of the assistance structure impact on the policy problem. Some authors suggest both productiveness and quality as indicators of
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... policy effectiveness (Hanberger, 1997). In assessing policy adequacy I suggest that besides the impact also the manner of the assistance delivered is pivotal, an issue I will soon return to (in 4.3). As was noted earlier, especially in policy areas comprising multiple needs and programmes to address them, the bottom-up approach allows the researcher to define the relevant criteria for evaluating policy adequacy (or effectiveness) in particular contexts or policy areas.

Here, I will search for theoretical guidance with the bottom-up approach to explain policy adequacy. The policy organising approach builds on certain general theoretical assumptions related to policy organising, while some specific ones are not yet well-developed (see e.g. Glemdal, 2008). Most of these assumptions, as I see it, relate directly to the policy adequacy concept.

Firstly, this approach assumes that whether the policy linkage, and thus adequacy, is established depends on particular organisational forms and procedures in the implementation processes, also-called structural and behavioural factors (see figure 4.1). Secondly, policy adequacy needs to be related to the particular societal group (here SMEs), the receivers of the policies, i.e. policy is to be assessed in terms of “for whom” it was intended which might differ from the formally defined goals. Thirdly, what organisational arrangements, type of actors and institutions in what structured interactions matter for policy adequacy is to be discovered with reference to the actual organising processes rather than formal prescriptions. Fourthly, structuration or organisational arrangements of policy implementation are to be searched via the four organising functions (F1-F4). Fifthly, bottom-up methodology reveals important contextual factors affecting policy adequacy. And finally, bottom-up studies provide important insights for top-political decision-makers on what is possible and how a more adequate policy implementation can be achieved.16

With reference to the bottom-up assumptions above, I have constructed a simplified conceptual framework to depict the major groups of variables in the undertaken policy analysis and policy adequacy study (see figure 4.1) that affect policy action (and ad hoc structuring) and its adequacy. Policy adequacy is the dependent variable to be explained with the help of three types of factors: 1) assistance structuring factors (such as types of actors involved and the organising processes identified), 2) behavioural factors (related to actor roles and interactions in the four organising processes and resources engaged), and 3) contextual factors (pertaining to processes outside the conceptualised local assistance structure).

SME assistance policy adequacy (i.e. assistance manner as well as impact) is here assessed in regard to company owner or managers’ perceptions of their challenges and assistance needs. Arrows in the figure indicate expected dependency (causal linkages) between the factor groups and the dependent variable, policy adequacy. It is also expected that particular SME challenges will have an effect both on the roles of the actors and the shape assistance structuring will take.

16 See also Glemdal (2008 p.70) for his version of the theoretical assumptions of the referred bottom-up approach.
Figure 4.1 Conceptual framework for analysing policy adequacy preconditions the bottom-up way adopted in this study

An important factor for adequate manner of assistance and a positive impact is policy learning, exemplified in the figure by a thin darted arrow. Policy learning is closely related to one of the policy organising processes (F4)—actors’ assessment of their contributions to policy problem solution (see figure 3.3). Lack of policy learning negatively affects chances for adequate policy to evolve. If the researcher discovers that certain solutions work repeatedly on a policy problem (such as SME development hinders) that implies that the idea behind the action was relevant and that a structure is evolving. That might signal of policy actors’ lessons made in the past. There may be a need to convey the positive experience to the top-political decision-makers who might not be aware of it. If the opposite is the case, it might be an indicator of failure to learn, or rather de-learn from the practical experiences either on part of policy actors or formal-decision-makers. In any case, policy learning is pivotal.

As the bottom-up approach builds on organisational theory applied to inter-organisational contexts to delimit its unit of analysis, it also relies on the organisational approach for disclosing important preconditions for policy success or failure. Here, I present what I regard as the major theoretical policy success assumptions shared by the adopted bottom-up approach.

Firstly, regarding policy organising, in the western contexts non-mandated actors are assumed to often participate in local policy implementation processes. When participating, they may be pivotal for increasing policy success. Therefore, besides assistance structures comprised entirely of authoritatively mandated actors, mixed type with both mandated and non-mandated actors have been found to coexist with a favourable impact for policy success in the western ever more networked society. In the transition contexts, it is up to the empirical evidence what types of assistance structures can be found to achieve adequate policies.

Secondly, effective and successful policy implementation is assumed to require the fulfilment of the four policy organising processes (F1-F4, see figure
3.3). What particular other behavioural factors may more significantly affect policy adequacy and outcomes is to be disclosed by the particular organising process.

Thirdly, local actors participating in more than one implementation process (F1-F4) are regarded as crucial for linking the assistance organising into a more coherent structure and thus increasing its ability to successfully address the policy problem. The linkage, i.e. local actor intermediation between national programmes and specific local needs, fourthly, is also expected (and has been proven) to be of importance for the success of the implementation or assistance organisation structure (Hjern & Hull, 1987; Hjern, 1990).

However, Hjern & Hull (1987) and Carlsson (1996) have pointed out that more bottom-up research was needed to actually develop specified hypothesis about implementation processes and in that way contribute to what they called multi-actor and multi-resource policy organisation theory development. The call for exploring and policy organising and policy linkage is even more relevant for the post-Soviet transition contexts.

4.2 The Linkage Between Policy Implementation and Evaluation

Assessments of policy adequacy are inevitably related not only to exploring policy process and their outputs, but also to assessing policy success, i.e. their impact on the solution of societal needs (here SME challenges). Assessing the success of certain policies is an important task for the sub-discipline of policy analysis evaluation research. Since this is primarily a policy implementation study, there is a need to extrapolate on how this study is related to the concept of policy evaluation. This section argues for the need to link implementation and evaluation perspectives to address the policy linkage and adequacy issue.

There are several major issues to be considered in evaluating policies. Firstly, what is to be evaluated? A related question is whether we can evaluate a policy idea? The other issue—how can policy implementation be evaluated—are dependent on the answers to the previous questions and the definition of policy. Linder & Peters (1987) observed that there is often a lack of clarity in implementation studies on, firstly, what variable is to be explained—process, output or outcome—and secondly, lack of agreement on evaluation standards.

Depending on the approach output can imply either phenomena that leave the mandated implementing organisations or the evolving assistance structure. Outcomes are “what happens at the addressee side” (Vedung, 2006). Impact here is an effect of the output on policy problem solution (such as an SME challenge).

As has been noted, the top-down approach evaluates the merit of the mandated actors and formal institutions in producing certain policy outputs and explores their compatibility with some formally defined goals. The bottom-up approach, does not a priori anticipate the clear causality between specific outcomes (e.g. SME hinder elimination) and formally achieved outputs. Instead, it explores what implementation or assistance structures produce particular outcomes and the impact of any relevant actor and resource combination on policy problem solution.
In response to the first question it must be said that the answer in this study is related to the concept of policies. According to the bottom-up approach, policies cannot be evaluated merely as intentions, prior to considering the implementation process.\textsuperscript{17} Policy ideas or formal strategy intentions are only to be treated as action or implementation potentialities that can possibly produce certain results under suitable circumstances (Majone and Wildavsky, 1984). Therefore, it is through studying ideas transformed into actions to address certain policy problems that we can discover public policies or lack of them.\textsuperscript{18}

The approach of this study is that policies may take shape not necessarily as formal top-politically defined ideas that are reshaped during implementation, but may sometimes evolve independently or regardless of the formal ideas and institutions. Therefore, the relevance of the formal strategy goals for particular policy organising is to be tested empirically. Besides, to evaluate policies we need to firstly discover them in practice, i.e. affirm their existence through their implementation.

The first question is tightly related to another major policy research issue, i.e. what processes of organising with what outputs can be considered as policies. Is it possible that the intentions that resulted in poor outcomes still are policies? Identifying \textit{ad hoc} assistance with a positive impact is different from identifying policy implementation and the so-called assistance structure. The researcher has to pose a question—is there an organising process around ideas for policy problem solution, and is it structured and systematic? Which actors enjoy and apply the solution organising power, i.e. succeed in producing reliable positive impact on the policy problem solution? A policy study might, for example, reveal that preconditions for “systematic policy organising” are missing at a given time period due to the inability or unwillingness of certain actors to contribute (Hjern, 1999).

Søren Winter (2006) in his review of implementation research has suggested the implementation output, i.e. implementers’ performance to be regarded as the dependent variable implementation research intends to explain. Although admitting its importance, this study, however, regards the sole focus on policy output (performance in assistance structures) as insufficient for deeming policy adequacy. It regards analysis (evaluation) of the impact of actors’ actions (or lack of it) in organising solutions to the policy problems to be of equal importance, although it is seen as a task for evaluation research. Susan Barrett describes the task for bottom-up evaluation research as assessing the performance of actors in a policy implementation structure in terms of who (at the policy receiving end) gets (or loses) what and how is that affected by policy (Barrett, 2004, p.256). In sum, exploring policy adequacy requires combining the tasks of the bottom-up implementation and evaluation research, what is also done in this study.

\textsuperscript{17} This argument is also shared by some top-downers, e.g. Majone and Wildavsky (1984).
\textsuperscript{18} Top-down proponents Majone & Wildavsky (1984) also note that policy ideas partly are what implementation makes out of them. They mean that only by repeatedly testing in practice certain (policy) ideas we can arrive at certain conclusions if they are conducive to success.
4.3 Policy Adequacy Indicators in this Study

This study views policy success in producing a positive impact on policy problem as closely related to—in fact a constitutive part of—policy adequacy. Assessments of both policy success and adequacy require, in turn, exploring the very policy organising process, i.e., the way assistance is performed and that policy is delivered.

In line with bottom-up arguments, in this study policy effectiveness or adequacy is conceived as “doing the right thing” in regard to the policy problem resulting in a positive impact. But policy adequacy, referring to Simon, Smithburg, & Thompson (1950), also implies the particular way resources are used in addressing a policy problem (not necessarily linked to achieving formally defined goals). Therefore, policy adequacy is here taken to refer to three interrelated indicators: i) assistance structure adequacy in regard to SME needs, ii) adequate manner of assistance delivery, and iii) a positive impact on SME challenge solution. As has been discussed before, it is the SME’s perspective that is employed in making adequacy assessments.

From the arguments above it follows, that while different collective actions can be assessed in terms of their adequacy, not all of them can be subsumed under the “policy” label. When assistance is organised occasionally and lacks of a systematic pattern, it cannot be referred to as a “policy”. Implementation of a policy occurs only when the researcher discovers that certain structuring of collective action works repeatedly well in coping with similar societal (SME) needs.

However, it is important to have in mind, that regardless of how systematic assistance attempts may be, when a positive impact on policy problem solution is missing there is a lack of an adequate policy. A positive impact normally implies that the idea(s) behind the action was relevant. The bottom-up approach allows the researcher to assess the adequacy and impact of all the major involved actor contributions (both formally mandated and non-mandated ones).

4.4 Explaining Policy Adequacy: Performance or Compliance?

Policy adequacy is tightly related to the policy actors’ abilities to reflect the values of various societal groups and assist them to cope with new challenges (Wildavsky, 1979). This actor ability, as argued by Rothstein (2007), is also to be considered as an aspect of the reproduction of authority and legitimacy, especially

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19 I am aware of the frequent interrelation of the terms policy effectiveness and efficiency. The choice to disregard efficiency is conscious as I deal with particular desired outcomes. Therefore, my use of adequacy relates to the adequacy definition of Herbert Simon et al: the level of results attained without examining their relation to the costs incurred. According to Simon et al. (1950, p. 494), adequacy also implies taking into regard “the particular way in which (...) resources were used.” Thus adequacy refers to both the result and the manner of policy process.

20 This latter line of reasoning was also supported by Majone & Wildavsky (1984). They argued that policy success cannot be separated from implementation success, and thus there is no bad ‘policy idea’ where there is a successful implementation. Instead it means that originally ‘bad’ idea has been substituted with new ideas in the implementation process.
of formal institutions. Regrettably, this line of thought, as late as in 2007, is still relatively rare and implementation of successful and adequate policies is seldom treated as the major source of legitimacy (Goodwin-Gill, 2006; O’Donnell, 2007; Dahl, 2006). We will, however, not undertake a further discussion of the institutional legitimacy aspect here.

Nevertheless, the importance of these actor abilities brings us back to the discussion of policy implementers’ compliance as contrasted to performance, i.e. discretion. Theoretical bottom-up approach has often been characterised as favouring implementing actors’ discretion and its role for policy success and adequacy from the perspective of policy receivers. In general terms, discretion could be interpreted to mean the freedom of local/street-level mandated bureaucrats to determine who gets what, when and how in public service delivery (Lasswell, 1936) but within certain “legal bounds” or criteria of responsibility (Vinzant & Crothers, 1996).

In this section, I will consider the issue of policy adequacy in relation to implementers’ conformance or performance in delivering welfare services. As Rothstein’s discussion on impartiality and implementers’ discretion is tightly linked to the rule of law concept, it requires a short explanation here.

**Conceptualising rule of law**

Rule of law may have several connotations (Tamanaha, 2004). Among legal practitioners it is frequently likened with formal legality, i.e. when rules exist and are honoured by the legal system. But used only in this aspect the rule of law provides a too narrow conception boiling down the concept of the rule of laws to rules (ibid.) Formal legality says nothing of in what areas, or with respect to what activities legal rules should govern, as these are matters of social choice. Someone must make decisions about “…the costs and benefits of applying the rules to a given area of social intercourse, about whether rules fit, are efficient, are effective, are socially beneficial in what proportion and to what extent” (ibid., p. 97). In a democratic welfare state these decisions rest with government officials, and in many welfare policy areas—on local bureaucrats and mandated professionals.

Therefore, the rule of law in mature democratic states has acquired a broader connotation encompassing besides the formal legality also aspects of certain norms and values related to respect for individual and fair treatment. Rule of law is a concept that does not allow a simple definition. An English legal theorist T.R.S. Allan put it this way:

“The term rule of law seems to mean primarily a corpus of basic principles and values, which together lend some stability and coherence to the legal order. The rule of law (...) encompasses traditional ideas about individual liberty and natural justice, and, more generally, ideas about the requirements of justice and fairness in the relations between government and governed. Nor can substantive and procedural fairness be easily distinguished: each is premised on respect for the dignity of the individual person.”21

A similar definition of the rule of law was espoused by the countries participating in 1990 Conference on Security and Cooperation Europe:

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21 Allan’s citation is extracted from Tamanaha, 2004, p. 110-111.
“The rule of law does not mean merely a formal legality which assumes regularity and consistency in the achievement and enforcement of democratic order, but justice based upon the recognition and full acceptance of the supreme value of human personality and guaranteed by institutions providing a framework for its fullest expression.”

(Tamanaha, 2004 p. 111)

Also, democracy was recognised as an “inherent element of the rule of law” (ibid.).

In this study, I will unavoidably touch upon the rule of law concept. In a simplified form this concept will be used as a combination of formal legality and certain principles of fairness, justice and respect for each citizen (here company managers and owners) in their encounter with government officials and public policy actors.

**Impartiality and the rule of law**

Rothstein and Teorell (2005) have argued that impartiality, i.e. compliance with the prescriptions in laws or adoption of just/fair treatment, is critical for the legitimacy of public institutions. However, in a modern democratic society impartiality—defined as not taking into consideration “anything about the citizen/case that is not beforehand stipulated in the policy or the law” (ibid., p. 6, original emphasis)—has its drawbacks in achieving policy adequacy (which Rothstein links to its legitimacy). Rothstein (2007) has recognised that the increasing complexity of the Western democratic societies implies that a variety of contexts and multiplicity or combinations of needs cannot be predicted in advance and thus welfare services cannot be regulated for all of them. Here the use of the term impartiality likens the above referred concept of formal legality.

Indeed, some particular welfare issues, especially social services require both informed individual judgment and a decision freedom for situational adjustment to particular needs. For example, Rothstein argues that “if an attempt is made to apply precise rules within areas characterised of rapid change or greatly variable cases, absurd consequences easily follow” (2007, p.27). The rigidity of the bureaucratic model is its drawback in providing services to address changing and multiple needs.

What Rothstein seems to be proposing is that impartiality as applied in practice—treating people alike—need to get closer to the concept of rule of law. Just because services such as education or an active labour market programme can seldom be regulated in detail or directly governed by law, impartiality is argued to be of special importance for them (ibid.). Therefore, in their daily encounter with public policy beneficiaries or the clients government officials, actors of authoritatively mandated organisations are to re-create the rule of law by using their granted discretion, but on a case-by-case basis, as no clear criteria for equal or just treatment can be established in advance. Rothstein refers to the suggestion by Offe (1986) that, especially in welfare services, particularities of each case must be taken into account in applying the expert knowledge to create rules of action. This departure from the existing rules by new rule creation clearly indicates the performance aspect of policy actors (see also Baldwin, 2000).

Thus, while compliance in welfare services to multiple need groups or what Rothstein calls “human processing” areas (2007, p.20) is different from
performance, both (may) entail a specific aspect of rule of law (impartiality in terms of adherence to rules and procedural fairness or in terms of case-by-case justice and substantial fairness accordingly). Therefore, returning to the issue of policy adequacy for the specific needs of a social group, such as SMEs, we can see that it can be taken to imply both adherence to formal regulations (if they are relevant in addressing the specific needs), but also, and more likely, performance by applying local implementers’ discretion to create fair treatment in each particular case.

However, both compliance and performance may also entail risks for policy inadequacy. On the one hand, strict or blind adherence by local administrators to centrally decided regulations or programmes may lack adequacy if applied to the context specific needs (e.g. those of SMEs or labour force). Besides, there might be situations for which formal regulations might be lacking. On the other hand,—and this is important for the transition context—while the discretion of authoritatively mandated professionals increases chances of performance and thus, adequacy of their contributions, in practice it may not always be used so that the values and principles of rule of law, such as justice, respect and fairness are applied. Discretion of Communist Party functionaries and chief administrators disregarding the rule of law or an instrumental use of law was a frequent practice in Soviet societies (Vaksberg, 1991). It is thus up to the empirical evidence what ways (i.e. compliance or performance/discretion) assisting actors applied to deliver SME assistance policies and which of these were more successful in addressing particular SME needs.

4.5 Bottom-up Approach to Implementer’s Discretion and Policy Adequacy

As an outcome of the policy analytical appraisal taking place in the West, some scholars have increasingly questioned ever stronger the rationality and the capability of centralised, unified programmes and instruments to achieve positive results in addressing diverse and multiple needs, such as those of small and medium sized businesses. For example, national scope of policies has proved ineffective in such important and problematic economic policy fields as job creation (Hanberger, 1997; Hjern, 1998) or in education policies (McLaughlin, 2007). Regional redistributive policies have also been criticised for being too centralistic and incapable of achieving local economic growth. Studies on processes of local policy organising involving street level bureaucrats and sometimes clients—policy networks—revealed their ability to better deal with the increasingly multiple needs of society (see e.g. Elmore, 1979; Hull & Hjern, 1987; Carlsson, 1996; Hanberger, 1997; Bogason, 1998; Gröning & Hjern, 2000; Johansson, 2008). This lack of state ability to adequately address multiple local needs, in particular regarding industrial activities, was observed already by Emile Durkheim (see Barnes, 1920). This is because the state, as the argument goes, can secure competent legislation only on general principles, and its massive and slow machinery is ill-adapted to deal with the highly specialised activities and relations, such as industrial ones, of the modern economies.
As a result of this lack of the state ability to adapt to the changing local contexts and design relevant instruments, a great risk of inexpert regulation evolves.

“The centralised State model becomes exaggerated and counterproductive if applied to problems of a more selective kind for which the local environment more directly sanctions rational courses of action.”

(Hjern 1990, p.96)

The over-emphasis on the hierarchical policy process with the conformance to authoritatively set goals often prevents local implementers from a more local need adjusted performance which might be innovative and successful (see e.g. Elmore, 1979; Hanberger, 1997; Gröning & Hjern, 2000). Local actors, bottom-uppers have argued, especially in mandated welfare service delivering organisations and facing complex need situations on a daily basis, often manage to structure their own de facto solutions. These may not necessarily be in line with the formal prescriptions which may sometimes be contradicting, unclear or missing for the solutions of particular issues.

In the field of SME promotion and assistance policies in the EU there exists a variety of both European, national and also regional programmes. It is argued, that because of their variety and possible differences in focus and measures there evolves a need to adjust them to the needs of local companies in order to increase their accessibility and success. Various local actors and their networks might have an important role to play in coordinating, distributing and adjusting, national programmes to local policies (see, for example, Hjern, 1998; Carlsson, 1993; Bogason, 1991; Johansson, 2008). These actors might be both authoritatively mandated their implementing roles or those that in practice had undertaken to mediate the linkage between the available resources and the diverse needs of SMEs. Hjern and Hull (1984) call actors with those roles “intermediaries” and stresses their importance in integrating and structuring (institutionalising) implementation and increasing policy success.

In sum, top-political decision-makers may not be successful in prescribing accurate ways of dealing with all types of issues of societal concern in shifting contexts, but are better fit at providing the overall goals and development directions. It is then the task for local actors, mandated and not by the political authorities, to structure their interactions in such a way as to achieve policy adjusted to the local contexts and needs. Therefore, the role of these local intermediary actors in resource distribution may be pivotal for increasing policy success—an assumption the relevance of which for the studied transition context will be tested in this study (see hypothesis 4 in section 4.6).

Hjern (1990, p.97) refers in his discussion of intermediaries to Durkheim who introduced the term to refer to (professional) organisations/unions acting as intermediaries between the state and the society members in adjusting resource allocation to local needs.
4.6 Hypotheses to be Tested by the Study

Conducting implementation study in accordance with the bottom-up approach not only allows but also implies testing or falsifying certain assertions. This study explores SME policy organising in Lithuania, its success and adequacy. The empirical evidence from the study is used to test some major assumptions of the policy organising approach (see sections 3.7 and 4.1). The study inquires into how particular types of structuration, but also behavioural and context factors contribute to policy adequacy.

The policy organising approach departs from the process of organising around particular (SME) needs. It does not take for granted that implementation of policies is confined to formally mandated actors in single formal organisations. Instead it allows empirical exploration of the possible involvement of actors from various organisations—both mandated implementation of formal political goals and those not—in policy implementation processes. Building on the assumptions of this approach to policy process the study will put on a test the abilities of formal actors and the relevance of their resources as well as formal institutions (e.g. assistance strategies and programmes) in organising adequate policies to the local SME needs. Taking into regard the idea of multiple authorities (discussed in chapter 2) the study will also test whether or not SME assistance policies tend to be organised by any single formal organisation in the transition context. The assumptions can be reformulated into two hypotheses on the structural characteristics of policy organising:

_Hypothesis 1:_ Actors of formal organisations in a post-Soviet transition society do not necessarily have adequate policies (ideas, resources and institutional arrangements) for addressing the specific multiple needs of social groups, such as SMEs.

_Hypothesis 2:_ Even if such formal policies exist, actors of formally mandated organisations and the formal institutions they use may not have exclusive solution organising power, i.e. in terms of providing adequate organising to address particular policy problems.

The second hypothesis is meant to test whether the _de facto_ structuration (including systematic organising and _ad hoc_ actions) in addressing the Lithuanian SME needs also corresponds to the formally prescribed ways of dealing with policy problems. Both hypotheses are meant to test the impact of different structural assistance characteristics on actor abilities to cope with the SME needs.

The empirical study is designed to also allow testing of assumptions on important preconditions for policy success and adequacy and their relevance for the Lithuanian transition context.

_Hypothesis 3:_ For adequate SME assistance policies to be organised, there is a need for the systematic organising of actors and resources in processes F1-F3 and a coordinated linkage between them.

23 By formal policies in this thesis I mean the officially declared ideas that are realised via formally institutionalised structures to address specific societal needs such as SME assistance needs.
The hypothesis suggests that indications for policy adequacy can be found and policy adequacy assessed by using a problem solving model F1-F4 (see figure 3.3), which is the basis for policy organising approach. With the help of this model (and the related methodology, see chapter 5) the study both identifies SME needs, solution alternatives and assistance structuration processes and tests the importance of particular actors, resources and formal institutions for achieving adequate policies.

**Hypothesis 4:** To structure policy processes and increase their success and adequacy the role of local intermediary actors is pivotal.

This hypothesis tests whether SME assistance policies evolve due to self-organising processes, in other words, whether some local actors (mandated and not) also in the Lithuanian context act in a way as to link other actors and local as well as national or EU resources into a policy structure. The study explores whether and how the role of local actors increase the adequacy of relevant formal strategies, legislation or regulations in organising policies for the local SME needs.

And, finally, I will test whether there is a positive linkage between the participating actors’ assessment of their contributions (or the impact of the overall assistance structure) to policy problem solution with regard to resources organised (and other actors involved) and organising of a successful and adequate policy.

**Hypothesis 5:** Achievement of repeated and systematic policy as contrasted to ad hoc structuring success requires policy learning.

This hypothesis is intended to test the role of policy learning (F4) processes based on the practical experience for the success of the SME assistance policies organised. Policy learning refers to policy actors’ abilities to learn from the experiences what works in particular contexts and under given circumstances and learn to replace the less successful and adequate actions/resources. However, improved policy adequacy also requires policy learning by top decision-makers to alleviate the necessary changes by providing more relevant legal acts and other resources. For that the government and policy actors’ should search for knowledge on how policy action achieves changes in society (Sanderson, 2007) and how it alleviates the solution of societal (or SME) problems.

### 4.7 Unit of Analysis

The bottom-up approach to implementation analysis makes an important distinction between formally designed anticipated implementation actors and processes compared to the *de facto* practices and operations as experienced by the companies and/or participating actors. Due to the variety of actors in the SME assistance policy arena the task for defining a research unit becomes much harder for the analyst. The various assistance measures in response to companies’ experienced development impediments *if* and *when* organised and systematically implemented are by no means clearly seen or readily available for a researcher to
analyse. Therefore, based on the previous arguments on the spread of authority in achievement of particular goals (see section 2.1), policy analysis is always about discovering the unit of analysis (Glemdal, 2008). The bottom-up approach regards this unit as a concept constructed by the researcher (Hjern & Hull, 1982; Hanf & O'Toole, 1993).

**Unit of analysis according to the bottom-up approach**

The discussed bottom-up approach to implementation defines its unit of analysis as the interaction of actors and resources in policy organising identified via particular techniques, called “snowballing” and with the help of interviews about the policy organising processes (see chapter 5). Interactions in policy implementation structures are delimited to those actors that in one way or another (in formally prescribed or self-ascribed roles) make use of some assistance resources (Hjern & Porter, 1983, p. 273). The structure of the unit of analysis is disclosed via the rationale, i.e. the account of various implementing actors of their interactions with other actors and problem groups in search for solutions to policy problems.

In the present study, however, the unit of analysis is somewhat broader, although similar techniques are adopted to disclose it.

**The unit of analysis in this study**

Not all types of collective efforts to address the particular SME challenge result into a policy structure. Taking this into regard, this study constructs a broader unit of analysis. The unit of analysis of the present policy implementation analysis are organising processes—both policy structures and ad hoc structuration—that had evolved while attempting to alleviate or solve the identified SME challenges (illustrated by “assistance organising” box in figure 4.2). However, in searching to identify this unit of analysis the study explores both processes of collective action and interactions that acquire some structure and those assistance attempts that are gradually abandoned and fail in organising resources to assist.

Methods employed in discovering these processes are similar to those used by the referred bottom-up research (see chapter 5).

**4.8 Designing the Analysis of Policy Adequacy**

As was mentioned, this study focuses on both policy performance and its impact. The second question regarding policy implementation concerns how to evaluate policy process in regard to its performance and impact.

Since the bottom-up policy analysis, contrary to the top-down approach, is typically process tracing it requires looking back at how certain actions and interactions occur. Evaluation starts not at the top of the implementation process, “but at the last possible stage, the point where administrative actions intersect private choices...” (Elmore, 1979). Elmore, (1979, 1985) called the method for conducting implementation and evaluation studies as “backward mapping”, i.e. starting with what was actually happening at the bottom-up or policy delivery/recipient level and studying from the bottom and upwards why. It means
that the researcher must work systematically backwards from the pattern of allocation and along the chain of decisions to reconstruct the allocative process (Bogason, 2000) to compare to the eventual top decision makers’ expectations (Elmore, 1985).

The present policy implementation analysis aims primarily to identify what impact (i.e. outcome) eventual policy implementation exerts in assisting SMEs, but this analysis also explores the importance of policy organising manner, its quality from the SME perspective, and its role for policy adequacy. Policy organising output (assistance structures) in itself becomes an explanatory factor to particular policy impact.

**Reconstructing policy organising processes**

Like most social scientists, I am here confronted with how are the policy output and its impact on the solution of the identified SME challenges to be explored. Firstly, to explore the process of policy organising it has to be reconstructed. This study, similarly to several others (e.g. Hull & Hjern, 1987, Bostedt, 1991; Carlsson, 1993, 1996; Kettunen, 1994; Glemdal, 2008; Johansson, 2008), aims at rendering the policy organisation process from the perspectives and experiences of its major participants (here SMEs and various identified actors) with their own words and frames of reference. Support for the use for such an approach in policy analysis could be found already in Lasswell who maintained that: “The contemporary political scientist perceives himself as an integrator of knowledge and action, hence as a specialist in eliciting and giving effect of all the rationality of which individuals and groups are capable at any given time” (Lasswell, 1971, 120). How does the bottom-up approach propose to disclose the rationality of actors or SMEs employed in practice to deal with the particular challenges?

As most social scientists, I am here confronted with what standpoint I should take in my abilities to reveal the “truth” about the process of policy organising. In searching for answers I was helped by the reasoning of Max Weber and Robert Gorman. Weber (according to Schluchter, 1996), for example, recognised the problem of subjective accounts of the world the social scientist confronts. Nevertheless, he meant there is no other way of depicting the world then via the experiences and accounts of those participating in its particular processes. Even though individual reasons for action may be sometimes hidden for the researcher or outside the actor’s meaningful orientation this, according to Weber, is not opposed to obtaining valid knowledge of the actions themselves.

Also Gorman (1976) advocated for social science focus on being or actions rather than individual consciousness of them. However, being (actions) can only be revealed through our subjective experiences. The task for a policy researcher is to accurately describe what is consciously experienced by the policy actor or the representative of a need group. This implies a shift in focus from subjective interpretation of actions and interactions to interactions themselves.

The relationship between action and result in policy implementation according to the bottom-up approach is not clear in advance and is not a simple one between “politics” on the one hand and “administration” on the other. Implementation is understood as a process of social interaction and that explains the focus on action rather than individual intentions. With the help of social interaction analysis the collectivity of individuals which institutionalise linkages between organisations in
policy implementation structures can be reconstructed (Hjern & Hull, 1983 p. 12). Applied to this study this approach allows us to recreate the processes of policy organising through the experiences narrated by the SMEs and the assistance actors involved with the focus on actions and their individual interpretations. Formal prescriptions have often been found misleading in accounting of social reality (Hanberger, 1997). It is, therefore, worth of applying such bottom-up methodology to identify policy processes and explore their correspondence with formal prescriptions.

Assessing policy adequacy: policy structure, manner and impact

In section 4.1 I have discussed major variable groups affecting policy adequacy in line with the bottom-up approach. In this study policy impact (outcomes) and policy adequacy for SME needs is analysed with the help of various explanatory variables—structural, behavioural and context variables. Here, I will consider in more detail the chosen indicators of policy adequacy: policy manner, structure and impact.

The starting point of the analysis in this study is the outspoken needs of the SMEs with which they turn to diverse actors for assistance transferring them into policy problems. Essential for the bottom-up approach is that assistance structures evolve in direct contact with the policy recipients, here SMEs, and the constellation of actors in them is partly determined by the initial SME contacts, indicated by a connecting line in the figure. Actors participating in the organising processes are disclosed via special interview techniques called snowballing (see chapter 5).

As was explained in section 4.3, the assessment of policy adequacy is tightly linked to the impact of the assistance (implementation) structure on societal needs, i.e. the policy outcome. The bottom-up methodological approach is expected to allow the researcher to identify policy impact and actors, their roles and resources contributing to that impact. The value of the impact variable—positive (sufficient or partial) or no positive impact—is pivotal in determining the existence of adequate policies. This study also looks into the other two factors of policy adequacy—the policy organising structure and manner (actors’ behaviour in organising assistance to SME problems) by which assistance policies are organised. Figure 4.2 depicts a simplified framework for bottom-up analysis of policy organising and its impact.

The arrows in figure 4.2 refer to dependency relationships between the studied variables. The first column of the figure refers to assistance organising for particular SME needs. The collective action addressing an SME challenge or development impediment with its most important variables—actors, ideas and resources—is subsumed under a broad concept “assistance organising”. Here the term organising refers to the four essential organising functions (F1-F4, see section 3.7) underlying the policy organising approach. The framework refers to both mandated and other actors, their assistance ideas for the specific societal

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24 As there may be diverse other variables on the individual, organisational level and other causes influencing on the policy process, I prefer to use a less ambitious term dependency rather than causal relationships.
problem (policy problem), and both formal and informal resources involved to realise these ideas.

The “assistance organising” box in figure 4.2 refers to those actors, ideas and resources that are a part of the collective action organised to address SME needs in practice. However, it is not always that a certain constellation of actors or resources result in such an action. Policy organising evolves when the collective action achieves a systematic structure with repeated pattern of organising resulting into a conceptual “policy structure”. The dotted line around policy structure box indicates a possibility but not an assumption that the undertaken collective action will result in a policy structure. It might instead evolve as an occasional (ad hoc) structuring. However, both a systematically structured and an ad hoc actor organising produces a particular impact (effect) on the solution of the policy problem (the SME challenge). Both types of assistance organising (policy and ad hoc) as well as type of actor constellations—mandated, mixed or private—are the major analysed structural variables (see figure 4.1). Although the focus of implementation studies like the present is primarily on the systematic, repeated interactions in a policy process, this study will consider both policy and ad hoc types of SME assistance organising by various actor groups in order to highlight possible alternative solutions and explore the need of public policies.

Figure 4.2 A bottom-up model to policy adequacy analysis

In general, the bottom-up implementation research is in particular interested in what structuration matters and how for policy success. As a complement to this approach this study will also explore the behavioural characteristics of both types of interactions, including actor roles and the assistance manner, and their importance for particular assistance policy impact on challenge solution results. The manner of assistance organised can depend on actor roles in organising
4. Exploring Policy Organising and Adequacy Bottom-up

processes, resources available including formally or informally institutionalised rules, but also other specific variables to be explored empirically for particular contexts. The manner variable is regarded as specific characteristics of certain structuring, but it (the particular use of resources or willingness to assist) may also affect on the formation of the structure.

“Assistance outcomes” box includes both the impact of an organised collective action and the result of the SME challenge solution, as it is perceived by the SMEs. Both the impact and the eventual challenge solution are regarded as policy outcomes in policy evaluation literature (Vedung, 2006). As we shall see later (section 15.4), a positive impact of a policy (assistance) structure is not always sufficient for solving the SME challenge at hand. Besides, it is not enough to consider only policy impact in assessing policy adequacy.

In general, referring to positive policy impact or outcomes I often use the term policy success, while policy adequacy, in principle, refers to a systematic structure, adequate manner and a positive impact altogether. It is sometimes important to indicate this distinction as policy success (positive impact) can be achieved also in a less adequate manner. In this study the concepts of policy success and adequacy when used together stress the complementary aspect of policy manner factor.

In sum, for an adequate policy to evolve the impact (outcome), the structure and the manner of the implementation are important. Besides, particular structural and behavioural organising characteristics have effect on policy impact. To alleviate policy problem solution or to make a significant contribution assistance policy impact has to be positive, while adequate assistance manner indicators need to be empirically specified for each policy area and, possibly, more generally for the studied transition context.

Looking for policy adequacy explanations

Some of the major explanations to certain SME assistance or policy structure impact, in accordance to the policy organising approach, are to be searched for in the characteristics of the policy structure and its behavioural variables. The latter refer to actors’ roles in defining problem, identifying alternatives, resources, and organising assistance. Besides, actors’ assessment of the impact of the assistance organised is pivotal for increasing assistance adequacy. In this study the roles will be also analysed in regard to actors’ compliance with formal prescriptions or divergence from them by utilising their discretion. In addition, the explanatory power of specific contextual variables identified by exploring actor roles should not be neglected (Hjern & Hull, 1987).

Figure 4.2, however, simplifies the process of policy implementation. In fact, an in-depth analysis of the processes of the “assistance structure” box is required to detect how its structural and behavioural characteristics affect the policy outcomes and policy adequacy. Chapter 5 will explain in more detail how and what knowledge of organising process is extracted via the interviews. Attempts will be made in chapter 15 to identify both more specific and some more general policy organising features and conducive factors.

In addition, our adopted approach to policy implementation and evaluation builds on several analytical premises. Policy evaluation is relevant only in cases where policies have been discovered, be it formally regulated or other type of
policy practices. It is possible that identified solutions to SME needs may take place regardless of any formal regulations or not in form of a policy. In such cases, the question should be raised whether this is an acceptable solution for SMEs.

**Identifying adequate SME assistance policies**

Given the mentioned indicators, how are then adequate policies for SME assistance to be identified? Policy existence is determined by how often certain assistance organising is used in practice to address the needs of such groups as SMEs, i.e. how, referring to Giddens (1984), (see section 3.1) structured and patterned it is. Successful solutions may also be achieved in an *ad hoc* manner indicating lack of structure, i.e. lack of repeated structuration in different SME cases.

Policy implementation necessarily leads to organising of an implementation (assistance) structure with its four organising processes (identifying of problem, search for alternative resources, mobilising of resources and assessment of assistance impact). To identify an SME assistance policy there is a need to reveal the participating actors and the resources mobilised for each of the organising processes. However, some organised processes and resources may not always solve the challenge *the way* expected or acceptable to the SMEs or *may not solve* it at all. If organised systematically and repeatedly policy, or as in this study—assistance—structures might be an indication of policies, but not necessarily adequate for the studied needs.

Given these premises, *adequate SME assistance policy* is conceived in this study as the ideas and the abilities of the involved actors to achieve via processes of organising positive for SMEs impact in a satisfactory manner. An identified assistance structuration can be regarded as implementation of an *adequate SME assistance policy* only when it has a patterned structure, when it bears relevance for the particular SME challenge, is organised in an acceptable for SME manner, and results in a sufficiently positive impact on the challenge solution. In other words, if a given SME challenge is positively solved due to the assistance organised it may be, if occurring repeatedly and in similar systematic manner, an outcome of adequate policies. I say "may be", since *positive impact is an important, but not necessarily sufficient* indicator of its adequacy. The assistance has also to be organised in a satisfactory, acceptable manner *from* the point of view of the SMEs. Also other type of policy structures (purposeful and repeated collective action) is possible, that are *in-adequate* for the particular SMEs or their needs in the given contexts. In that case such structures cannot be outputs of adequate SME assistance policies.

Some general assertions of the success and adequacy of assistance organising structures are presented in study hypotheses (see section 4.6), but especially the behavioural factors may be context and challenge specific. An attempt to summarise factors (and their values) of the organised assistance success and adequacy, and to identify more general tendencies will be made in chapter 15. It is difficult to beforehand, without analysing SME assistance organising processes, define what variable values are specific for adequate assistance in the studied transition context.
In sum, the empirical analysis explores what is the relationship between a particular collective SME assistance action, its structuration and the particular challenge solution outcomes. The study inquires into what actor constellations with what resources (also rules, regulations) and in what SME assistance policy areas and contexts are capable of organising adequate assistance policies or at least *ad hoc* structuring. The organising processes will be explored under the auspices of relevant local, regional and national and EU programmes. The value of authoritative decisions and strategies for organising adequate SME assistance policy lies in their ability to respond to evolving opportunities or needs, to adapt and correct errors or wrong intentions (Majone & Wildavsky, 1984).

4.9 The Process of Identifying the Study Unit of Analysis

The two major techniques employed for discovering and delimiting the unit of analysis are open-ended interviews with selected companies on assistance organised and an actor selection technique called “snowballing”, suggested by Hjern and Porter already in 1983 (see chapter 5). Pedersen (1998) claims that snowballing as a method to identify the unit of analysis is much older.

In this study the snowballing technique was combined with the open-ended interview technique also used by Hjern and Hull (1987) which I have referred to in discussing the policy organising model of implementation analysis (see section 3.7). It is based on open interviews with the SMEs and the involved actors on different policy organising phases F1-F4. The employed interview method allowed disclosing both major SME challenges, their solution processes with actors contacted, strategies and resources used or suggested.

Conceptualising the unit of analysis builds on following procedure. Starting from the selected SMEs, researcher proceeds via semi-structured interviews (constructed to reveal solution organising processes F1-F3) to identify the actors and their resources. The actors that SMEs initially addressed might involve others or readdress SMEs thus drawing in the assistance processes new actors and resources. It is important, though, that not all the actors addressed by the companies or the identified resources may be a part of the overall assistance (policy) structure. Some identified solution alternatives (F2) may never be attempted at, for example.

In general, for the overall policy assistance structure to be conceptualised, it is essential that it includes the resource organising phase (F3). Even though actors may assist in a particular organising phase for an overall assistance structure to evolve the assistance has to establish a linkage between at least processes F1-F3. In this study not only the conceptual assistance structures (alternatively policy structures) but also *ad hoc* structuring comprise the three organising processes. In other words, we can talk of the existence of an overall SME assistance structure *only* when there are actors and resources available to assist companies with their challenges in identifying alternative solutions *and* mobilising of some resources to realise them. In addition, only an overall assistance structure might be an output of policies.
The focus of this policy organising study is primarily on the SME assistance structures, i.e. policy organising. However, this study also explores ad hoc structuring (less systematic or frequent) or collective action that did not reach the resource organising phase, and searches for the reasons to the lack of (adequate) policies. In brief, the unit of analysis in this study is somewhat broader than a policy structure of the adopted bottom-up approach and explores besides it, in general, also the structuring short of adequate policy organising evidence.

The empirical analysis in this study starts with identifying locally organised assistance structuration and its impact on given SME challenges. Where the assistance structures and structuring has been identified the study will explore factors that are conducive to their success and adequacy. This implies exploring the structural and behavioural characteristics for each type of the collective public action (policy organising and ad hoc assistance structuring) organised to address the particular SME needs. The present implementation analysis departs from the companies’ ideas of the challenge in need of an external assistance (policy problem), but in deconstructing the process of its solution it relies both on the accounts of SMEs and the participating actors.

The empirical Part III of this study explores the solution paths SMEs and their contacted actors applied in practice and their success. The applied interview method will also be used to identify the major factors that have halted a particular assistance organisation or, perhaps, the whole solution process.

Before that, in the next chapter 5, I will elaborate more on the methods chosen for analysis, such as selection of companies, snowballing technique to identify unit of analysis, the employed interview technique, and cases in the study. I will also discuss some problematic issues such as access to data; discuss its validity and the possibilities and limitations of the chosen methodological approach.

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25 In this study the concept assistance structures is used instead of implementation structures, for the reasons presented earlier (see section 3.7). Even as an extension of the policy implementation structure concept the assistance structures focus primarily on the use of resources brought together in these structures to solve a policy problem.
5. Method

The open bottom-up implementation approach requires such methods that would allow identifying the major SME challenges and the de facto policy organising processes i.e. interactions between all the major participating actors and resources used to address those challenges. The study required that would also enable also identifying organised assistance impact on the challenge solution. This chapter presents in more detail the methods used in the study. It will also discuss the choice of the methods and their usefulness in collecting and analysing data to answer the stated research questions.

5.1 Contribution to Knowledge of Social Reality —the Position of this Study

Each researcher has to explicate his/her perception of social reality and the claims of the knowledge with which the particular study can contribute. This section very briefly outlines the position of this study.

It is difficult to locate the research in this study in a single paradigm on the essence of being or what is (ontology) e.g. objectivism, constructivism or subjectivism (according to the distinction made by Crotty, 1998 or by Guba and Lincoln, 2003) and I will attempt to explain why.

In the context of the research undertaken in this study, it is maintained that the researcher uses constructed concepts and models such as “policy structure” to reveal the social reality “produced” or achieved by others (e.g. actors, resources, interactions in policy process). In that it is accepted that the particular empirical phenomena in that social reality—actions and interactions of the studied individuals—exist independent of the researcher’s existence or interpretation of them. They have a real physical existence but also depend on how the studied actors or the researcher herself perceives them. The identification of “policies”, “institutions” (rules) or other constructed concepts is dependent of how the researcher conceptualises or labels them. In other words, policy or its assessments are in this study seen as socially constructed.

Each theoretical and methodological approach therefore can represent only part of the studied social reality, but there may be better or worse representations depending on their empirical relevance, i.e. how well they capture the physical processes of social reality. My standpoint is that any other researcher using same type of constructed definitions or “conceptual glasses” could be able to identify same revealed processes as policies.

Ontologically the study stance thus is found somewhere in-between the two major approaches according to Crotty (1998)—realism (accepting objectivism of physical interactions) and constructivism (what a policy process is constructed of). However, epistemologically (i.e. what knowledge is possible) it is admitted here that a researcher can only get close to explore, represent and/or explain social reality (policy, institutions) via certain conceptual constructs or via participants’ or other’s subjective accounts. This approach admits a possibility that particular
concepts or conceptual models to reveal and interpret social reality can actually be inter-subjective or shared by several viewers or a certain social or research subculture (ibid.)

Critical research paradigm uncovers, examines, and criticises assumptions that may limit our ways of thinking. It often explores institutional or other settings by enquiring into structural conditions that frame and shape the practice (Merriam, 2002, p.10). According to Meriam, (ibid.) questions of “whose interests are served?” or “who has access to particular programmes?”, “who has the power to make changes or what are the outcomes of the processes?” structures the research in a particular way. These are questions very similar to those posed in my study why it may be regarded as supportive of critical qualitative research.

Robert Gorman’s view (Gorman, 1976), also adopted in this study (see more explanations in chapter 2), is that it is via individual accounts of the world that we can get knowledge of the actions and interactions in it. Adopting this approach invites scholars not to pursue some objective distanced view of a society they explore, but rather to “awaken citizens to their social environments (ibid. p. 512), making them aware, self-conscious of how they are affected or, especially limited by their environments “to give them possibility to develop self-conscious perceptions and to increase their ultimate ability to ‘sculpturing the future’” (ibid. p. 512). This study also perceives individuals as affected—enabled or delimited—in their intentions and actions by their own values (Gorman, 1976) and interpretations of institutions. Yet, if a social scientist aspires to illuminate some social processes, make them intelligible and possibly accepted by some broader audience then she should not confine herself to the individualist forms of explanation (although acknowledging their merits). Rather, the scientist has to explore what particular knowledge of individual (inter)actions can tell us about systematic processes relating the particular explanations to those more holist (Outhwaite 1987, p. 116).

This study sees the social world as a fragmented and rather difficult to comprehend as a whole, and thus draw general law like statements. Instead, a variety of methods could allow capturing parts of the reality and the knowledge acquired should allow less general, but still generalising law-like statements about it. Denzin and Linkoln (2003) ascribe such a position to a post-positivist approach. The adopted bottom-up approach to policy process suggests that scholars have to rely on empirical processes to detect patterns of successful public problem solution and possibly attempt to reveal some more general explanations. The answers this study is able to provide should be seen as one among many alternative ways of describing and explaining the social reality.

5.2 Qualitative Method: Descriptive and Explanatory Perspectives Combined

The central research questions of the study are as follows: Who, how and in what contexts, are capable of organising adequate policies to assist SMEs in Lithuania during the transition and what are the major factors that are conducive to achieving policy success and adequacy? In addition and alongside this, how can
5. Method

Policy adequacy indicators contribute to assessing success of the country's transition?

This study has chosen to provide answers to these questions with the help of bottom-up policy analysis, which strongly supports the use of qualitative methods. The explications for undertaking this research as a qualitative study were elaborated on in the preceding chapters. The undertaken research is a qualitative study of policy organising and its evaluation. It builds on multiple case analysis of SME assistance organisation and delivery in Lithuania.

Qualitative studies came in the past years to be associated mainly with interpretative research (Merriam, 2002; Holiday, 2002; Denzin & Lincoln 2003). Qualitative studies, according to Rossman (1995 in Merriam, 2002, p.11) aim mainly at understanding and describing processes such as “differences between stated and implemented policies or theories.” Although some researchers doubt of the reconcilability of the interpretative (understanding) and pattern seeking (explanatory) paradigms (Denzin & Lincoln, 2003) others (e.g. Lin, 1998) argue that a combination of these approaches in same research is a possible and a positive thing. Documenting practices and patterns of behaviour with the purpose to reveal general patterns (a positivist approach) could be fruitfully combined with attempts to explain the causal mechanisms in those patterns (interpretative approach) (Lin, 1998).

The present study intends to describe and understand, in particular, how, if at all, policies are organised and important conducive factors to their success and failure (providing answers basically to what and how questions). However, it also attempts to generalise the evolving patterns in order to explain what are important conducive factors to their success and failure (presenting some answers to why questions) (Marsh & Rossman, 1995). It was therefore both the exploratory and explanatory character of the study that guided the choice of the study methods.

The combination of exploratory and explanatory character is especially fruitful for testing several bottom-up implementation hypotheses (see 4.6) on policy organising, its success and adequacy. Nevertheless, it is equally rewarding for searching new explanations of policy adequacy. Testing hypotheses presupposes theoretical assumptions that might be confirmed or falsified. Popper recognises this as the only true way to conduct scientific activity (Popper, 1992).

The study seeks answers to the posed research questions by exploring the existence of any repeated patterns in the studied interactions. However, it also looks for explanations to the particular organising and its outcomes from the point of view of company managers and involved assistance actors and possible generalisations valid for certain contexts. Both tasks are intended as a contribution to theory development on policy organising in transition contexts, albeit a contingent one.

5.3 Multiple Case Design

This study is a multiple case study. Case study design is the recommended choice for studying complex social phenomena such as policy organising (or a programme, an institution or else) (Yin, 2003, Merriam, 1988). This study delimits its cases to policies organised to assist Lithuanian manufacturing SMEs during the
transition period. From the individual SME challenge solution and assistance organising occasions (“cases”) more general patterns and structures of organised assistance are discovered. To discover a policy process for a particular challenge, several individual assistance organising attempts are necessary. Policy processes (and collective action) for each major SME challenge—land acquisition, land use, attracting of workforce, financial needs and technical reorganising—constitute a case in this study. The multiple case design of the present study is called by Yin as embedded since each case may encompass several units of analysis—assistance structures (Yin, 2003, p. 43).

The nature of the study requires an in-depth analysis of challenge solutions in each individual company case. The study has to explore company owner’s or manager’s choice of strategy in searching for public assistance, obtaining information, formal and informal ways of communication with eventual intermediaries or other institutions of their choice, and similar.

Understanding policy implementation processes for particular challenge solutions implies a methodological approach based on identifying policy organising and implementing actors in organisations, in-between them and outside them. The analytical construction of the units of analysis builds on identifying relevant actors, their interactions, resources in policy implementing or organising. For that purpose snowballing and in depth semi-structured interview techniques were applied.

Interviews have been conducted with 31 companies and, in addition, with 40 actors. Each SME interview disclosed several major challenges or development impediments and their solution processes. The focus of the analysis is narrowed down to the most often mentioned challenges (see chapter 6). In total, 76 challenge solution and assistance organising processes related to the studied SME challenges were analysed. Repeated patterns of individual assistance were generalised into an overall assistance pattern or structure for the specific challenge.

### 5.4 Selection of Companies

The adopted approach to policy implementation requires taking challenges of small and medium businesses as a point of departure. In this study, the empirical focus was consciously laid on manufacturing industry, which has not only been a major industry in the studied localities, but as well undergone great transition—from dominance of large state owned enterprises to predominantly small and medium sized private businesses.

Manufacturing SMEs in the Kaunas region (a major industrial region not only in terms of Lithuania but also across the Baltic states) represents a sector that is expected to experience some transitional challenges that would require the attention of, and need to have, public assistance policies. The population was further narrowed down to the small and medium sized companies from the three major manufacturing activities in two contrasting municipalities of that region - Kaunas city municipality and rural Kaunas district municipality.\(^2^6\)

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\(^2^6\) The Kaunas region comprises 9 municipalities: Kaunas city, district, Birzai, Birstonas, Jonava, Kaisiadorys, Kedainiai, Raseiniai and Prienai.
5. Method

was made to present contrasting rural and city contexts with the purpose of checking for possible assistance structure and policy implementation variations.27

The municipalities differ not only in size—an urban one with 702,000 and a rural one with 82,000 inhabitants—but also in the number of companies. At the time of the interviews in 2004, there were 20,617 companies28 operating in Kaunas and 2,424 in Kaunas district municipality.29

The choice of manufacturing sector, as an important sector of Lithuanian economy, has been made based on research design and methodological reasons. In Lithuania, manufacturing industry during 2000-2006 was still very prominent. It was also a sector of the economy that was highly affected by the transition challenges forcing also larger companies to bankruptcy or reorganisation, thus making space for new entrepreneurial initiatives.

The Kaunas region, one of the ten regions in Lithuania, has been chosen for the study mostly due the following reasons: firstly, (as the central region of Lithuania) the Kaunas region was a major, rather traditional, industrial area both during the Soviet times and afterwards during our respective study period. Its role in the country’s economy was evident—the region had the second largest share of SMEs in Lithuania (about 21%) in 2001 (Darulis, et al., 2004). Kaunas region was a major industrial region not only in Lithuania, but as well among the three Baltic states. Manufacturing industry in Kaunas, as in the rest of Lithuania, was characterised by the predominance of large companies during the first years of post–Soviet transformation.

At the time of the study and a short period before that, the manufacturing sector was undergoing intensive restructuring and reorganisation of traditional large state owned industries into private companies. In this process, many of large state manufacturing companies had been forced into bankruptcy, as a result of which numerous private SMEs were evolving.

Kaunas, the centre of this region, also had a high concentration of higher education institutions and extensive enrolment in them which might be important for reconstructing and adapting industries. Besides, manufacturing sector in the Kaunas region had the second largest share in BNP and in exported production in Lithuania. Manufacturing and processing sector in Kaunas city employed at the start of the study in 2000 17.5 % of the labour in this industry in Lithuania.30

Secondly, I had best access to this region logistically and access to information about its companies.

The dominant manufacturing activities for each municipality were determined from the statistical data available to the researcher from State Tax Inspectorate in

27 My original intention to compare SME challenges in several different Lithuanian regions was rejected due to the difficulties in accessing information and practical limitations. It was deemed of a greater interest for the comparisons to use companies from rural and city municipalities in the same region as that would allow dealing with the same regional level assistance actors.

28 In this number the three forms of private companies operating in Lithuania are included – Ii, UAB, AB., or correspondingly: individual enterprise, private companies with limited liability and public limited companies.


30 Source: “Kauno miesto socialinė ir ekonominė raida”, Ekonomines Pletros ir Investicijų Škyrius, Kauno savivaldybė, 2002., received at the interview.
Kaunas. It indicated following numbers of major manufacturing companies in the studied municipalities:

Table 5.1 Number of registered SMEs in major manufacturing activities in Kaunas city and district municipalities

<table>
<thead>
<tr>
<th>Branch</th>
<th>No of SMEs registered in Kaunas city municipality as of 2004 01 01</th>
<th>No of SMEs registered in Kaunas district municipality as of 2004 01 01</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sewing</td>
<td>241 (selected)</td>
<td>22 (not selected)</td>
</tr>
<tr>
<td>Food-processing</td>
<td>237 (selected)</td>
<td>74 (selected)</td>
</tr>
<tr>
<td>Wood processing</td>
<td>206 (selected)</td>
<td>81 (selected)</td>
</tr>
<tr>
<td>Furniture manufacturing</td>
<td>109 (not selected)</td>
<td>27 (selected)</td>
</tr>
</tbody>
</table>

Source: State Tax Inspectorate of Lithuania.

According to this available data, the three most predominant branches in Kaunas city municipality (study population) at the start of 2004 were sewing, food-processing and furniture manufacturing industries; while the corresponding major branches in district municipality (study population) were food, wood processing and furniture manufacturing. Therefore, SMEs from four branches in total were selected for interviews (see table 5.1).

Including the whole population was impossible due to the large number of companies, and so the interviews were conducted with a sample of 31 strategically selected manufacturing companies (see table 5.2) representing the 3 dominant manufacturing activities in each of the two strategically selected municipalities. Equal number of companies from each major manufacturing branch has been attempted to give a fair representation of the selected branches and for the eventual comparisons. Therefore, the selection of 5 companies from 3 most dominant branches in each locality has resulted in 4 studied branches in total (food manufacturing, sewing, wood processing and furniture manufacturing industry).31 This number is judged by the author to be manageable having in mind the depth of the data to be collected on each case. This number is by no means treated as sufficiently representative of assistance organisation for selected challenge solutions of the population. However, it is informative enough to discern patterns and tendencies in organising solutions and allow exploration of common explanations to assistance success (or failure) and signs of policy structuring. In addition, the depth of the analysis limited the researcher to a manageable number of companies.

31 An additional company from textile industry has been interviewed thus increasing the number of interviews to 31. The original intention to include more companies from textile industry was rejected due to the fact that finally only companies from three branches in each locality were selected to ease geographical comparability.
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Access to data on companies

Access to the company data and thus their selection for the study in the two localities deserves to be accounted for in more detail here. It has to be stressed that access to updated and classified statistical information on manufacturing SMEs of the selected branches was very limited. The statistical information the municipal administrations had at the start of the study was too general and insufficient for the purposes of strategic selection of SMEs from the particular branches. The statistical information on companies were either grouped according to the form of their operation i.e. individual enterprise (Individuoli imone), private limited liability company (UAB) and public limited company (AB) or all types of manufacturing companies were subsumed under same manufacturing sector disregarding their size. The contacted actors at municipal administration refused to extract complete lists of SMEs from the branches intended to be studied. Municipalities referred to the Department of Statistics at the Lithuanian Government, the State Enterprise Centre of Registers (Registru Centras) or the State Tax Inspectorate as institutions obtaining more selective classified information.

Contacts with the Department of Statistics were quite fruitless. Some correspondence was not answered at all regardless of repeated telephone contacts, and other contacts explained they had no right to hand out lists with company names, which could be only done by the Centre of Registers. The centre was contacted as well, but they responded they lacked such classification and extraction of information is allowed per company for a certain fee. The only reliable and well functioning source of information was the regional office of the State Tax Inspectorate in Kaunas. In fact, actors in tax agency explained that much of their data they received from the Centre of Registers or the State Social Insurance Fund Board (SoDra).

In general, mistrust was felt against the researcher for using or disseminating information obtained for other than study purposes. Department of Statistics, especially some of its regional offices, were quite ignorant of opening access to ordinary statistical information. Actors at the central agency claimed they do not have readily classified statistics on companies separate for each municipality and branch.

Data on companies possessed by the Tax Inspectorate, however, could not be readily used for the purposes of this analysis, and lists of relevant companies had to be extracted using certain classifying “filters” (such as geographical area/municipality or type of activity). As the number of the manufacturing companies was much larger in Kaunas city than district municipality (see table 5.2), no full lists with hundreds of companies could be accessed. However, the researcher could still make a random selection from the lists provided.32

32 I had access to the following lists of city companies: 80 sewing, 82 food and 59 wood companies. This was an extract from the lists which were cut off. The researcher still deems that randomness of the companies was secured as these lists did not classify the companies in any way. They included all sizes of companies well spread geographically. These lists were coded according to individual company and branch codes why I could not ask actors with access to information make the random selection for me. The companies were listed according to their seven digital codes which had no logical mathematical sequence. The lists of district manufacturing SMEs were easier to obtain as they were much shorter.
Access to this type of information was possible only via informal personal contact with Inspectorate specialists. Due to the presented reasons, the intended random statistical selection of companies from the available lists had to be adjusted to the situation. Contact data on companies have occasionally been in most cases obtained from the regional Tax Inspectorate. However, when data in their lists was not updated (non-active companies, wrong branches, addresses) some company data and some companies were identified with the help of local telephone catalogues.

Relevance of the statistical SME data

A few words should be said about the relevance of the statistical data available. Even after the Tax Inspectorate had extracted the lists of companies of the four major manufacturing activities in studied municipalities, these lists were not updated regarding the real status of the companies (i.e. whether they were operating or not) and their major activities (branch information). This implies that the accessed information was not always relevant for the purposes of the study. It was especially difficult to obtain data on the manufacturing SMEs in Kaunas city due to their number and lack of classified statistics. In Kaunas city municipality the total number of companies in manufacturing industry amounted to 2,42333 of which the part of SMEs was difficult to specify as the register included all companies in the branch.

In addition, the extracted lists of the companies at a certain time period and municipality, however, were not always relevant. Firstly, the actual activities of many listed manufacturing companies did not correspond to the ascribed branches. The registers were simply not updated. The classification of companies, I was explained, was based on their major declared activity type, and each company could and frequently did declare more than 15-20 activities planned at the start of the company. This was popular because companies did want to skip complicated procedures for changing major activities. The activities declared could be so divergent so they included manufacturing of quite different produce and/or activities in the service sector. Due to the lack of time and resources, the Inspectorate or other agencies often failed to update the company activity lists.

Secondly, a large group of the companies in the lists provided by the tax Inspectorate had ceased their operation or were simply non-active. For a comparison, the following data based on the mentioned statistical documentation could be presented:

33 Statistical Data Received from the State Tax Inspectorate.
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The data in table 5.2 indicates that at least half of the registered companies in the studied branches were inactive. In general, the number of registered manufacturing SMEs in Kaunas region amounted to 3,471, of which only 1,945 were active. However, data on companies’ activity status was not indicated in the available company lists.

Due to the complicated, expensive bankruptcy procedures or debts, many inactive companies were not even declared bankrupt. However, this was not possible to figure out from the lists. Indeed, this phenomenon seems to be quite common in Lithuanian statistics, as *Main Data on Economic Entities* issued by the Lithuanian Department of Statistics in 2005 made a distinction and had special lists for registered respectively active companies.

Having in mind this information discrepancy, it could be concluded that the obtained data on manufacturing SMEs in the studied municipalities of Kaunas region (presented in table 5.1) did not correctly represent the situation in the market. The contacted representative at Tax Inspectorate explained that it is the task for the Inspectorate to check the status of activity of these companies, but as they were so many and the Inspectorate employees were overcrowded with jobs this process could take long time. However, the procedures for approaching and interviewing companies described in the coming sections reveal how this shortage was deal with.

### Table 5.2 Percentage of active SMEs in manufacturing activities in Kaunas region

<table>
<thead>
<tr>
<th>Manufacturing branch</th>
<th>Kaunas region</th>
<th>Registered as of 2004 01 01</th>
<th>Operating as of 2004 01 01</th>
<th>Percentage operating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Furniture manufacturing</td>
<td>1,544</td>
<td>738</td>
<td>47</td>
<td></td>
</tr>
<tr>
<td>Wood processing</td>
<td>3,325</td>
<td>1,624</td>
<td>48</td>
<td></td>
</tr>
<tr>
<td>Sewing: wearing apparel, etc.</td>
<td>2,168</td>
<td>852</td>
<td>39</td>
<td></td>
</tr>
<tr>
<td>Food-processing</td>
<td>2,707</td>
<td>1,416</td>
<td>52</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>3,471</td>
<td>1,945</td>
<td>56</td>
<td></td>
</tr>
</tbody>
</table>


### 5.5 Selection of Actors to be Interviewed—Snowballing Method

Depicting collective action and policy organising for SME transition challenges bottom-up requires relevant methods to identify policy organising actors in SME addressed organisations, in-between them, but also outside them. The adopted approach regards the unit of analysis (see chapter 3)—assistance policy organising processes (including assistance structures)—as conceptual, analytic constructs denoting units of purposive action concerning the perceived policy problem. The applied bottom-up methodological approach implies identifying the initial actors (representatives of public or private mandated and non-mandated organisations or
private actors) involved in those structures via in-depth open-ended interviews with the selected company managers or owners (see the next section on interviews).

Interviews with companies had revealed which actors a particular company in each case has contacted and for what purposes in organising solutions to its challenge. Thereby the initial actors of assistance structure (or collective *ad hoc* action) were identified. To map out the whole assistance structure and the resources organised the researcher took contact and interviewed the company mentioned and contacted actors. Those actors were interviewed (with the help of similar interview temple as the SMEs) to indicate, or “throw a ball” at other involved actors. Some of those identified actors have also been contacted and interviewed with the purpose to reveal their role and eventual contributions in the assistance organising process. This ball throwing process continues until the revealed actors start repeating themselves and the structure is saturated. This technique to via qualitative interviews map out actors and resources actually participating in the assistance structure is called *snowballing* and has been used in many bottom-up implementation studies (e.g. Friis, 1998; Hulgård, 1998; Pedersen, 1998; Glemdal, 2008; Johansson, 2008).

The bottom-up approach looks primarily into how participating actors’ interactions produce different structures/outputs. The role of actors precedes the structures. It starts with the contact between the receiving group—here, SMEs, and the policy delivering actors—and explores how these interactions result into what structures. By disclosing the engaged actors’ roles in assistance organising, interactions and resources the structures of assistance were revealed. Assistance structures have been identified for each of the analysed SME challenges or development impediments (see chapters 8-13).

It was both a time and resource-intensive task to map the relationships and the relevant participants in such networks. In regard to this, it has to be taken into account that there were certain time and resource limits as well as certain information saturation that are important for justifying the choice of the network actors and their further search.

### 5.6 Sources of Data

In this section, I will account for the major sources of data used for this study. The large bulk of *primary* data for the research was collected from semi-natural settings, i.e. through qualitative in-depth interviews. Published documents as programmes, legal acts, studies, journal articles, official statistics and, where available, internal documents have been used as *secondary and tertiary* data sources.

#### Pre-study

The empirical study was preceded by a pre-study conducted during May-June 2004. During the pre-study interviews with three small and medium sized companies from Kaunas city municipality and several public agencies related with business development on local and regional level have been conducted. The intention was to check whether the chosen empirical topic—SME challenges and their need for assistance policies bared relevance for the local Lithuanian context. It
also tested the in-depth semi-structured interview template. Interviews with actors contacted had revealed that manufacturing sector has been undergoing large structural transition and that transition period evoked numerous challenges especially for SMEs. Thereby, the result of the pre-study allowed the researcher to specify the study topic and refine the interview method.

**In-depth interviews**

In exploring policy organising interviewing was chosen as the most optimal method (to be complimented by document studies, i.e. secondary and tertiary sources).

Interviews as a major source of data and the choice of type of interview are undeniably steered by the researcher’s approach to policy as structured, but not necessary formally prescribed interactions of actors. It views policy structures (and institutions) as recreated or altered by systematic interactions between individuals. Besides, since the framework of institutions such as laws, regulations and SME development programmes is complex, their relevance and influence in organising policies in different contexts must be established empirically, through experiences and perceptions of participating actors.

Interviewing is suggested as the most appropriate (if not the only) methods at getting to the actors experiences (Mason, 1996 p.40) and practices or past events that are impossible to replicate (Merriam, 2001, p.72). Interviewing SME owners and managers and the identified actors has therefore been a natural choice according to the applied approach to policy analysis. The purpose with interviewing was to gain knowledge of the challenges as they were perceived by the SMEs, their solution ways or attempts, actors and resources identified and organised. On the part of actors, the study intended to extract information on how they perceived challenges facing the studied type of SMEs, the general more institutionalised practices and specific actions undertaken to assist them with specific type of challenges. For that purpose, in-depth, semi-structured interviews were deemed to be the most appropriate method.

In-depth interviews as a method are frequently used in qualitative research due to their flexible, interactive and responsive nature (Mason, 1996). Interview questions for this study interviews were deliberately worded as openly as possible to encourage respondents to give a detailed reply, with their own emphasis and in their own language. In-depth interviews were conducted using a topic guide with the key themes to be explored. However, because questioning is responsive to the interviewee’s own comments and situation, the order in which issues were addressed and the amount of time spent on different themes vary somewhat between interviews.

In conducting interviews the so-called semi-structural form was used meaning that the researcher had prepared topic and special issues of discussion, but with no fixed ranking or order. The interviews required to be adjusted to each individual situation and their semi-structure allowed for interviewees to approach the discussed issue from his/her experienced sequence. This structure as well allowed the interviewed persons to lay their own emphasis on special processes or concepts. The four organising phases (see figure 5.3) were used to guide and support the conversation, but the interviewer did not stick strictly to the systematic sequence of questions as long as the interviewee discussed issues that she find relevant for the
The researcher has thus to keep in mind the questions that he/she needs to have answered, and cannot take for granted that the questions will be answered in the order that they have been posed in the ‘guide’” (Jensen & Johnsen, 2003, p.11). However, most importantly, the in-depth conversation in form of interview made it substantially easier for the researcher to gain more trust in touching upon sensitive issues.

It was the individual accounts and stories of each of the selected companies’ or of relevant actors and especially their interactions and resources used in addressing particular SME challenges (see figure 5.3) that were of interest for the researcher. The semi-structured type of interviewing also allowed considering other relevant processes or topics that the researcher has not initially expected to have relevance (such as various contextual variables). The experiences and perceptions narrated in the interviewees’ own words were of special value for the study as the availability of information on ways assistance was organised in other forms was very limited.

At the initial point of the study, it was unclear what the role of various assistance actors and SME assistance programmes/measures was in the challenge solution process. Interviews based on assistance policy organising phases allowed identifying the actual assistance actors (mandated or non-mandated actors) that the companies interacted with in search for assistance to challenge/development hinders solutions. By reconstructing interactions in each phase on case-by-case basis the eventual assistance organising structures or simply ad hoc assistance were identified. In-depth interviews conducted with selected intermediaries were intended to reveal whether they acted in line with the mandated roles or some other institutionalised pattern in their interactions with SMEs regarding assistance to the particular challenges.

Figure 5.3 Interview template for identifying actors and resources in policy organising processes

<table>
<thead>
<tr>
<th>Nr</th>
<th>Phases of assistance organising structures</th>
<th>Major related interview questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>F1</td>
<td>Challenge definition</td>
<td>By whom and with what actors were challenges perceived and defined?</td>
</tr>
<tr>
<td>F2</td>
<td>Identifying solution/assistance alternatives, resources</td>
<td>With what actors and how were alternative solutions formulated and alternative resources found?</td>
</tr>
<tr>
<td>F3</td>
<td>Carrying out of a solution/assistance alternative</td>
<td>With what actors and how were the chosen solutions carried out and put into practice?</td>
</tr>
<tr>
<td>F4</td>
<td>Assessing assistance impact on the challenge</td>
<td>By which actors and how were assistance impacts assessed?</td>
</tr>
</tbody>
</table>

Source: adapted from Hull and Hjern, 1987. (The chart is constructed by the author)

The interview questions were based on the four specific processes of policy organising (presented in chapter 3) quite similar to that developed by Hjern and Hull in “Helping Small Firms Grow” (1987). The major questions to reveal each process of assistance policy organising were similar in each interview, but were adjusted to the particular challenges with complementary questions. The major question groups and their attempted sequence are presented in table 5.3. This is a
5. Method

very simplified interview template. More specified questions for steering the interviews are presented in Appendix 1.

The first question group (F1) regards the challenge identifying process and companies were asked to identify their major challenges during the past 2-3 years (or so) as well as depict what actors (if any) they have consulting regarding this challenge and whether these actors have assisted them in defining the challenge. The challenge perception of each individual company was identified. Then companies were asked to describe the ways and the actors they addressed in their attempts to identify solution to the challenge and alternatives they have been offered or considered (F2). The resource organising phase (F3) is essential for an assistance structure to evolve. Therefore, interviewees were asked whether and, if so, what resources they have attempted at organising in addressing the mentioned challenge, with the help of what actors, how and with what results. The “how” questions also revealed important contextual factors that impeded or assisted the organising processes. Thus, actors, ideas, resources, interactions and important contextual factors were identified. Further, as the company managers’ or owners’ assessment of the assistance organised and its impact is a basis for the policy adequacy analysis, they were asked to assess the impact and the manner of the policies delivered. Normally, the manner of the assistance was revealed already in discussing the F1-F3 processes. The technique of identifying actors in the de facto assistance policy organised employed in the study interviews is called snowballing.

All addressed companies have been asked to define their major areas of activity. The interviews with SMEs were conducted in 2004-2005, and with the actors 2006-2007. The companies from Kaunas city and district municipalities have been interviewed in 2004 and 2005 respectively on the major challenges they had faced some 2-3 years previous to the interview occasion.

The interview persons were offered anonymity and no interviews have been tape-recorded. Sometimes this was the precondition from the interviewees. However, interviews were very carefully recorded by hand. After each interview occasion, interviews have been transcribed while the data still was very fresh. Some SMEs and actors have been additionally contacted by mail or phone for complementary data.

In general, interviews had been conducted with 31 manufacturing SMEs in total, 16 from Kaunas city and 15 from district municipality and 45 actors (local, regional, national, public and private). Interviews had normally taken between 1-2 hours and were conducted mainly face to face with an interview person. Same type (but not same contents) of interviewing were used both with companies and the actors. Interview questions were guided by the processes of policy organising (see Appendix 1).

Interviews conducted with SMEs were meant to reveal assistance organising processes in individual company cases. Actor’s interviews (based on the same type of although not identical questions adjusted to the four policy organisation processes) were intended to reveal more general solution organising patterns, as the actors were never revealed the names of the companies that referred to them. This way, information obtained from both types of interviews was used to recreate the challenge solution and assistance organisation processes for each individual

34 The list of the interviewees is attached in Appendix 2.
company case as well as to gradually identify the overall structure(s) of assistance organisation for the particular type of challenge. This conceptual structure is then used for the analysis of certain assistance organising patterns.

Difficulties in conducting this type of interviews are widely recognised (Kvale, 1997; Holstein & Gubrium, 2002; Mason, 1996). Indeed, reaching out to the required study material puts high demands on the researcher who should not only be able to establish a qualitative interview friendly environment, but as well be able to grasp the cultural nuances in the interviewee’s language, be able to interpret the details of each particular case and to gain trust with an interviewee. I had also experienced that it is a challenge to conduct a semi-structured interview since the researcher, in her attempts to obtain relevant data for the major research questions posed, has to actively think while interviewing, do it quickly and consistently in relation to the aims of the study. A significant part of the conversation was tailor-made at the spot (depending on their answers) or individually tailored for each interview person and challenge type.

Just as any technique, even this type of interviewing has its limitations. Especially problematic is the ability of the researcher to make the right choice regarding what issues to get deeper into and the ability to then “penetrate the private worlds of experience” (Silverman, 2001, p. 94). How the issue of access and validity and reliability issues were dealt with is discussed in the next section.

Review of documents and other secondary sources

The study relied on a number of secondary and tertiary written sources such as statistical material, analyses of economic situation in the chosen regions and municipalities, other documents such as reports on implementation of local economic development strategies relevant for the chosen companies’ problems, sources documenting some strategies that the chosen companies have undertaken as measures for attempting to solve their relevant problems, applied EU, national or local programmes or other company assistance instruments, etc. In complex SME highlighted challenges and development impediments like land use or food hygiene requirements I needed to study a variety of documents, sometimes additional studies in order to gain broader understanding of the process and its details and be able to specify questions to the interviewed actors about it.

5.7 Study Quality Criteria

As the present study is a qualitative interpretative but also explanatory study, certain criteria apply for testing its value. In the following, I will discuss how validity of methods used, data collected, interpretations of material made and patterns discovered can be secured in studies of qualitative character and using the particular ontological and epistemological approach like the present one.

Validity

Social scientists have to ponder frequently how to deal with the validity of the qualitative research. Validity of the empirical operationalisation of theoretical concepts intended to be researched, even called concept validity (Esaiasson, P. et
Method

Construct validity (Yin, 2003, p. 34) is a major issue for qualitative research studies. Implementation structures as a concept for operationalising policy implementation processes has been introduced by Hjern, Hanf, Porter et al. in the late 1970s and has been widely applied in bottom-up implementation research ever since. Implementation structures were further operationalised into assistance structures in the study by Hull & Hjern in 1987 “Helping Small Firms Grow”. A similar operationalisation of policy implementation is applied in this study under the label assistance structures. Empirically the processes that are regarded as SME assistance policies in this study, as in much previous bottom-up implementation research, build on the identified organising processes (F1-F4) also applied both by Hjern & Hull and many latter implementation studies. This study makes a clear distinction, based on structuration approach, between policies and simply ad hoc assistance organising (see elaborations on the use of concepts policy, policy implementation, structuration and other related concepts in chapter 3).

Validity of the methods used is often discussed in terms of whether the data collected measures what it actually intends to measure. In this study, the empirical data is to reveal the policy structures and actors capable of organising them plus important factors conducive to its success. As accounts of policy processes and factors of its adequacy are based on the interview data accurate account was of special importance to accurately account for the interviewees’ experiences and perceptions in regard to F1-F4. The way interviews were conducted and analysed therefore affects not only data reliability but also their validity as a method.

An additional criterion to interview validity as a method proposed by Holstein & Gubrium (2002) is its ability to account for the actions or inactions in a way that is locally comprehensive. In this study, local comprehensiveness may imply that other companies or actors involved may account for the situation similarly. Similarities in accounts could be also taken to strengthen the validity of the methodological approach. At last, the researcher’s inherent local knowledge of the country and the language could be as well seen as a contribution to method validity.

Fairness is discussed by Guba and Linkoln (1989) as yet another criterion of method validity if applied to this study could be defended by researcher’s attempts to achieve “multiple voices” i.e. give all the interviewed actors possibility to talk for themselves and highlight their position. Presentation of the study was intended in the ways that reflected the views of all types of interviewees.

However, there were some difficulties with the in-depth interviews and the amount of details they involved. I attempted to reduce the data in relation to the policy organising processes, behaviourial, structural and context variables. The richness of interviews also confronted the researcher with the choice between the breadth or depth of information on diverse challenge solutions. Facing the limited occasions and time for interviews this was a challenge involving the judgement of the researcher on what is relevant and valid for the study. Omitting of some details may influence on the conclusions of the study. It is up to the reader to judge how the study has succeeded with this task.

Generalisations

Each researcher also has to ponder how to ensure that the data the study is generating will allow appropriate comparisons and eventual generalisations to be
made (external validity). That is why each interview conducted for the study includes a particular common set of topics or questions on which I attempted to obtain some answers. They may be presented in different order or slightly different wording, but still provide a structure for analysis. In my case, these questions relate to the four specific processes of policy organising: identifying of the (company) challenge to address, identifying possible alternative solutions and resources, engaging in organising the particular resources and assessing the impact achieved concerning the particular company challenge. The generalisations in this study occur on two levels.

Firstly, policy tendencies are generalised based on individual assistance processes. Policies are identified after assistance in several SME cases reveals a pattern. When a pattern with lack of organising is revealed in several challenge solution attempts it was taken to serve as a quite clear indication of lack of policies for those sample companies. Where some positive or negative policy adequacy indicators were revealed, I explained them as tendencies, since the number of cases was often too small to draw more determinant generalisations.

The next level of generalisation in this study refers to generalisations outside the sample SMEs. Here I was also assisted by the actor interviews revealing practices outside the sample that applies to a broader population in the Lithuanian context. From these generalisations, this study suggests further exploring possible similarities in policy structuring and especially some explanatory factors in other post-Soviet contexts, but this task is outside the scope of the study.

Reliability

The reliability or the possibility to achieve similar results of interviewing repeatedly is another issue, especially important from the positivist (and post-positivist) research perspective. To secure reliability of data—its ability to repeat same case—a systematic approach to the collection and analysis of data is necessary (Yin, 2003, p. 37). In this study, the unit of analysis is reconstructed via interviews and thus ability to recreate the case is based on their replicability. How can the way interviews were conducted for this study safeguard reliability if it is taken to mean objectivity or truth of interview responses? Can the same answers be produced once and again wherever the interviews are carried out? Here it should be noted that the interview situation is creative and the open-ended interviews should be seen as guiding, but there is a richer narrative the respondent presents from which the researcher extracted the relevant data.

The researcher’s task is to interpret, abstract the provided information, but also make it possible to verify at least part of the accounts through the same approach and techniques. In this way similar reconstructions of (at least essential parts) policy processes and assistance structures identified in this study should, in principle, be possible. Everyone who uses the same approach and methods has the chance to arrive at similar abstractions of the world, even though constructed and as a version of reality. The same processes illuminated from the perspective of SMEs and the involved different actors allow obtaining a more in-depth account and increasing the validity of the instruments used.

The interviews conducted relied on the same type of systematic data collection and analysis based on four policy organising processes (F1-F4) operationalised for each case. I perceived it as my task to give as complete and reliable picture as
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possible of the individual assistance organising processes by describing, classifying and analysing each challenge solution occasion. The interviews have been recorded and translated. Even though interviews for this study have not been tape-recorded (a conscious choice), the researcher attempted to note perceptions and experiences in highest possible detail and in the interviewee’s own words. The questions were attempted to be presented in as comprehensible way as possible, explaining or reformulating them where required.

The reliability aspect can also be defended by the fact that assistance organisation descriptions frequently resembled each other, but each case enriched it with additional aspects. Nevertheless, there were unique subjective experiences as well.

There are, however, important impediments to replicating cases. Trust in the interviewer and interview circumstances are crucial in obtaining similar answers (or any answers), especially regarding interviewee’s assessments, interpretations of policy adequacy not simple accounts of processes. Besides, part of the data may never be re-produced as it may not be remembered, not asked for (by non-structured questions) or situation might have changed and the interviewee experienced perspective has as well (the so called “hermeneutical circle”). These are rather constructivist arguments (see e.g. Holstein & Gubrium, 2002), but I consider them relevant also for the combined exploratory and explanatory study. On the other hand, it is possible that some answers will be similar, just as when people retell the same story to several persons.

The issue of objectiveness of the interview data is here deemed to be defended by the so-called locally based objectiveness criteria (Bevir & Rhodes, 2002), i.e. what is right or wrong in certain local contexts. Admittedly, no interpretations of situations recorded can reveal the whole truth, but some of them could be deemed as better in comparison with others.

Access to interview persons

To secure both method validity and data reliability in this study the creation of an open atmosphere and the establishment of a mutual trust between the respondent and the interviewer were crucial. Therefore, each interview was preceded by an introductory part where the researcher revealed her experiences and interest and the interviewee was given space to tell his/her background, provide context information of activities conducted, and ask questions. Admittedly, establishing trust and open atmosphere was a demanding task, since many interviewees, SMEs and sometimes actors, were initially hesitant and mistrustful.

Sample company owners and managers were often sceptical about their ability to influence their situation as their disappointment about external especially government assistance in solving their challenges was great. Therefore, interviewees saw little meaning (initially) in conveying their perceptions or experiences. Besides, they often feared for their identities to be revealed or that their responses would be used for other than research purposes. Some had experienced that their competitors use illegal measures to reveal their business ideas or situation. Others were suspicious of sharing their experiences due to frequent attempts by various inspecting agencies to inspect their activities. Some companies were simply tired of participating in diverse surveys and provide data
without significant positive changes in public assistance and government attention to their transition challenges.

However, the researcher succeeded in establishing trust in most initial contacts. Nevertheless, a number of companies refused to participate in the interview and additional ones had to be searched.

In sum, if the trust is not established, the reliability of interviews would be weak. If the interviewee distrusted the interviewer, he/she was not interested in providing descriptions of the process as they were actually perceived and experienced.

The trustworthiness and reliability of interviews can be defended even using the argument of their validity. Many companies had described assistance to the same type of challenge solutions by the same (type of) actors in a similar way. Besides, companies often trusted interviewer by confessing even on their sometimes illegal ways attempted to organise solutions to their challenges when actors could not help. SMEs revealed even situations of actor’s corruption thereby demonstrating confidence in the anonymity offered.

Limitations of the study

Several limitations of the study can be highlighted, namely:

- Conclusions about factors conducive to adequate policy organising in this study are primarily based on the ad hoc type of structuring and seldom policy experiences and thus lack of a more stable pattern.
- The analysed challenge solution processes structures apply primarily to the selected branch SMEs, but some of the challenges and their assistance processes can be viewed as more general.
- Problem organising processes and thus reasons for their adequacy were definitely affected by actors’ rationales, based on their perceptions and motives. This study, however, did not intend to engage in a deeper exploration of individual motives. The analysis of reasons for different rationales and what factors affects them, including institutional structures, could be fruitfully conducted with the help of, for example, theories on the actor-centered institutionalism advocated by Fritz W. Scharpf and Renate Mayntz (see Scharpf, 1997).
Part II

Part II Exploring Policies to Assist Lithuanian SMEs with Transition Challenges
6 Introduction to the SME Challenges Studied

In coping with the challenges the transition presented and to be able to survive SMEs in Lithuania had attempted various strategies to organise public and private assistance. This part of the study explores assistance policy organising roughly during the period 2000-2006, i.e. the last years of EU accession preparations and soon afterwards.

This chapter briefly introduces to the choice of the SME challenges and thus policy areas to be studied and the major analytical points in the empirical analysis. In the coming chapters 7-12, attempts will be made to reconstruct and analyse the assistance organised with some particular SME challenges by addressing the first major research question of this study: what actors when and how were capable of organising adequate policies to assist small and medium companies during the transition in Lithuania? Of major interest here is to reveal whether there evolved structured and successful assistance witnessing of adequate policies and some important conducive factors.

6.1 Sample SME Transition Period Challenges

This study looks at formal institutional adequacy in Lithuania through exploring policies that attempt to assist specific selected manufacturing SME needs. Assisting SMEs in their development, boosting their competitiveness and eliminating unnecessary hindrances was both a national and a European (EU) priority during the study period. Chapter 1 established that the ability of various actors to organise successful assistance to the identified SME needs makes an interesting case for analysing policy and institutional adequacy.

The SME interviews in this study were meant to reveal what major challenges or development impediments those companies had been coping in the recent past (during 2005-2004 and 2-4 years prior to this) and for which of them they had attempted to organise some assistance. The study examines whether the challenges were surmountable and whether some adequate assistance has been organised also in terms of policies. Here, a brief explanation is in place how and what challenges have been selected for detailed analysis.

When asked about major company development challenges company owners or managers sometimes mentioned the major challenges related to their development, such as technically reorganising production in order to increase effectiveness, development of new product or looking for new markets for increasing sales. Most often, though, the interviewees related to diverse development impediments that obstructed company development or operation: lack of suitable work force, knowledge, money, land, premises, good will from public and controlling institutions and similar. Where it is meaningful to mark the differences the study will employ both terms, but in general, the use of the “challenge” term is meant to cover both of these categories.
Sample SMEs shared many of their challenges and impediments experienced around 2000-2004. The following list indicates their frequency:

1. Lack of financial support (25 cases);
2. Manufacturing premises and related land disposal issues (16 cases, of which 7 land related);
3. Modernising of manufacturing and equipment (15 cases - 6 similar cases analysed);
4. Lack of suitable work force (13 cases);
5. Sales (local markets and exports) (13 cases);
6. Lack of knowledge (7 cases);
7. Changing of specialisation (2 cases).

Each interviewed company perceived on average 2-4 major challenges, sometimes interrelated, that they have been struggling with and in need of external (public or private) assistance. Sometimes the same company faced a similar challenge repeatedly in the course of time. Even in this small sample there were some noticeable sector differences in the types and importance of various challenges (see Appendix 3). For example, sewing industry was suffering mostly from the lack of suitable work force, while one of the major challenges for the food industry was its ability to introduce modern technical equipment and make other related changes mainly due to the food safety demands from the EU. Manufacturing premises and land was an important development impediment both for the food and wood processing industries.

Besides the mentioned challenges and impediments companies frequently complained about “structural” challenges or hindrances, such as, currency devaluation and change (the Lithuanian currency unit litas was introduced in 1993 and pegged to the US dollar, but later re-pegged to the euro), government tax policies, complicated and frequently shifting laws and the like. These types of challenges were not possible to solve by organising solutions to individual cases with the help of available intermediary actors, but they rather required macro political measures, why there were not considered in this study.

The study analysed the solution of and the provided assistance with each major challenge in the individual SME cases. The pattern of the assistance organised and, where available, the assistance structures were re-created by using snowballing technique and interviews. In more regulatory policy areas also written sources were used. This disclosed a number of particular challenge solution ways for each studied challenge. The interview method described in 5.6 was also used to identify the major factors that have halted a particular assistance organisation or, perhaps, the whole solution process.

To make the empirical material more focused only solutions to the most frequently mentioned SME challenges and impediments have been presented in the study: i) challenges in attracting needed work force; ii) problems with solving land and premise related issues; iii) difficulties with technical reorganisation; and iv) problems with overcoming financial shortages. Characteristic to some other challenges was that, regardless of their frequent occurrence among sample SMEs, there either was a lack of sufficient number of cases with solutions organised, or
solutions organised were very individual lacking some common structuring. For example, frequently at the interview occasion companies complained of still unsolved sales challenge, while at the same time solutions attempted to it, (or to lack of knowledge challenge) were very case specific.

Table 6.1 A selection of major sample SME challenges

<table>
<thead>
<tr>
<th>Name of the challenge selected for analysis</th>
<th>Nr of companies affected</th>
<th>Nr of solution cases studied</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Financial shortages</td>
<td>22</td>
<td>25</td>
</tr>
<tr>
<td>2. Modernisation of manufacturing and equipment (including externally evoked adjustment of food industry to the requirements of safe food production)</td>
<td>15 (7)</td>
<td>24 (7)</td>
</tr>
<tr>
<td>3. Attracting work force</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>4. Acquisition an use of land (and manufacturing premises)</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td>Total number of cases:</td>
<td></td>
<td>76</td>
</tr>
</tbody>
</table>

Some of the enlisted challenge categories were complex and subsumed different types of issues. Therefore, for the analytical purposes two of the challenges—land issues and technical reorganisation—were further subdivided into two specific types of challenges. Land issues were subdivided into land acquisition and land use because of the differences in their character. Technical reorganisation challenge indicated important differences in its origin for companies pursuing specific manufacturing activities. It was, therefore, subdivided into externally evoked and internally evoked challenges. Further, financial assistance has been organised differently via two major groups of actors why the same challenge is split into two types of solutions organised. The mentioned subdivisions result in 6 groups of challenges to analyse. Each challenge or the mentioned subdivisions is devoted a separate empirical chapter.

Although the number of the interviewed companies amounts to 31 the selected challenge solution organising cases (for the selected challenges) was much larger and amounted to 76. Chapters 3 and 4 explained how the extracted information was used to assess the contributions of actors and resources and, further, and how the organised assistance relates to policy organising.

In short, four major challenges have been selected for the empirical analysis: lack of finances, lack of land and premises, lack of workforce and technical reorganisation.

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35 Lack of assistance structuring or solutions organised may per se be an interesting observation and possibly a result to be further studied, but due to space limits, outside the scope of this study.
6. Introduction to the SME Challenges Studied

6.2 The Aim and Disposition of the Empirical Analysis

The empirical analysis in chapters 8 to 13 of this study focuses on selected SME challenges and company strategies for survival during the transition period. It explores whether these challenges were surmountable and how companies could be helped and, in particular, whether there were public policies to address the SME challenge related needs. The following empirical analysis is expected to provide answers to whether the studied manufacturing SMEs have enjoyed adequate assistance to help them cope with their specific transition challenges.

The study attempts to identify repeatedly successful assistance that present evidence of adequate policies. The model of analysis employed helps to identify whose policies had a positive impact on solution organising and what was the contribution of other involved actors and resources. In addition, by identifying actor contributions and relevance of the resources involved it will be possible to deem who were the most helpful policy actors—resource intermediaries and organisers.

The empirical analysis also intends to answer whether solutions to selected SME challenges have been achieved due to adequate policies or as a result of a more sporadic organising, i.e. ad hoc structuring. The study explores what actors were active in linking organising processes into a structured and patterned whole. It is possible that some challenges were satisfactorily solved in an ad hoc manner without any systematic policies.

The analysis seeks to identify especially the impact of the assistance organised on the challenge at hand, but also, where possible, identify and assess the manner in which assistance was delivered. A special attention will be given relevance of formal Lithuanian and EU programmes and instruments meant to assist Lithuanian SMEs with their development hinders and strengthen business environment.

It will also identify and explore how the mentioned three groups of factors—behavioural, structural and contextual—affect the organised assistance success and adequacy throughout the five empirical chapters. The particular challenge type or its context may provide specific variables or their combinations affecting on the organised assistance (both policy and ad hoc) success and adequacy. Each challenge solution analysis includes a search for major explanatory variables to the organised assistance and solution success or failure in the Lithuanian transition context. The unique or repeated occurrence of those factors will be compared and summarised in chapter 15.

According to the chosen bottom-up approach, the empirical policy implementation analysis should reveal the following factors affecting the success or failure of its organising processes: i) involved actors’ perception of the challenge; ii) roles of actors in organising solutions and interactions between them (assistance structure); iii) access to adequate resources; and iv) contextual factors. The first three groups of factors (i-iii) are to be seen as behavioural, until a systematic and repeated pattern, i.e. policy/assistance structure appears. When some structure is in place we can analyse its characteristics, i.e. structural variables. Ad hoc type of structuring prevents both detaining a structural pattern, but also impedes policy learning.
The conducted empirical analysis is intended to allow us to indicate the existence of adequate assistance structures and policies and some major factors conducive to such policy existence and adequacy (or failure) to the SME needs seen from the perspective of their owners or managers. The study will attempt to identify not only challenge specific explanatory variables but also those that were common for other assistance organisation processes in the studied post-Soviet transition context. Factors that the study finds of importance in explaining the assistance success and failure in each studied policy area will also be used to test the refereed theoretical implementation bottom-up assumptions.

Finally, in chapter 15, the study will summarise the analysis results and provide some conclusions on hypothesis testing and other bottom-up assertions on policy implementation for the studied transition context. Here the specific combination of major explanatory policy success and adequacy variables for the transition context will be presented and analysed, proposing in chapter 17 some pathways for further research.

Since the national and local economic development and SME strategies had assigned promotion of SME development high priority the study will explore especially the role of mandated actors and formal institutions to cope with the challenges SMEs have experienced. Of interest here is also the role of international, but also and diverse involved non-mandated actors. Before undertaking the analysis, I will briefly summarise how the relevance of various formal strategies and resources in assisting Lithuanian SMEs will be assessed.

Whether we can deem of the strategies and resources of top political and mandated administrative actors as adequate policies depend on their involvement in and especially their impact on solution organising. Lack of their positive impact indicates lack of adequate formal policies, regardless of the available official programmes and measures ascribed for this purpose. However, this fact does not necessarily imply a general lack of adequate policies, as even other actors might be capable of organising repeatedly successful assistance.

Backward mapping in implementation research implies, as was mentioned, starting at the delivery level—SMEs and local assistance actors and searching for other actors, also those at higher political-administrative levels involved. But conducting bottom-up implementation analysis implies also the need to work backwards analytically in searching for the policy implementation linkage between reported positive outcomes, and an SME assistance policy structure behind those outcomes and how it further links to the actor’s ideas or particular formal strategies.

Whenever the link between some formal strategies, policy structure and outcomes will be established we could return to our discussion on the ability of actors from formal mandated organisations to adjust their actions and resources to the transition period challenges at hand i.e. transform or create and institutions. Lack of such linkage would instead point to the inadequacy of formal strategies or inabilities of mandated actors to adequately address the particular societal needs. Where relevant, I will discuss the EU contributions in organising adequate SME assistance polices in Lithuania.

Chapter 14 is devoted to searching linkages between local organising processes and formal government strategies eventually missed out in the local policy analysis. This analysis could be seen as a response to the criticism on the weaknesses of the bottom-up approach regarding this linkage. Local SME
assistance practices will be related to the overall aspirations, concern with the challenges studied and the intended instruments of the Lithuanian government or, where relevant, also those of the EU and to assist SMEs during the transition.
7 Land Reform and its Effects on Policies for Land Related Challenges

In their search for solutions to their major challenges (such as technical reorganisation, financial shortages or others) companies of our sample often faced diverse issues that were directly related to solving those challenges. If unsolved, they impeded the solution of the challenge at hand and SMEs sometimes perceived such impediments as equally or even more challenging. One of those repeatedly occurring impediments to solution were several types of land issues.

Land related issues have been an important impediment not only to our sample companies, but to SME development in Lithuania in general. These issues related mainly to either land acquisition or use for manufacturing. Land property, for example, could be needed as a mortgage for bank loans or expanding companies’ manufacturing premises.

It would be difficult though to study assistance organised to these impediments without introducing the background to the challenge, that is not only transition specific, but also has features characteristic especially to the Lithuanian context. Here we will address some background information to why land issues gained such an importance for Lithuanian SMEs.

Land issue not only directly and significantly affected companies from manufacturing and other sectors (especially commerce), but also the majority of Lithuanian inhabitants. Access to land has historically been an important factor of individual survival and success. Also in a market transition land is an essential asset and access to it normally is treated as important for the transition success. Assistance organised to manufacturing SMEs with the land related impediments is therefore representative of how a country is dealing with transition period needs.

7.1 Land Reform and its Effects on Land Related Issue Solutions

Analysis of solution organising to land related issues in Lithuania is inseparable from its specific contexts—the land reform and restitution of land property rights. The ongoing and protracted land reform was characteristic for the whole study period with a significant negative effect on issues related to land use or acquisition. The situation with land reform in Lithuania, therefore, deserves to be briefly accounted for here both as a background and a partial explanation to the solution of and assistance with land related issues.

The land reform in the independent Lithuania in early 1990s was necessitated by the fact that much of real property and, especially, land had been previously taken over by the Soviet government. The situation with real property rights had to be remedied and this included a need for land reform. The land reform process in Lithuania has started soon after the restoration of independence on March 11, 1990 by the adoption of two important laws in 1991—the Law on the Procedures and
Conditions of the Restoration of the Rights of Ownership to the Existing Real Property and the Law on Land Reform.36

Legal and political interpretation of land property rights restitution in Lithuania was based on following ideas:

1) That Soviet occupation has nationalized all land property, and thus all land after the independence restoration was in the disposition of the Government of the Lithuanian Republic;

2) That, at the start of the reform, all land belonged to the state until it restored property rights to the legal previous owners of land.

In addition, this land reform was specific in that it allowed for the creation of new land owners by, for example, granting land plots to diverse prominent political and other figures of Lithuania even in places where there were legitimate claimants and which were subject to restored land ownership or kinship rights (Jurgelevičius, 2006). Reform also allowed “lifting out” or transferring land property rights from one district to another. At the start of the reform in major towns and cities, Lithuanian land property rights have not been restored to the owners to the whole land plot. Financial compensations were offered to those claimants that could not be offered all land plots in kind much later and at much lower than market prices (decided by the Lithuanian government) (ibid.). All these factors resulted in large problems with the use of land for both individuals and companies.

Soon after the initiation of the reform several Parliament members addressed the Constitutional Court of the Republic of Lithuania with serious objections against its unjust principles (ibid.). The Court recognised the claims as legitimate (Constitutional Court of Lithuania, January 1- July 1 1994). and, as a result of that, the Lithuanian government made important amendments in the guiding laws that revised the process of the land reform and restitution of property rights. The amendments had foremost to do with the recognition of rights to land to its lawful owners in the territories of larger Lithuanian towns and cities were until then many hinders were raised to regain rights to the entire land plots. In general, the laws and acts constituting the legal basis of land reform in Lithuania have been amended many times changing the direction and contents of the reform (Vilpišauskas, 2006). Urban planning specialists expressed many complaints about the situation. Those law amendments “basically changed the direction of the reform. It had turned the whole land reform process (at least in towns and cities) up and down again. We had to start from zero again.”37

For these and similar reasons pertaining specifically to transition period the land reform process became very protracted, unjust and open for corruption (Vilpišauskas, 2006). Lawful owners had to wait for years, often more than a decade (!), until their rights to land were restored. Without property documents legitimate claimants were prevented from using or selling the land. From the start of land reform in 1990-91 until the deadlines of applications in 2001 35,000 claims of land right restitution have been presented in Lithuania, of these 15 000 in Kaunas (Stanišauskas, 2005). As a result of the chosen land reform and property rights restitution strategy with possibilities to transfer rights to land to other than original territories local and regional governments in Lithuania faced the problem

36 Source: Official Gazette Valstybės žinios, 2001 No.34-621
37 Interview with a representative from Kaunas city municipality.
with the lack of “free” land plots to be returned. In major Lithuanian cities Vilnius and Kaunas the number of applications for restoring land property rights was much higher than there were free land plots for. A public servant at Kaunas local government complained: “In Kaunas city situation is extreme, due to its history as a provisional capital of Lithuania due to which there are fewer free (non-urbanised) land plots and more applicants than for ex. in Vilnius.” \(^{38}\) In Kaunas county almost 6,500 applications for restoring rights to land plots remained unattended as of July 2005, and the situation has not changed much by April 2007. Only about 21 per cent of all applications have been managed. About 5,000 remaining applicants had no chance of ever regaining their land plots in Kaunas County. Especially complicated situation was in Kaunas city (the second largest city in Lithuania) where, ca 4,700 of claimants to land right restitution were to remain without land (Kasperavičienė, 2006). Kaunas County Governor has expressed his worries in the local newspaper about the situation and the need to establish other forms of compensation for land. By mid-2005 only 21% of applications for land right restoration have been resolved (Kasperavičienė, 2005).

However, the intended compensations were many times lower their market value and thus extremely unpopular among applicants (Stanišauskas, 2007).

The lengthy land reform process (ca 15 years) has not yet been completed by the end of the study period and considerable number of people was still waiting for their land ownership rights to be restored.\(^ {39}\) The national government had declared that reform was to be finished at the end of 2007. Interestingly, by its contents and duration Lithuanian land reform and restitution to real property rights differed from that in all the neighbouring countries (Poland, Latvia, Estonia and others).\(^ {40}\)

Alongside with land reform, the process of new territorial planning was initiated by the national government. The process was of utmost importance for SMEs as it defined whether and how their possessed (or hired) land could be used for manufacturing purposes. Below, I present a brief introduction of the land use issue.

### 7.2 Territorial Planning and Ways of Land Use

Planning and usage of particular land plots in Lithuania according to the legal acts valid during 2000-2006 was defined in the process of territorial planning. According to the laws, territorial planning and use of land plots was to be organised on three levels in Lithuania—national, regional and municipal. All those levels of government were responsible of preparing their own territorial development plans. Territorial planning process was supposed to proceed top-down in the sense that national plans were expected to be prepared before the regional ones and those before the local plans. Major land use purpose of particular territories or land plots was defined in those territorial planning documents.

The figure 7.2 shows the major land use purposes ascribed to the land plots during the process of territorial planning:

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\(^{38}\) Ibid.

\(^{39}\) Interview with an urban planning specialist at Kaunas city municipality. See also Kasperavičienė (2007) and Kasperavičienė (2005).

\(^{40}\) Interview with an urban planning specialist at Kaunas city municipality.
7. Land Reform and its Effects on Land Related Issue Solutions

Figure 7.1 Classification of land use purpose and manner in Lithuania

![Diagram showing purposes and manners of land use](source)


Land in Lithuania could be ascribed 5 major purposes of usage (“pagrindinis tikslas”): forest, conservational, agricultural, water body and other. Within this last category there were 10 manners (“būdas”) of land usage (among them commercial and industrial, infrastructural, recreational, residential and other), and each land plot or planned territory was defined one concrete manner. Companies that disposed of land ascribed “other” purpose of usage were not necessarily allowed to use it for industrial purposes as it might be ascribed some other manner of usage according to the valid subdivision. We will not consider in more detail here the contents of these reforms, but will be primarily concerned of what effects they brought on business development.

The protracted land reform and the process of restoring property rights had negatively affected and raised concerns of many physical and juridical persons: previous land owners, their descendents, companies and local governments. In this empirical analysis we are concerned with what effects the uncompleted restoration of land property rights bring on business development and, especially, manufacturing SMEs.

7.3 Some Effects of the Land Reform for SMEs

The specific land reform road in Lithuania has led to numerous problems that as well affected small and medium-sized manufacturing businesses both during the study period 2000-2006 and earlier. For businesses this unfinished restoration of ownership rights to land (and other real property) has obliterated such processes as: land rental, land acquisition, use of land for company business activities, reconstructions of used or constructions of new (manufacturing) premises. More specifically, the effects of the land reform and territorial planning have resulted in several major challenges for SMEs:

a) Difficulties to use the possessed land for manufacturing activities;
b) Lack of land plots for manufacturing;

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41 See e.g. LR Žemės įstatymas (“Law on Land”), 1994.
c) Difficulties and costs related to changing land use purpose;

d) Expensive manufacturing land.

As to the first issue (a), owners of forest or agricultural land were prevented from using their land plots for other purposes than ascribed in the territorial planning documents. These ascribed land use purposes mainly corresponded with Soviet or even pre-Soviet land or building use purposes and poorly fit modern business realities. Lithuanian citizens have been prevented from using larger parts of their land during the Soviet occupation 1940-1990. In 1991 Government of the independent Lithuania initiated land reform and restitution of real property rights. Land was to be returned not necessarily to its previous owners but to those that the government accepted as legitimate claimants (Jurgelevičius, 2006). Besides, the land was to be returned in accordance with specific land use prescriptions. Assigning particular land use purpose to land plots mostly rested on its borders in pre-Soviet, but usage in Soviet times. Most of the land plots returned to owners in rural areas or in areas that have been annexed to the city territories in 1995 have therefore been ascribed agricultural purpose. In land plots with remaining buildings land use purpose have been assigned in accordance to the use purpose of those buildings, regardless of when they were built. It created a situation with overflow of land plots suited for agricultural activities.

Secondly, legal claimants to restoration of land ownership rights outraged in numbers the available (or yet to be formed) free land plots. The situation with land reform has extremely diminished the supply of land plots that manufacturing SMEs and other economic actors in Lithuania were in such great demand for.

In both Kaunas city and district (as in the rest of Lithuania) during the period 2000-2006 most of the usable land had been ascribed agricultural purpose of use basically not allowing manufacturing or commercial activities. In Kaunas city municipality most of the land had until 1995 been of so-called “other” major purpose of usage (i.e. non agricultural, non forest or non conservational purpose). However, the situation got more complicated after 1995 when by a government decree new district areas were attached to Kaunas city territory (as well as to 7 other largest Lithuanian cities). Those attached from district territories had mostly agricultural land use purpose. In short, the way land reform was designed and implemented resulted—as the situation both in Kaunas city and district municipality illustrates— in lack of land suitable for manufacturing or other business activities (e.g. commerce). Out of that follows the next challenge— difficulties in changing ascribed land use purpose.

Thirdly, acquiring land did not necessarily mean that companies will be able to use it for their business purposes. The land plots in companies’ disposition had to fit the ascribed or in the territorial planning documents intended for that land purpose of usage. Manufacturing companies had to, therefore, often engage in the procedures attempting to change the ascribed land use purpose to fit their

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manufacturing activities.\textsuperscript{43} This has contributed a lot to the unpopularity of “agricultural” land plots against those with “other” e.g. industrial or commercial purposes.

And finally, costs for changing land use purpose, where it was at all possible, and costs for insecurity in that had increased prices for the land (or premises) attractive for industrial and other business activities several times, making it another development impediment for SMEs.

Real estate market specialists and those in construction business as well complained about the abnormal situation with large areas of land ascribed for agricultural activities in Lithuanian cities and the resulting lack of free commercial, housing and manufacturing land plots for sale or rental (Lithuanian Confederation of Industrialists, 2006). Large private construction and real estate businesses were intensively chasing free land in the cities for constructions thereby competing alongside private land right claimants and manufacturers. The stronger parties sometimes achieved better success as there was evidence indicating changes in land use purpose in territorial planning documents of Kaunas city from industrial to housing purpose of usage (Tvirbutas, 2006). This shortage of industrial land has resulted in very high prices of manufacturing land and new industrial and commercial buildings making them seldom affordable to small and medium business owners. As a result of that, it has for a long time been rather difficult both to purchase and rent manufacturing land, especially in Kaunas city territory.

The problems complicated even procedures for acquiring building permissions, but this issue will not be analysed here in detail due to the shortage of empirical material.

\textsuperscript{43} Change of land use purpose had to be conducted formally in accordance with important territorial planning documents. See the discussion in chapter 9.
8 Purchasing or Hiring Land for Manufacturing Purposes

8.1 The Challenge—Land Related Issues

Sample SMEs specifically pointed out that land related issues were challenging and difficult to solve. Acquiring manufacturing land, establishing rights to the land in use or receiving permissions to use it for manufacturing activities were the major challenges our SMEs identified. In total, 9 cases (8 companies) identified land-related issues and associated attempted solutions as very challenging among our sample SMEs.44 Those issues could further be subdivided into several minor topics—land acquisition or use problems. This relatively low number of cases and their diversity should therefore be taken as demonstrative in organising SME challenge solutions. However, we will still argue of its importance here as together with the recorded involved actor experiences they serve to illuminate one of the most difficultly solvable SME development impediments—land related issues.

Land ownership and use issues were often tightly linked to technical reorganisation challenge or companies’ abilities to acquire financial assistance. In such cases lack of solutions to land related issues was a frequent impediment to solving other challenges (constructing or enlarging manufacturing premises or acquiring bank loans). Land ownership was useful as a mortgage for increasing chances of successful financial assistance from banks or other potential financers. Established land property rights under manufacturing buildings, for example, considerably increased their value which was very important for a company in need of a larger loan sum. Some companies in need of expanding or constructing new manufacturing premises experienced shortage of land as challenging. Another crucial issue for sample companies was their inability to use the possessed land or buildings on it for the manufacturing purposes.

Our sample SMEs were affected by the following land related issues: i) shortages of land to be used for industrial and commercial purposes (6 cases45); ii) problems with acquiring used land from public or private owners related to the unfinished land reform (4 cases46); iii) great difficulties in using land for manufacturing purposes (5 cases47); iv) building permission procedures (2 cases48).

In general, for sample SMEs, some of the most challenging were land issues related to acquiring (via purchasing or hiring) land and changing land use purpose to meet companies’ needs or acquiring building permissions. Those land-related issues were common not only to some of the interviewed companies, but according to other sources (The World Bank, 2005), for a large number of SMEs in Lithuania. Their frequency and importance signal the need of adequate public policies.

44 In this study: 5c, 11c, 13c, 2d, 4d, 7d, 8dA, 8dB, 15d.
45 Interviews with companies: (cases) 5c, 2d, 4d, 7d, 8dA, 15d.
46 Interviews with companies: (cases) 7d, 8dA, 8dB, 15d.
47 Interviews with companies: (cases) 5c, 2d, 4d, 8dA, 15d
48 Interviews with companies: (cases) 11c, 13c.
8. Purchasing or Hiring Land for Manufacturing Purposes

The very fact that SMEs of our study had mentioned land related matters among their major challenges indicates difficulties in solving them. The land issues affecting Lithuanian manufacturing SMEs are further subdivided into two major topics: land acquisition and land use. Regardless of their interrelation, the assistance analysis is conducted in two separate chapters (the present chapter and chapter 9) for the purposes of simplification and for an easier overview. Besides, they represent different processes of assistance organisation.

The present chapter explores the assistance organised to SMEs with acquisition of land for manufacturing by purchasing or hiring it. Companies faced two basic types of problematic situations related to purchasing or hiring land for manufacturing purposes. Some companies were looking to purchase or hire free land without any buildings on it while others were interested in establishing rights to the land under their (possessed or hired) manufacturing building, the so-called “used land”. I will firstly present SME possibilities to acquire free land and then, the land under company’s buildings.

8.2 Solutions and Assistance for Acquiring Free Land

All land in Lithuania was ascribed 5 purposes of usage—agricultural, conservational, forest, water body and other. Under “other” purposes followed several more detailed land use mode classifications among them residential, recreational, commercial and industrial. Most land in Lithuania and Kaunas region was ascribed an agricultural purpose, except for city centres, which was classified as “other” purpose. This other purpose of land usage did not necessarily allow industrial or commercial activities; it could be devoted to recreation, urban development or something else. Thus, manufacturing companies when searching for free land could choose between two alternatives:

a) to directly look for land with ascribed “other” purpose allowing industrial activities, or
b) search for land plots with no planned industrial activities (e.g. residential and agricultural) with the intention to apply for changing its status into the desired one.

Actors addressed for assistance with acquiring land differed in city and rural (district) municipalities as the process was differently regulated by laws and organised in practice. Land reform and related land issues were handled by the regional level—County Governor’s Administration (CGA), a regional administrative level of central government. For that purpose CGA in Kaunas had established the regional Land Use Department with local offices in Kaunas city and district and even in small neighbourhoods (“seniūnijos”). Territorial planning issues were most relevant for urban municipalities who had their own urban planning specialists. In the city municipality companies primarily approached municipal urban planners or specialists from territorial land use departments while

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50 Interview with a representative from Kaunas city municipality.
in district municipality they contacted the local (non municipal) land use specialists.

There were several legally outlined possibilities to acquire land plots and thus assistance alternatives:

1) specially formed new free land plots (with no buildings) in state or municipal disposition—via auctions;
2) land plots returned to private owners willing to sell them;
3) free smaller neighbouring land plots which remained unused when forming surrounding land plots. Those land plots might, in some cases, be purchased by neighbouring companies without auctions.

Below, I will account for which of these alternatives have been available to SMEs and how they have been organised in practice.

**Assistance with free land plots for manufacturing activities**

We will start with assistance available during the period 2000–2006 for acquiring land aimed for industrial activities (alternative a). A national government decree in 1999\(^5\) outlined the responsibilities of municipal governments to form land plots aimed for commercial or industrial purposes for rental or sale (basically via auctions) legally making it an alternative solution to companies in need of land. The situation with acquisition of free land for industrial purposes in **Kaunas city** territory differed from that in rural areas such as **Kaunas district** municipality.\(^5\)

The responsibility for providing such plots rested on either municipal boards or the CGA (depending on which of these who disposed of the land). The practical planning of such plots in the city municipalities was done by municipal urban planning specialists, and by land use specialist in the district municipality. Land rental or purchasing applications were handled in to local land use departments. Rental or sale of free land plots was, according to the laws, to be organised through auctions.

In practice, though, the situation differed significantly from the legal prescriptions. Whenever companies approached municipalities or the CGA they received the same negative answer. In Kaunas city urban planners responsible for forming such new land plots had not been able to provide them neither for sale nor rental during the whole study period 2000 – 2006. “You can say that there are, in principle, no such seriously free land plots for sale or rental in city municipality.”\(^5\) Companies were sometimes interested in purchasing instead of hiring land. However, in Kaunas city, no free land plots had been available for rental for the same reasons as for sale. “There has not been a single auction organised for sale or rental of free land plots in Kaunas since 2000.”\(^5\) The only

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\(^5\) I refer primarily to a decision by The Government of Lithuania from 1999 to provide new land plots ascribed other than agricultural use purposes for rental or sale. Lietuvos respublikos vyriausybė (1999b). Dėl Naujų Valstybinės Žemės sklypų pardavimo ir nuomos ne žemes ūkio paskirtčiai (veiklai) (The Lithuanian Government decree: “Regarding Sales and Rental of New State Owned Land Lots for Non-agricultural Activities”).

\(^5\) Interview with a specialist from Kaunas city municipality.

\(^5\) Interview with a specialist of Kaunas County Governor’s Administration.
alternative urban specialists could offer were referring companies to look for privately solved land.

One of the main impediments for the inability to form free land plots for manufacturing, commercial and similar activities was, in the words of the same specialist, “the never ending land reform, due to which not all the returnable land plots were formed and returned.”\(^55\) Interestingly, Deputy Mayor of Kaunas city in 2006 had noted that the city held considerable unused industrial land in the industrial districts of Kaunas, and municipal administration used to receive requests from various businessmen to allow changing its purpose of usage. Due to the lack of residential premises and land, real estate companies were interested in all kinds of available land plots for residential constructions which also diminished SME access to land. Besides, in lack of land legitimate claimants to restore their rights to land had pretensions to municipal land plots (Tvirbutas, 2006).

Just as in Kaunas city, supply of free land plots still in disposition of state (CGA or district municipality) in the rural areas of Kaunas district was nearly non-existent.

> “Until the land reform is not completed we had no such thing as selling out free land for industrial or commercial purposes. Besides, companies are mostly interested in purchasing larger land plots and are not interested in small ones. However, there are no larger plots planned and prepared for sale.”\(^56\)

Yet, the situation with rental and sale of free land plots was somewhat different in Kaunas district. The Government decree from 1999 states that newly formed land plots can be lend or sold in an auction after they had been formed and registered. From around year 2000 district municipality together with local land use specialists had started organising auctions for sale or rental of free non-agricultural land plots for which there were no claimants. District land use specialists, however, could only form and offer smaller plots located in areas rather unattractive for businesses.\(^57\) Purchasing free land plots via auctions had been seldom practiced by the companies even due to very inflated prices. Land use specialists normally advised companies to look for free land with private owners instead. Afterwards, in the middle of 2004, due to the changes in the direction of land reform and territorial planning land sales in the district were stopped until the land reform was finished.\(^58\)

Besides, land use specialists described the situation with acquiring land via auctions as sufficiently complicated and time demanding. Why was this process so complicated? “Partly because the land plot has to be formed, cadastral measurements executed, a detailed plan for it prepared and confirmed with the involved institutions (read mandated organisations/agencies) to fulfil their stated conditions.”\(^59\)

When a company was interested in hiring a land plot, it had to firstly ask district specialists for assistance in defining the size of the plot and its purpose of usage. As district land use specialists normally planned the usage of land in larger

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\(^{55}\) Ibid.

\(^{56}\) Interview with land use specialist in Kaunas district.

\(^{57}\) Ibid.

\(^{58}\) Ibid.

\(^{59}\) Ibid.
territories companies had to apply to include the individual land plots in those larger cadastral territory plans. In this way, purpose of usage and other information of the land plot were defined and it served as the guiding document for renting the land. Decisions on the rental of land for longer than 3 years period had to be approved by the County Governor (Lietuvos Respublikos Vyriausybė, 1999b).

The interviewed land use specialist in Kaunas district insisted that under the prevalent conditions, leasing of land in state possession was not popular among companies. “We had only about six cases from 2000 to April 2007 with rental of such land plots in state disposition, and even these were very small ones (of 3-4 acres) formed for exploitation of upcoming premises.”

Most importantly, though, hiring land from the state until the land reform was finished implied great risks for companies as there was always a possibility of claimants to be granted rights to that land plot and impose their own rent and conditions on the companies. Sale of state owned land was conducted on a very small scale in the whole Lithuania. By mid-2004 only 32 state land sale contracts had been signed in the whole Lithuania.

Lack of free land plots both in city and district municipalities was caused by the unfinished restoration of land ownership rights. The same decision by Lithuanian government from 1999 (Lietuvos Respublikos Vyriausybė, 1999b) that ascribed municipalities the responsibility for forming new land plots for rental and sale prohibited their formation in cases where the land was subject to property right restitution claims. The restitution process has not been finished by the end of the study, and especially problematic situations occurred in the city where there were more claimants to restitutions of rights to land than available land plots. In Kaunas city, the municipal government itself was dissatisfied with the situation as it lacked free land plots for planning city infrastructure.

Some of the reasons for lack of free land plots in Kaunas district municipality were quite different from those concerning the city and were related to the lack of the so-called General Territorial Plan (GTP) according to which land plots could be formed and their specific use (manner) defined. Without such general plan it was very difficult to see what free land suitable for industrial activities was available and that complicated formation of new land plots. In mid-2004 changes in the Law on Territorial Planning (LR Teritorinio planavimo įstatymas, 2004) prohibited detailed planning or changes in land use where the GTP was lacking. This had stopped the formation of new land plots in the district municipality. Such a lack of commercial and industrial land extremely inflated the land prices making it hardly affordable for SMEs. This implies that companies interested in purchasing free land plots could seldom be provided satisfactory land solution alternatives.

Could companies expect a more prospective solution to formation of new land plots after finishing the land reform? An account of the situation by the Seimas (Lithuanian Parliament) ombudsmen reveals that already in 2006 there was, in

60 Interview with land use specialist in Kaunas district.
62 Later, in 2002 this regulation has been changed to allow the so-called “state land leasing contracts” (until the land is returned to its legitimate owner). This, however, did not change the situation with the availability of free land plots for sale or rental.
63 Interview with an urban planning specialist.
principle, no free land left in Kaunas and other larger city municipalities while there still remained legitimate claimants to restoration of land property rights (Zinkeviciene, 2005). The situation was with some exceptions quite similar in district municipality.

To conclude, free land plots aimed for manufacturing or commercial purposes were scarcely formed in Kaunas city or the district municipality. Hiring land via auctions was a possibility only in the district but this was seldom used by companies both due to the insecurities created by the unfinished land rights restoration and unattractiveness of offered plots. Only in few cases where companies already had some buildings or planned a construction were they interested in hiring small plots of land. Therefore, purchasing free industrial land via auctions was the least realistic way for SMEs to acquire land during the whole study period. In policy analytical terms the formal structuring to assist SMEs purchase free manufacturing land was either non-existent or risky and unattractive.

**Assistance with free neighbouring land plots**

As an additional solution alternative, the municipalities or CGA land use specialists could sometimes offer the land plots in-between already formed plots returned or returnable to private owners. This concept of land spaces “in-between” neighbouring land plots was introduced by a government decree in 1999 (Lietuvos Respublikos Vyriausybė, 1999b). The concept applied to sufficiently large independent land plots that, according to the valid laws, could not be used (due to their size and form) in formation of free independent land pots for restoration of rights to land or sale via auctions. Municipal governments (or state) could sell such land spaces (without auctions) either to neighbouring companies that possessed buildings or hired land from state or to a claimant for restoration of land ownership rights. Situations like that had occurred both in the city and district municipalities. However, they were problematic due to the fact that frequently there were several claimants to such a free neighbouring land plot. Land spaces in-between ordinary land plots might be available to:

a) previous land property owner in same place;

b) land property owner transferring his/her rights from other place (not practiced in the city64);

c) neighbouring land owner or user.

One of the problems with the situation was that, as the interviewed urban planning and land use specialists indicated, until the land reform was finished there remained many claimants to any free land plots in municipality areas even such free spaces in-between ordinary land plots. This situation was caused by a clause in land reform and restitution of property rights to real estate legislation that allowed claimants to transfer their rights to land property from one geographic area to another (with some restrictions). The transfer of land (under certain conditions) was allowed for parts or entire land plot. It was very popular to transfer land rights especially to larger city districts like Kaunas. The transfer of rights to land in such

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64 According to the interviewed land use specialist at the Kaunas County Governor’s administration.
land plots was, though, mainly allowed in districts and not cities. Apart from such claimants a neighbouring company (or other neighbouring physical or juridical person) could also claim rights to that land plot. Access to communication and infrastructure lines was a major reason for companies claiming rights to such land plots (Lietuvos Respublikos Vyriausybė, 1999 b).

In practice such conflict-loaded situations were solved somewhat differently in city and district municipalities. This dissimilarity was caused partly by legal regulations and the variations in how responsible city and district specialists interpreted their discretion in the decision situation. Even though land transfer was not allowed in cities, greater attractiveness of land induced more conflict situations in the city, where there were more claimants and, therefore, different decision interpretations. The final decision as to whom such free land spaces were to be sold rested upon the municipal urban planning specialists in city and land use specialists in district municipalities. The decisions had to be approved by the City Boards or mayors and the Governor.

The conflict situations occurred not only because there were many claimants to such plots, but also due to the frequent abuses of land rights by those allowed to purchase the land plots. When the lot for acquiring such small neighbouring plots fell to some land owner and not a company often he used his ownership rights to intentionally cut the neighbouring company from important communications and infrastructure. Companies were finally forced to pay large amounts of money to buy up such strategically important land plots as they often border important communication lines or other infrastructure. The interviewed municipal urban planning specialist recalled many such conflict loaded cases.

The situation became even more complicated as, according to the urban planners, the laws allowed several possible solutions and the final decision was left upon the municipal urban planners. The responsible specialists were frustrated by the situations when such decision freedom was to be applied to the reality with several conflicting parts and no clear guidance. As a result of that, experts witnessed many conflict situations where they were blamed for the outcomes whatever decisions they made: “Everything is left to the interpretation of specialists and whatever they do they will always be blamed for wrongdoing.” The urban planners had encountered similar situation with a number of laws and legal acts: “Those creating laws cannot realise what real life situations they should handle and how to apply them in practice.”

In Kaunas district municipality all the three groups of claimants were viewed as legitimate, but differently prioritized. The first priority was given to the claimant for restitution of land property rights. Only in cases where there were no such claimants priority to purchase the free land plots could be given a neighbouring company or a private person. In cases where the land plots were smaller than 4 acres, an ordinary free land plot could not be formed for restitution of land rights and, thus, was available for the neighbours. If there were several neighbouring land plots all of the owners had the right to a part of this free plot. Therefore, an

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65 Interview with an urban planning specialist.
66 Interview with an urban planning specialist.
67 Ibid.
68 Ibid.
agreement was to be made in-between them who were to buy the land or that it eventually could be shared.

What conclusion could be drawn about this alternative to assist companies in lack of more land? As certain decision discretion was left with local land use or urban planning specialists, it can be seen as an opening, especially in the city, for a solution in favour of the company, under the condition that it neighboured the remaining land plot. At the same time, such assistance was unavailable to other companies, unless their owners were legitimate claimants to restoration of land rights. Besides, even such land could be ascribed the “wrong” purpose of usage. On the other hand, the national government pressure upon city municipalities to provide as many land plots for restoration of ownership rights as possible greatly diminished their possibilities to take companies’ needs into account.

In short, the formally institutionalised solution was extremely seldom available to limited number of concerned SMEs. Besides, lack of formal guidance and granted discretion to interpret the laws was burdensome for mandated local assistance actors due to the scarcity of land and their inability to satisfy other need groups. For the same reason when available such solutions were often problematic for SMEs due to their conflict loaded manner.

Solutions and assistance with privately sold land

An interested company could also look for privately sold land by itself or via private Real Estate Agencies (REA). However, land that could be used for manufacturing or commercial purposes was very scarce, both in district and in the city and, therefore, very expensive. Purposes for which the land may be used were defined in the process of territorial planning in accordance with some guiding laws. In many cases companies were, therefore, obliged to purchase a more easily available land of agricultural (or other) purpose and attempt to change it into one allowing their manufacturing activities (see chapter 9). Nevertheless, even this solution alternative was obstructed by the protracted land reform, as discussed earlier. A considerable number of land claimants had not yet at the end of the study period regained their land thereby diminishing number of plots available for sale or rental and considerably increasing their prices. For many claimants the restoration of rights to land process took very long time, sometimes more than 10-15 years.69

Still, purchasing land from private owners that have already restored their rights to the land was the easiest available alternative to SMEs. However, even this solution encountered some hinders. After having established his rights to the land plot, the owner could not yet use it before the cadastral measurements of its borders with marking lines and a detailed plan of its use had been prepared. Some owners ignored these procedures and managed to sell land plots without the proper land use documents. In such cases, companies purchasing land had to engage specialists for measuring land and making the detailed plans of intended land

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usage. These processes required time and resources. In any case it implied increased land use costs and delayed its usage.

Could this alternative, purchasing land for manufacturing purposes be treated as an optimal solution? It was rather the easiest available alternative. However, two major factors could be treated as hinders in this solution for the manufacturing SMEs in Kaunas district. Firstly, companies were often interested in larger land plots for their manufacturing activities or warehouses, but private owners, especially in cities, rarely had such large land plots available. And secondly, there were very few land plots available from private owners suitable for manufacturing or other business activities.

Could companies somehow solve the lack of land issue by purchasing land plots ascribed other major purpose or manner of use? According to the Lithuanian laws, land was to be used only according to its major use purpose and manner ascribed in territorial planning documents. In cases where a company has acquired agricultural land, it might conduct some other activities, but at least 50% of its revenue had to come from agricultural activities. This is nearly impossible for manufacturing industry companies. The only possible solution after having acquired agricultural or other non manufacturing land was to initiate the process of changing land use purpose. Nevertheless, purchasing non industrial land was the a partial solution alternative for our sample companies (3 cases looking for free land, but they had to later apply for changing land use purpose to manufacturing (positive, but partial assistance impact B in table 8.1)

In conclusion, the easiest and sometimes the only available alternative for acquiring free land was purchasing land plots ascribed other than agricultural type of usage from owners without assistance from externally mandated actors. However, often it required long and resource demanding procedures for attempting to change land use purpose into the one that fit company’s activities with not always positive outcomes.

8.3 Conclusions on Attempted Assistance Impact and Results

Having outlined manufacturing SME’s access to free land and the assistance available in Kaunas city and district municipalities, it is now time to raise the major question: what impact did the assistance organised have on sample and population SME’s ability to achieve a positive solution to lack of land? In other words, what assistance in solving the discussed land issues worked best for the SMEs and could it provide evidence for adequate and successful SME assistance policies?

Both the sample and population SMEs had three alternatives to purchase or hire free land: i) free specially formed municipal land plots, ii) remaining (neighbouring) plots in-between those already formed, and iii) free private land. Solutions to the first two alternatives could only be solved with the assistance from local governments and especially mandated public land use or urban planning specialists (the formal way). Actors and assistance possibilities differed somewhat in the city and district. Local actors—municipal councils with the help of urban planning specialists.

70 Interview with an urban planning specialist.
71 Interviews with district companies 2d, 4d, 7d.
planners or CGA via local Territorial Land Use Departments—were mandated by the Territorial Planning Law to provide new land plots for sale or rental.

However, in practice sample SMEs did not make use of the free municipal land plots offered. Furthermore, Kaunas city could not even offer this alternative during the study period, while the land plots in Kaunas district, provided by land use specialists were too few and unattractive for most of manufacturing SMEs of our population. While purchasing or leasing new land lot in Kaunas district municipality disposition via auctions was rare, but not impossible, still the auctions significantly inflated the prices. Besides, purchasing or renting land via auctions took much time due to complicated detailed planning procedures. Besides, after amendments in the Territorial Planning Law in May 2004 detailed planning (or changes in land use purpose) in Kaunas district municipality without a municipal GTP has been halted severely limiting possibilities to plan land plots for rental or sale. This was a problem pertaining to a large number of Lithuanian municipalities.72

Only in some exceptional cases had the urban planners been able to offer some population SMEs other alternative—small neighbouring plots, but they were seldom suitable for manufacturing activities. Indeed, those rare occasions when neighbouring plots could be purchased by the companies were context-specific and, therefore, only applicable to companies in very similar situations. Therefore, very few population companies could make use of these two solution alternatives, and none of our sample ones.

Private real estate agencies (REA) have been approached by some sample companies as well, but with no greater success as they had not much to offer (and at a reasonable for SMEs price). In fact, the solution most often practiced among both sample and population companies was purchasing of land from private owners.73 Searching for solutions to acquire free land for manufacturing often rested on the shoulders of the company managers or owners themselves (both in our sample cases and regarding the larger population) and therefore entailed self-organising processes, as a result of which they tended to rely on solutions via private persons (table 8.1).

The table below summarises the type of sample SME addressed assistance actor structures (and ad hoc structuring) and their impact on solving free land acquisition needs. The impact has been grouped into tree types: positive and sufficient for the challenge solution (A), positive, but only partially solving the challenge (B) and lack of positive impact (C). Satisfactory or positive solution (value A in the table) implies a solution to the challenge that the interview person, especially SME, is pleased with. Partial solution (B) may imply a solution that is leading towards satisfactory solution or provides opportunities for it, as well as a solution that is the company can live with for a short time, but that actually demands additional measures for a better or complementary solution to the challenge. No solution (C) – stands for cases with no satisfactory for IP solution to the relevant challenge or that

72 The situation was highlighted in a report of National Audit Office of the Republic of Lithuania, Valsių kontrolė (2007).
73 See cases 2d, 4d. Land has been purchased from private persons in several other cases, but the owners did not necessarily indicate search for the land as a problematic issue and therefore I did not include such cases in the analysis.
the solution is not achieved yet but is probably under way. Same impact variable values will be used throughout the thesis.

Sample SME cases are indicated in the brackets beside the impact values. Only two types of actor groups were addressed and involved—either mandated district or city municipal specialists or private actors. The only positive impact was provided by diverse private land owners which indicates an *ad hoc* assistance structuring.

Table 8.1 Impact of assistance with acquiring free land

<table>
<thead>
<tr>
<th>Actor types</th>
<th>Municipal land</th>
<th>Neighbouring land</th>
<th>Private land</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mandated actors</td>
<td>C</td>
<td>C</td>
<td></td>
</tr>
<tr>
<td>Private actors</td>
<td>A/B <em>ad hoc</em> (3 cases)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Explanations:

- **A**- Sufficient positive impact (solution)
- **B**- Positive partial impact (partial solution)
- **C**- No positive impact

In sum, the mandated public sector actors (municipalities, private real estate agencies or, even less, municipal real estate agency) could seldom offer manufacturing SMEs assistance with free land and the assistance offered was of little (if any) help. As a result, none of the sample SMEs and very few companies in the studied population had used public actor offers of free land rental or sale, even though they had looked for various solutions. The easiest available alternative for acquiring free land was purchasing land plots ascribed other than agricultural type of usage from owners without assistance from external actors. However, private land fit for industrial activities was very scarce and expensive. Therefore, as a solution, most often companies purchased agricultural or other types of land with the intention to change its purpose. However, there were no *ex ante* guarantees that the transfer of the land use purpose will be allowed. Besides, privately purchased land was not always fully prepared for usage, but in many cases it was the only solution alternative available.

8.4 Indications of Adequate Assistance Policies?

A primary indicator of policy adequacy is its positive impact on solving an SME challenge. The situation with supply of land plots for companies’ manufacturing activities was very unsatisfactory, especially in Kaunas city. Public actors, such as state or County Governor’s Administration and local municipalities, were unable to provide lacking free land plots for industrial activities or other companies’ needs. While some formal procedures for land sale were defined local civil servants and professionals could not make use of them as the land was unavailable.

As assistance with free land in the *city municipality* has neither been provided to our sample nor the population in general, I find no support for adequate assistance policies with free land for manufacturing purposes. Similar conclusions can be made about the situation in the *district* where the interviewed actors recalled only a few successful assistance cases, not for the sample, but for population companies.
At best, it is an indication of some *ad hoc* assistance success outside our sample study.

None of the sample companies have solved the need of land via access to the neighbouring plots. This assistance, according to the actors interviewed, has been provided to too few population companies and in very special situations (mostly in the city municipality) to provide sufficient indications for assistance success and adequate policies. At best, these could count as *ad hoc* success. Due to the great lack of supply of free land plots (available for manufacturing), the price level of those offered and lack of positive sample solutions neither could the private real estate agencies be said to have a systematic and adequate polices.

In sum, the conclusion that can be drawn of the assistance with free land plots in the studied municipalities during 2000-2006 is that no adequate public policies to assist SMEs with their needs of free land could be identified either in city or district municipality.

Lack of free land plots for rental or sale was caused due to the national land reform and property right restitution strategies as well as local strategies of territorial planning. Legal regulations that limited local public sphere actors’ ability to organise assistance, indeed, had a negative effect also on companies’ ability to look for some working solution on their own. The effects of the ongoing land reform and the lack of adequate policies to assist SMEs with free land for manufacturing had contributed to the steady rise of land prices. By 2005/2006 it reached the level seldom affordable to SMEs. As a result of these factors, purchasing land has gradually become a less attractive alternative than hiring it.

Nevertheless, some sample companies did succeed in acquiring land by purchasing it from private owners, but often (also among the population companies) that did not result in an immediate land issue solution. In fact, often the purchased land was not ascribed manufacturing purpose, and businessmen had to take a next step in land issue solution, i.e. get involved into long and complex procedures of transferring land use purpose to allow manufacturing (discussed in chapter 9).

### 8.5 Solutions and Assistance with Acquiring Land in Use

Above, we have analysed companies’ possibilities to acquire empty land. Another very important issue for many manufacturing companies was related to establishing some sort of legal rights to the land under companies’ premises otherwise called “land in use”. Many population companies perceived the situation as problematic due to the fact that previous to 2000 it was possible to purchase buildings without the belonging land.74

The transition from the Soviet regime to a liberal democracy and free-market inspired model in Lithuania brought a complicated situation with restitution of rights to land and privatisation of premises on that land. As the rights to land were restored according to the ownership documents before the Soviet period, the owners of land were not same physical or juridical persons as those of the Soviet

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74 Interviews with urban planning specialist at city municipality, district land use specialist, interviews with SMEs.
buildings. Such situations occurred due to the fact that buildings were privatised previous to restoration of land rights. Companies sometimes found themselves in a situation when the land plot around their purchased or hired buildings was not formed and, therefore, not registered as a property. I refer here to the land lots that were necessary for exploitation of the buildings and conducting of company’s manufacturing activities.

Companies purchased such premises for their activities either from private persons or from the “state” (often old collective farm buildings) i.e. the local municipality or CGA. Cases where buildings had been sold without the belonging land were especially frequent in rural areas in Kaunas district. Land under and around those buildings was often temporally disposed by the district municipality or county government before it could be returned to the rightful land right claimants. The situation was further complicated by the fact that for some time—often several years—it was not clear whether such land lots had a legitimate private owner or was subject to transfer of land ownership rights from another district.

As a result of the lack of recognised rights to the land they used, companies had been forced into a very insecure and problematic situation. Without documents of land disposition with land borders and ascribed major land usage, companies were not allowed to make any reconstructions of the buildings or build any new premises. Another problem for companies in need of bank loans were that buildings without the belonging land were assigned a very low value and that considerably lowered possibilities to get a higher loan sum, if any.

Situations where companies had purchased buildings without land occurred mostly in rural areas where the purchased buildings belonged to the previous Soviet collective farms.75 Several of the sample companies had found themselves in a similar situation. We will consider both what assistance was available to our sample and population companies to hire and purchase the land under their used buildings and how it has been organised in practice.

Possibilities to hire or purchase the land in use

In Kaunas district municipality, companies that had purchased buildings (in municipal or CGA disposition) on the land to which there were no legally recognised claimants had, from a legal point of view, the possibility to hire or purchase the land during the whole period of 2000-2006. The situation was different with the land that could be claimed back for restitution of land rights. In such cases, according to the specialists interviewed,76 local governments or county administration boards had no possibilities, at least not initially, during the period 2000-2002, to rent out land in their temporal disposition.77 Interestingly, a government decree from 1999 (Lietuvos Respublikos Vyriausybė, 1999a) had defined the rules for renting out the land under the buildings and subject to

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75 Interview with Kaunas a district land planning specialist, interviews with companies 8d, 7d, 15d.
76 Ibid.
77 The final date for applications of restitution of land property rights was 2002. Logically, around year 2000 and later, land use specialists could have had relevant information of applicants to particular land plots. However, this was not often the case, and one important reason for that was the changed direction, and contents of land reform. The ability to transfer land made it possible for ‘new’ land claimants to appear a long period after 1996.
restitution. However, district land use specialists blamed the national government for making land leasing impossible and did not make any land rental contracts during the period. This insecure situation with lack of assistance impeded companies’ plans to develop or expand their premises on the claimed land:

“This was a very unfavourable period for the companies, but it was quite short, lasting for around two years. Then law makers have understood the chaos it created and the situation has gradually changed.”

This situation lasted until November 2002, when the Lithuanian Government issued another decree (Lietuvos Respublikos Vyriausybė, 2002b) by which the rules were set for counting land rental tariffs. According to the interviewed land use specialist, that decree enabled municipal boards or CGA to make the so-called “state land rental contracts” for the land lots under companies’ buildings. If later a private claimant to the land appeared, he was obliged to take over the land leasing contract on the same conditions as defined in the state land leasing contract.

The used land could be rented out or sold only after land plots were formed in accordance with territorial planning documents. In practice, that implied preparing a detailed plan over the land plot (and a larger cadastral territory in the district), assigning it major and specific use (manufacturing), measuring and marking the plot, the so-called detailed planning procedures. The decree from 1999 defined that companies interested in renting or purchasing the land plot in use had to pay for both detailed plans and marking of the land plot (Lietuvos Respublikos Vyriausybė, 1999a). In the detailed plan or cadastral land lot project, the intended land use with certain construction prescriptions was defined. In other words, manufacturing activities of the company had to be described and confirmed to the special territorial planning requirements. The detailed plan for the use of the land plot was especially important in the city municipality. If the land was in the disposition of municipality, the City Council was to take the final decision, and where it was in the state disposition, the county governor (state representative in the region) had to approve the deal.

In rural areas, including Kaunas district municipality, local land use departments were responsible for arranging rental of such used land lots. These were as well the major public actors that companies addressed for assistance. In mid-2004, however, the Lithuanian Parliament made amendments to the Planning (LR Teritorinio planavimo įstatymas, 2004) prohibiting municipalities to proceed with detailed planning processes when their General Territorial Plan was missing to avoid spontaneous planning and its negative consequences. As this was the case with Kaunas district municipality, the prohibition to proceed with detailed planning of individual land plots had halted the land rental or purchase processes. Local specialists complained of the new situation that prevented them from forming individual land lots.

“When the territorial plan is lacking there are no possibilities to do anything. And making a general plan in rural territory where there are bare fields, you can imagine, how difficult it must be. The problem for companies in district is that there are buildings, but no formed land plot around them.”

78 Interview with Kaunas a district land planning specialist, interviews with companies 8d, 7d, 15d.
79 Interview with a district land planning specialist
80 For more information on the procedures of detailed planning see chapter 9.
Companies can use the buildings and the small area of land around them according to the servitude right. But in such a situation, whenever land owners appear the company is robbed.81

In Kaunas city municipality, the situation, according to the interviewed urban planning specialist,82 differed from that in districts. No land ownership rights could be restored to the land plots under permanent buildings, and the users or owners of the building were granted rights to hire or purchase them.

“There were no cases in Kaunas, (contrary to the situation in Kaunas district) when the land in the municipal disposition could be sold or rented to some other claimants in cases where there were important commercial or other industrial buildings on it.”83

The owner of the buildings was allowed to either purchase or hire the belonging land plot as long as he “had all the needed documents in order for the decision to be taken.”84 These documents were the detailed plan (or cadastral land use project), map over the land plot and the special conditions (from municipal architect and diverse state agencies and public organisations) for its usage. The laws prescribed the right to the users of buildings to purchase or hire the ascribed land plot without auctions.

The figure 8.1 is a simplified overview (classification) of the formally prescribed solution alternatives to acquiring land. In those situations the formally prescribed solution alternatives—which were in principle the only ones—depended on how local actors mandated land use solutions defined the land status, i.e. whether they ascribed the land as subject to property restitution claims or not (in the figure illustrated as problem type F1-A or F1-B).85

**Figure 8.1 SME possibilities to purchase or rent the used land 2000-2006**

<table>
<thead>
<tr>
<th>SME location</th>
<th>Type of land</th>
<th>Time period</th>
<th>Solution alternatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>City</td>
<td>Land with no claimants (F1-A)</td>
<td>2000-2006</td>
<td>Rental or purchase allowed</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2000-mid 2004</td>
<td></td>
</tr>
<tr>
<td>District</td>
<td>Land subject to property claims (F1-B)</td>
<td>2002-mid 2004</td>
<td>Rental allowed</td>
</tr>
<tr>
<td>District</td>
<td></td>
<td>2000-2002</td>
<td>Rental or purchase not allowed</td>
</tr>
<tr>
<td></td>
<td>mid 2004 -2006</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

81 Interview with an urban planning specialist.
82 Interview with land use specialist at the Kaunas County Governor’s Administration, 2007 05 02.
83 Ibid.
84 Interview with land use specialist at county governor’s administration.
85 In this and the coming figures of the empirical chapters I use F1-F3 symbols to refer to the identified policy organising processes: identifying problem (F1), identifying solution alternatives (F2) and organising resources (F3) to depicting the practiced challenge solution or policy structuration processes.
8. Purchasing or Hiring Land for Manufacturing Purposes

The figure indicates that land rental or purchase of the land with no private claimants to land right restitution was allowed during the whole study period in the city and during 2000-2004 in the district. However, as the rules for counting tariffs for rental appeared only in 2002, the public actors became more active only after this decree. In rural places where a company’s possessed (or hired) buildings were on a land to which there were recognised claimants, companies could only rent the land and during a shorter period 2002-mid 2004 (or until 2005). However, regardless of the fact that some SMEs attempted to find out about the existence of eventual claimants to the land in their contacts with local land use departments, not all of the concerned companies were well enough informed about their rights to hire the used land.86 As we can see, in some situations or time periods land rental or purchase was not institutionalised.

Assistance organised to hire or purchase the land in use

Procedures for land rental or sale in the city and district shared some similarities. Applications for land leasing or purchase were processed at local land use departments. Companies were in both localities themselves responsible for initiating the land rental or purchase deals. In order to lease or purchase the land a detailed plan over its territory and purpose of usage was needed.

According to the land use specialists, making a land rental contract was a long and strenuous process and in certain aspects the procedures in the city differed from those in rural areas. Firstly, it required a detailed plan over the land lot with the defined purpose of land usage. The final decision was issued by the City Council (in exceptional cases—by chief municipal administrator). Companies in Kaunas district municipality interested in hiring land, when allowed, had to apply at the local land use office to initiate the land leasing procedures. In the district municipality detailed planning (or rather, what they call a cadastral project) was performed by the land use specialists although often exceeding their competence.87 Depending on the complexity of each case, besides land use specialists and surveyors municipal architects could be involved, but it was rare in practice.

District land use specialists often dealt not only with restitution of rights to land, but also had to plan the purpose of land usage, especially for larger areas which included several land plots. SME had to ask land specialists to include the land plot they used (or a plot necessary for exploitation of possessed buildings) in a larger cadastral location project, which prompted specialists plan the purpose of usage for the individual land plots.88 Initially, land use specialists were responsible for making contacts with relevant specialists (like surveyors) for measuring and marking such land plots. Later in the study period, though, (due to lack of specialists and long waiting lines) companies had been explained that it was their task to arrange for the cadastral measurements.89 Our company interviews

86 For example, interview with a district company 15d.
87 Interview with a district land use specialist.
88 This means that when land use specialists were planning for land use in a larger cadastral area, they were asked to include the territory of interest for the company. Land use specialists planned then the land use for the whole location and applied an extract of that to the land plot in concern. Such project was called “land use project of a cadastral location” (“kadastrinės vietovės žemėtvarkos projektas”).
89 Interview with a district land use specialist.
disclosed that in attempts to purchase or hired land under the buildings in the district municipality, companies had to take over the organising of both detailed planning and cadastral measurements for the intended land plot.

In order for the land use specialist to arrange land leasing contract, the legal prescriptions required that he or she firstly made plan for the land use in accordance with the building’s purpose of usage. Therefore, especially problematic were cases in the district where the premises companies used were not originally intended for manufacturing purposes. Such mismatches frequently occurred when companies purchased older, especially Soviet time, buildings. Land use purpose was defined after the originally intended purpose of premise usage. In such cases, when companies intended, where allowed, to rent (or purchase) the land at first, the land plot had to be formed and a detailed plan prepared for the usage of the land in accordance with the original agricultural or other (non industrial) purpose of the building usage. In such cases, sometimes municipal architects were drawn into the process as well to determine whether the building can be used for manufacturing purposes. Only after such a detailed plan was prepared could the so-called plan organisers (often companies) apply for changing it to the intended purpose of usage. If manufacturing activities were allowed, then land use planners had to determine the usage of the larger cadastral land area including this smaller land plot with a new purpose. Interestingly, the interviewed land use specialist had no information of a single case where this process had succeeded.90

In general, changing land use procedures were complex and lengthy (see analysis in chapter 9), lasting a year or so. The detailed planning demands annoyed both the involved specialists and companies, since, according to them, it was quite meaningless. Luckily, some Soviet time buildings such as collective farms had other purposes of usage assigned that allowed industrial activities.

The study identified five cases with sample SMEs attempts to purchase or hire the land under their buildings. In some cases, especially in the early study period, our sample SMEs had attempted to make land use specialists to assist them with detailed planning and contacting public surveyors to measure and mark the borders of the land lots.91 However, only two of the sample SMEs had been offered such assistance by land use specialists for land rental.92 In two other cases, according to the SMEs, land use specialists were responsible for organising assistance with detailed planning and land measurements, but the processes lasted for years and the land rental contract has not been arranged.93 When public actors could not provide the needed assistance after some time companies had to hire private architects and surveyors for detailed planning and land measurements.94 Indeed, some SMEs showed certain understanding to the prolonged and inadequate assistance:

*It is tough work to deal with these issues. You see all those fights for a single meter of land on the TV. Besides, it is such a complicated issue, when laws are changing so often that you nearly can understand those at land use*

90 Ibid.
91 Interviews with district companies (cases 8dA, 15d).
92 Interviews with district companies (7d and 8d case B).
93 Interview with companies in Kaunas district (cases 8dA, 15d).
94 Interview with companies in Kaunas district (cases 7d, 8dA, and 15d).
8. Purchasing or Hiring Land for Manufacturing Purposes

department. But you can find everything there—bribes, complications, conflicts..." 95

Yet mostly companies had experienced protracted and costly procedures, lack of informa-
tion and understanding for their needs.

"We have arranged lots of papers, but it took such a long time for the land use department to check them against the regulations and laws. ...You have to make detailed drawings (the plans for the buildings and the territory) that have to be in line with the latest legal changes and we had to redo the job several times." 96

An important and lengthy part of this process pertained so-called detailed planning procedures 97 and is presented in more detail in chapter 9. Land use specialists had been involved in both identifying solution alternatives, (that is defining how detailed planning should occur) and in arranging land rental or purchasing deals. In the early study period land use specialists claimed they had better possibilities to engage surveyors. This assistance, however, even then used to take much time with months of waiting for the services of surveyors. Our interviews indicate that arranging land rental proceeded smoother when, later, it was allowed to pay private surveyors directly for their services. 98 However, interviewed land specialist admitted that much of the job with detailed planning was put on the shoulders of the SMEs, especially when companies had already purchased (and not rented) the premises they used. In such cases the laws were interpreted to mean that responsibility for arranging detailed plans was with the SMEs. When manufacturing activities were allowed in the buildings the formation of the land lot and detailed planning procedures were simpler (no district architects or Standing Construction Commission (SCC) involved).

After the detailed plans had been arranged and the land plot marked, the City Board defined the fee for the land rental or the price for sale. Where the land was in state disposition, the decision of the City Board had to be approved by the County Governor. The land plot with specifically defined land use purpose and other prescriptions was to be registered in the official register before the land leasing treaty could come into power.

Specialists admitted that land leasing procedures when land was in the disposition of the CGA or municipality were much more complicated compared to land leasing from private persons due to the detailed planning processes. Still companies preferred land leasing before purchasing it. In general, companies preferred renting state land before purchasing it. During 2006, in the whole Kaunas county companies had hired 10 times more land plots than they purchased. 99

In addition, frequently solution of land leasing issues became complicated, especially in rural areas, when some time after company had rented the premises the land under the buildings were returned to claimants of land rights restitution. Problematic in the district was the fact that companies interested in purchasing or

95 Interview with a district company 7d.
96 Ibid.
97 Detailed planning is discussed separately in chapter 9 also because it was part of changing land use purpose.
98 Interview with Kaunas district land planning specialist
99 Interview with land use specialist at County Governor’s Administration, Land Use Department.
hiring the used land could not be sure if the private claimants to that land would appear. Many population companies were reluctant to commence the expensive and lengthy detailed planning procedures, especially where the land could be claimed by private owners.

Nevertheless, all of the concerned sample companies attempted to initiate land leasing or purchasing process. However, the private land owners, that appeared later in the process, started dictating the conditions of land rental which made companies insecure about their future activities on that land. Particularly in situations where companies had not signed any land rental contracts with the CGA or municipality in temporal disposition of the land, they were entirely dependent on the land rental conditions presented by the new land lords.100 There were even cases when the land under manufacturing buildings was announced for sale via an auction without directly informing the concerned company although legal prescriptions did not allow rent or purchase of the used land in an auction.101 SME attempts to purchase the land from the new private owners not always were successful as they experienced the demanded price as unreasonable, and felt abused in the situation. In general, the conditions of land rental or sale dictated by private land owners made companies insecure about their future activities there.

Two cases with attempts to hire the land in use

Case A102
A district wood processing company had purchased manufacturing premises in Kaunas district territory. At the time it was not allowed to purchase land. Those premises have been built in Soviet times and used then for activities of a Soviet Collective farm. After having purchased those premises the company faced a need to make some reconstructions. To enable that and to secure its activity on the land plot for some time in the future the company wanted to at least hire the land from the CGA. For that certain land documents had to be arranged. A map over the land plot with marking lines and a detailed plan was needed for making any changes in the buildings. This has not been done earlier and to begin with, cadastral measurements were needed. Arranging those documents was the responsibility of territorial land use department of the CGA who had land plot in its (temporal) disposition. However, the company had to wait for years for this to be done. They have even attempted at paying for those state paid services, but were not allowed to. With no progress in detailed planning and marking of the land plot, no solution could be reached to the proper land use purpose. It prevented both obtaining building permissions and land rental. After some years with no proper solution, an additional problem appeared when an owner to the land plot showed up, regardless of the oral affirmations from the land use department on lack of legitimate legal claimants to the land plot. It was too costly to get involved into any deal with the land plot owner and the firm has chosen to sell the building to a private person interested in agricultural activity.

Case B
The same company has encountered a similar situation even later. After having purchased other buildings for manufacturing in another part of Kaunas district the company got a written promise from County Governor’s Administration about lack of claimants to this land plot. The company had signed a land rental contract

100 Interviews with companies 8d, 7d.
101 Interview with company 15d.
102 Interview with a district wood-processing company 8d regarding both cases.
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with land use department at CGA. However, also in this case a private claimant to this land plot has showed up. The company claimed that this surely was “a fictive claimant and the purpose with the whole thing is to cheat us on money since it is always a problem when a land owner shows up—you can be forced to pay any sum of money for land rental or purchase. We have no idea how we are going to use these premises and for how long. We know nothing of the future in these questions.”

While it was, according to the specialists interviewed, easier for companies to establish their rights to the used land (by renting or purchasing it) in the city municipality (as such land was not subject to land rights restitution) here detailed planning procedures for hiring or purchasing of a land plot in use were somewhat more complicated. Applications for land leasing in Kaunas city territory were processed at land use department of Kaunas CGA, but in cooperation with municipal urban planners who defined the purpose of land use in regard to the valid general territorial plan.

Companies or their hired consultants were responsible for arranging a number of documents in order for land rental (or purchase) applications to be proceeded. Similarly to the district, to enable purchase or leasing of used land it was necessary to form a land plot and present a detailed plan over the use of its buildings and territory. In practice, detailed plans for the individual land plots in use were not prepared by the urban planners, but instead the concerned companies had to hire private architects. Municipal architects assisted in collecting special planning conditions for detailed plans from the Standing Construction Commission.

Later in the process, cadastral measurements were needed for making marking lines over the land plot. Usually, the hired private architects or companies themselves had to engage private surveyors or geodesists. Sometimes both detailed planning and land measurements were conducted by the same private consultancy firms.

After the detailed plan was prepared it had to be confirmed by the SCC, urban planners, City Board, and finally approved of by the Governor. When after these procedures all the needed documents were in place decision establishing company’s rights to the land, according to the interviewed specialist, took 2-3 months (when there was no need to change land use purpose).

Sometimes companies were interested in purchasing land under the buildings they used. Similar procedures were valid for purchasing as for land rental. In Kaunas city purchasing such land was allowed to companies in all cases where needed land documents were in place and in the district municipality—in cases when “during certain period there was no land owner”. The purchasing of such used land in (temporal) state disposition in Kaunas district has been going on since around 1998, “but there were very few interested in purchasing it. The interest has increased somewhat since 2004.” In fact, purchasing the land in use was seldom attractive to SMEs since city land prices were very high and unaffordable for the smaller businesses and hiring the land often was the only possible solution.

103 Ownership, purpose of usage documents extracts from real estate register and similar.
104 Interview with Kaunas district land planning specialist.
105 Interviews with land use specialist at the Kaunas County Governor’s Administration and a land use specialist for Kaunas district.
As a conclusion, this alternative was seldom attractive among SMEs which made hiring of land an even more important alternative.

8.6 Impact of Assistance and Solution Results

Hiring or purchasing the land in use was a solution alternative for city companies during the whole period while the district companies could only make use of it during a limited time period 2000-2004 for land with no claimants and even a shorter period 2002-mid 2004 for rental of land with claimants. Hiring land was, according to the interviewed specialists, a more popular alternative among companies due to the land prices. However, both interviewed companies and specialists, especially in rural areas, admitted that land leasing procedures were very complicated and time demanding and neither of them were satisfied with the results this type of solution produced.

In all five analysed cases where SMEs had purchased the manufacturing premises without the belonging land they initiated assistance with land leasing or purchase. Formal land leasing contracts provided greater security to the company. Nevertheless, sample SMEs were poorly informed of their rights to hire land or faced lack of assistance. Sample companies lacked clarity of which assistance land use (respectively urban planning) specialists could offer as well as transparency in detailed planning and plan confirmation processes. In some cases, companies perceived forming of the land plot and even detailed planning (or in the district the cadastral project of locality) to be the task for the public specialists. However, their assistance has been either delayed (2 cases) or never provided (2 cases). Of the five cases one city company has finally succeeded to purchase the land and one district SME was still awaiting for a positive solution after procedures that lasted about 1.5 year which was an unsatisfactory assistance manner from the point of view of the company owner. Yet another district company succeeded in signing a land leasing contract with the CGA.

However, the signing of the land leasing contract was not necessarily a sign of a successful solution. In four analysed cases (district) successful assistance and solution of land rental or purchase was impeded by the appearance of private claimants to the land under companies’ buildings. In such situations SMEs felt abused by the private owners and unsure of the solution outcomes. Therefore, impact of actors’ assistance is to be assessed in regard to the whole solution process, not only how and whether land rental (or purchase) deals were signed. SMEs needed both assistance with correct information before initiating the purchase or rental processes on when such claimants could appear, and later, assistance with negotiating fair sale conditions of the land or overtaking of land leasing contract (where it was signed). In none of our studied cases were the SMEs correctly informed of the eventual claimants to their land, and in two of the cases the land rental contract was not even signed before the private owner appeared. Such lack of positive assistance created great inconveniences to the SMEs and challenged their situation even more.

106 Interviews with companies 7d, 5c for delayed insufficient assistance by urban planners and land use specialists and interviews with companies 8d (case A) and 15d with negligence to assist.

107 Interviews with companies 8d (case 8dA) 15d.
As indicated in table 8.2, only in two of the cases companies achieved a positive solution, both by purchasing the land plot. The mixed actor constellation, including both mandate and non-mandated actors had thus a positive impact. In two other cases (district) where, according to the SMEs, land use specialists were responsible for organising assistance with detailed planning and land measurements the processes lasted for years and the land rental contracts have not been arranged.108

<table>
<thead>
<tr>
<th>Actor types</th>
<th>Land Purchase</th>
<th>Land rental</th>
<th>Land claimants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mixed actors: city municipality</td>
<td>A (1 case)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mixed actors: district municipality</td>
<td>A? (1 case)</td>
<td>(1 case)</td>
<td>A? (1 case)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(2 cases)</td>
<td>C (3 cases)</td>
</tr>
</tbody>
</table>

Explanations:
- D: Sufficient positive impact (solution)
- E: Positive partial impact (partial solution)
- F: No positive impact

In all cases companies had to arrange assistance from hired private actors with detailed planning and land measurements for land rental or purchase. In two of the cases such private assistance was positive and sufficient for reaching together with involved public actors a positive solution.109 In two other cases such private assistance was positive but insufficient for reaching a rental/purchase agreement due to the insufficiently positive or no positive impact from public actors.110 Yet in the last case, private assistance was attempted but not allowed by the public actors. The solution was never reached. In sum, three of the cases could not be solved regardless of the attempts for assistance with land use specialist and surveyors.

The interviewed land use specialist could not indicate clear references to the reasons and the time period since when the detailed planning of the land lots in the (temporal) disposition of the municipality or the CGA needed involvement of private architects for detailed planning.

Both positive final solutions have been achieved by purchasing the land that saved SMEs from future problems with private claimants to their land. In one of the cases the company wished to purchase the land in use, but was finally forced to pay rent to a newly appeared private owner without any land leasing contract signed. Therefore, due to the land price demands from private owners in 3 of the sample cases the final solution was not achieved and the SMEs were very pessimistic about their abilities to develop on that land.

Following were the results of the final solution with land in use among sample SMEs:

a) Satisfactory final solution: 2 cases (1 city, 1 district)

b) Partial solution, insufficient assistance: 1 case (district)

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108 Interview with companies in Kaunas district, cases 8dA, 15d.
109 Interviews with companies 5c and 7d.
110 Interviews with companies 8d (case 8dB) and 15d.
c) No positive assistance impact/ no solution: 2 cases (district)

There were too few cases with city companies to be able to deem of how systematically such assistance was delivered. In the district, larger number of cases and lack of successful assistance and besides prolonged procedures and sometimes lacking solutions indicate the ad hoc manner of organising in the more successful cases.

To conclude, a success with signing state land rental contracts with CGA or municipality did not always indicate the end of solution to the land problem. Often, soon afterwards, further assistance was needed with the private land claimants, but in our studied cases such assistance was very scarce (1 case). As a result, impact of the assistance organised by separate actor groups should be assessed not only in regard to rental/purchase deals, but especially having in mind the final result or the overall outcome. Also the manner assistance was delivered was of pivotal importance here. There are examples where the solution (land leasing contract or sale) was preceded by lack of public sector actors’ willingness to assist why sometimes companies were tempted to pay bribes or hire expensive private consultants that had their way out in the assistance procedures. In four of the five cases the processes had been long and tiresome for the involved companies, lacking of positive reception from the involved public actors.

8.7 Conclusions: Indications of an Adequate Policy?

The above analysis allows us to conclude, that from the empirical data collected for the study and alongside additional sources, no tendencies could be observed as regards the providing of adequate SME assistance policies in relation to land use and that were successfully applied in practice. This was especially true for land within the district. In the city, legal regulations created more favourable preconditions for assistance to succeed, yet, at the same time assistance was more expensive and protracted. The assistance sample SMEs have been provided even though with occasional success was not adequate in manner. Thus, the study lacks of indicators also for an adequate ad hoc assistance structuration with land in use.111

There is reliable evidence from Seimas Ombusmen Office reports suggesting that sometimes local specialists used their discretion to unjustified favouring of more powerful clients (as REA companies) against private persons or SMEs. For example, there were differences in the size of the land lots ascribed for the usage of buildings with no clear explanations.112 Even though, on occasion, mixed assisting actors achieved a positive impact, it was also the case that the manner of assistance was not appreciated or acceptable to the SMEs.

The assistance with used land has been impeded by the lack of documentation on land plans, delays with cadastral measurements, and lack of professional geodesists (surveyors), prolonged confirming procedures of detailed plans, wrong

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111 Assistance structuration in this policy area highlights the need to differentiate between policy success and adequacy, the latter term encompassing indicators related both to policy implementation output (behavioural and structural factors) and outcomes (impact).
112 See, for example, Valstybes kontrolė (2007), Seimo kontrolierijų įstaiga (2002).
purpose of building usage and other impediments. In the chain process where actors were dependent in their assistance on the actions of other actors and where there was lack of consistent legal regulations and congruence of laws, it was even more difficult for the actors involved to assist. In some situations where clear regulations were lacking or could be differently interpreted actors had (or took) certain discretion and could act on behalf of some part (certain company or a physical person).

As a result of lack of positive and timely assistance, companies sometimes took to constructions without permission, while waiting for documents to be readily processed. This created additional problems for the companies when dealing with state agencies in the future. Lack of positive land rental or purchase solutions with the private owners had implications for the company development as permissions for construction, expansion of premises had to be obtained from the owners. Insufficient assistance with solutions to land issues discussed made further company development in that locality problematic. Some companies were forced to look for other buildings outside cities where the land was less expensive and better available, but often with wrong purpose of usage.

8.8 Factors Affecting Assistance Success

Each empirical context and challenge type may provide specific variables or combinations of variables that influence the success and adequacy of organised assistance (both policy and ad hoc). Here I will briefly consider the major groups of factors—contextual, structural and behavioural— influencing the success of the assistance with free and/or used land that could be identified from the analysis with the help of the bottom-up methodology.

Contextual factors and the impact of the formal institutions (instruments)

Analysis of factors affecting solutions and assistance organised to purchase or hire land for manufacturing in Lithuania should firstly consider the effect of the relevant national strategies. Chapter 1 indicated the special study interest in the ability of the formal institutions, official strategies and instruments to contribute in organising successful and adequate SME assistance policies. In organising assistance to manufacturing SMEs with land issues I could observe clear indications of strong influence of the formal strategies of land reform, territorial planning and property rights restitution altogether. The empirical analysis indicates that not only had those strategies an increasingly negative effect on local actors' ability to provide the needed assistance, but in general, they resulted in a great lack of land for manufacturing. The land reform strategy and the way it was implemented locally created a rather chaotic situation on the land market. For example, different types of land claimants could make claims to same land plots which especially obstructed land rental in Kaunas district.

Arranging land leasing contracts or detailed plans for the purchase of either free or used land required assistance from professionals (architects, land use specialists and geodesists or land surveyors). As the assistance from the public sector specialists was insufficient or lacking companies were forced to hire private non-
mandated specialists. Hiring the needed experts was a costly affair for the companies and more importantly, a very prolonged one. The range of applications for restoration of land rights had created a great shortage of those specialists and the available ones were overloaded with work. The national government had not been able to provide mandated local organisations neither with sufficient expert knowledge nor with smooth rules for engaging private surveyors.

The newly educated private and public surveyors due to their short education and lack of knowledge made many mistakes in measurements why large numbers of land lot borders started to overlap resulting in numerous legal twists. Besides, at the beginning of land reform very primitive land measuring techniques were used. All these factors complicated the situation for land owners: for private persons willing to sell the land it delayed the sales and for companies intending to arrange land use documents – delayed the process of land leasing contracts or purchase.

Interviewed land use specialists claimed that land reform has been lacking an adequate basis of cadastral measurement specialists and that at the beginning of the reform measurements were made in the first hand in the most attractive land plots. Now, after some 15 years of land reform, most complicated land measurement jobs remained and those took time. Old mistakes had to be corrected. Although land use specialists were lacking, their salaries were low, most of them were close to retirement age and new specialists had little prospects for attractive jobs after the reform was finished (Mustafinaitė, 2007). In April 2007 situation with lack of land surveyors still remained acute.

To conclude, the centrally determined model of land reform caused a notable lack of land plots not only for industrial and commercial activities, but as well to be returned to the rightful claimants. Besides, in national strategies physical claimants to land have evidently been given priority over manufacturing SMEs regarding access to the land. The shortage of qualified specialists, financial resources, and inconsistency in laws had severely impeded successful assistance. In short, the chosen course of reform did not sufficiently take into regard the needs of the industrial sector and infrastructure. It had both negatively affected the context of the land challenge solution and lacked adequate formal institutions to assist not only SMEs as a group, but also large numbers of private land claimants. However, the local mandated actors’ role had a great importance in how the SMEs perceived of the solution chances.

Local actors’ role and relevance of resources offered

As the result of the formal national regulations adequate land resources were lacking in the studied localities. Municipal disabilities both to offer and plan free land plots for industrial or commercial use were evident. Even when the district municipality could provide land for rental, i.e. some local resources were available, the offers were seldom attractive to companies. This was partly due to the complicated time and resource demanding bureaucratic processes (such as detailed planning or confirmation of plans with the SCC requirements) where the local actors could be also blamed for lack of transparency and smoother procedures. Local mandated actors, including municipal councils were, however, to a large extent trapped in their decision-making by national government strategies and legislation. The central decisions on land reform made it very difficult for local...
actors to find free land plots in places more attractive to the companies or to protect active companies from being abused by the land owners.

One outcome of the conflicting land reform and territorial planning objectives was a general city plan prepared in 2005 that did not take into account the companies’ needs of land. In Kaunas district, situation with lack of land was similar although due to quite other reasons than in the city. District municipality was also affected by the unfinished land reform, but even more by the national regulations on territorial planning and the lack of its general territorial plan (GTP).\textsuperscript{113} Therefore, both the land sale and the detailed planning processes (with the purpose of changing land use purpose or planning new construction) had been stopped until the local GTP was available.

The interviewed local specialists could not see how the situation with the lack of free land plots for manufacturing could be improved, especially when municipalities lacked land for both for their infrastructure and private land claimants. The situation with free neighbouring land plots could be improved, though, by increasing companies’ access to those plots. In Kaunas city municipality the urban planner suggested to “rather sell the land plot for the neighbouring companies, since it is often a strategically important land plot, and compensate land owner with a land plot elsewhere or offer him the corresponding sum for the land.”\textsuperscript{114}

Centrally regulated detailed planning procedures were a great hinder in organisers solutions for acquiring land under and around companies’ buildings. In situations where there occurred a mismatch between the ascribed and the factual usage of companies’ buildings overregulation of detailed planning processes often created unnecessary impediments sometimes resulting in dead end situations. There was a lack of legal guidance for solving such mismatch situations.\textsuperscript{115} Due to the inadequacy of assistance strategies and resources not all companies could be offered a smooth land leasing or purchase.

Specialists admitted that important causes to the mentioned mismatch lied in the original building purchase procedures. In fact, there was an easier way out: companies could have changed the purpose of building usage when purchasing it. That would have saved companies from long and rather unnecessary detailed planning procedures later. However, SMEs had seldom knowledge of those solutions.

“The thing is that mostly those disadvantaged companies were small ones...They had much less information and perhaps were less active in informing themselves.”\textsuperscript{116}

The very occurrence of such situations indicates lack of SME access to relevant information and mandated actors’ negligence to disseminate it. Companies were seemingly planning to use the purchased premises for manufacturing and would have been greatly assisted if proper procedures were applied at the premise purchase occasion.

\textsuperscript{113} GTP for the whole Kaunas County was still not completed during the interviews with specialists in March-April 2007.
\textsuperscript{114} Interview with an urban planning specialist from the Kaunas city municipality.
\textsuperscript{115} Additional interview with a district land use specialist.
\textsuperscript{116} Interview with a land use specialist for Kaunas district.
Even though the public actors disposing of the used land were enabled by the government to sign land leasing contracts also for the land that could be claimed back, this was not always done on time (or for long periods). Notwithstanding the fact that companies pushed the local public actors for solution, their abilities (and sometimes willingness) to assist were insufficient. This has put manufacturing SMEs in a very insecure situation allowing private land owners to press them for high land rent. Moreover, even when the state land leasing contract had been signed with the CGA this would not always help. Land owners could still demand unofficial land rent. In lack of adequate conflict solving and assistance measures further manufacturing activities on that land became problematic. Interestingly, some companies claimed that land use specialists purposefully withheld the information of official claimants to their used land and they were provided false assurance (on lack of such claimants). These are signs of lack of access to information.

Complications, especially in rural areas, with solutions of land rental or purchase (especially where private claimants were involved) and SMEs despair about the situation witness of shortage of functioning instruments for resolving the conflict situations. The fact that the public organisations could not always provide SMEs with a reliable land rental contract was an additional indicator of mandated actors and existing formal institutions inability to provide adequate assistance policies.

A further obstruction in the assistance organised was lack of competence and/or willingness of land use specialists to deal with detailed planning issues and of urban planners’ with land rights restitution. In addition, great lack of competent publicly contracted geodesists for land measurements severely impeded the assistance processes.

In short, regarding hypothesis 4 it could be concluded, that while local mandated and non-mandated assistance actors have been vital for assistance manner adequacy, lack of adequate legislation and other formal resources severely hindered assistance success with land acquisition. On the other hand, while sometimes companies hired non-mandated actors to assist in linking the assistance processes the major responsibility acting as the linkage was that of the mandated actors, especially between identifying assistance alternatives and organising resources. However, observation regarding study hypothesis 3 is that in land acquisition issues assistance could not be offered to all types of company situations (due to formal regulations or related context factors) continuously during the studied period. Instead, it was sometimes simply unavailable, allowing no complete assistance organising structures to evolve.

**Actors’ assessment of their abilities to assist**

In many cases, available and most often practiced solutions did not satisfy the companies or sometimes even the concerned mandated specialists. For instance, some local land use and urban planning specialists were aware of or even frustrated by the fact that they could only offer manufacturing companies either unattractive

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117 Interviews with companies 8d, 7d.
118 Interviews with a district land use specialist, an urban planning specialist at the Kaunas city municipality and a private consultancy firm specialising in detailed planning.
small land plots (district municipality) or hardly any land at all (city municipality). Even when they could provide free land for rental it was in territories hardly attractive to companies because local officials had to prioritise claimants of restitution to land property rights.

The pressure from the central government on the local municipalities, to return as much of the attached land as possible to the rightful claimants severely diminished the possibilities of local actors to provide SMEs with the needed land resources. City municipality and its specialists have been left in a situation where they lacked land even for the most crucial infrastructural needs of the city, especially in the newly attached areas. Kaunas local government, according to the interviewed specialist, had no assigned budget to buy up some of the returned lands for development of city infrastructure at the market price.119 In this situation, local municipal specialists ascribed infrastructure development needs greater priority than making available more land lots for manufacturing:

“While the situation remains that way, we can’t even talk of business needs (for land). Therefore, basically for a businessman especially from outside Kaunas city we can offer only private land.” 120

Indeed, the concerned municipal specialists (urban planners) showed their dissatisfaction with how the land reform and urban planning was implemented: “When you think of all this land reform and what is happening with it my hair is rising!”121 In short, some of the mandated public actors were aware how problematic the situation for the manufacturing SMEs was, while others cared much less, basically making efforts to comply with the formal regulations. However, as an answer to hypothesis 5 (see 4.6) in this strictly regulated policy area, the awareness of the problem with assistance policy adequacy did not automatically provide local specialists chances to increase assistance adequacy as they were dependent on local and national political decisions regulating their discretion.

The role of SMEs in organising assistance

Success in organising solutions to the used land depended to large extent on company managers or owners’ participation in the process and their abilities to address and engage relevant public and private actors. Not only were they expected to initiate land rental or purchase process when the land was in a temporal disposition of the state, but also contribute with organising services of non-mandated specialists—private surveyors and even architects (in the city) for detailed planning of the land plots. It was these experts who did a major job in planning the land use and marking the land borders. In fact, those non-mandated actors were crucial resource organisers—along with the local public specialists—without the contributions of which hardly any positive solution could be achieved. Therefore, it is thanks to the mixed assistance structuring involving both mandated and non-mandated actors that assistance success and adequacy could be increased.

119 Ibid.
120 Interview with an urban planning specialist at Kaunas city municipality.
121 Interview with an urban planning specialist at Kaunas city municipality.
I take this study evidence to confirm hypotheses 1 and 2 (see chapter 4.6) regarding the structuring of SME assistance policies.

Conclusions

Solutions to hire or purchase the used land had encountered several major hindrances: i) laws allowing previous land owners to reclaim land under buildings possessed by the company; ii) arranging all the needed land documents that rested on the shoulders of the SMEs, iii) lack of competence in the tasks ascribed to public specialists and their willingness to undertake them, iv) great work load for the mandated specialists severely delaying procedures, v) lack of legal guidance in conflicting situations, vi) lack of mandated professionals (surveyors) and a smooth system to engage the private ones; vii) lack of clear legal regulations for changing land use purpose. In general, there was lack of relevant formal institutions for organising land issue solutions in individual SME situations. As a result of that, the responsible public sector actors lacked abilities and sometimes willingness to assist SMEs in finding solutions or sharing information. The findings of this study are also confirmed by the reports of Seimas Ombudsmen on how land reform issues were handled in local municipalities and the CGA.122 Evidently, the lack of positive or acceptable solutions indicates that neither local, nor regional or national government had functioning instruments (formal institutions) to improve the critical situation (including some legal sanctions for actors’ unwillingness to assist). Stable and consistent rules, i.e. formal legality, is an important element of the rule of law. Their lack together with frequent civil servants’ and local professionals’ unwillingness to assist companies with land issues shows lack of rule of law.

The next chapter 9 continues examining the land related SME development impediment, but another aspect of it—companies’ ability to use the possessed land for manufacturing purposes.

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122 See for example, reports by Seimas Ombudsman Office (2002, 2006).
9 Changing Land Use Purpose and Detailed Planning

As has been discussed in the previous chapter, when companies were in need of land for their activities they could seldom find such land where manufacturing activities were allowed. Often they purchased more easily available agricultural or residential land with the intention to change land use purpose. In this chapter we will, therefore, explore in more detail assistance organised to manufacturing companies (and our sample SMEs) on that matter.

9.1 The Challenge and its Background

The manufacturing companies (including some of our SMEs) were often challenged by their inability to use land in their possession or premises on it for industrial or commercial purposes or establish legal rights to it since it was assigned “wrong” or yet none purpose of usage (see chapter 7).

Land use became problematic when the land or buildings in companies’ disposition were not in agreement with the originally defined purpose of use for either these buildings or the free land plot. Difficulties with intended use of land had affected not only several of our sample SMEs, but many companies in Lithuania. Use of land for business purpose in Lithuania has been noticed as a problematic issue both by Lithuanian and foreign organisations, such as: Seimas (Parliament) Ombudsmen, Lithuanian Free Market Institute (2007), World Bank (2006), and IMF (2007). Those sources critiqued prolonged and complicated procedures of land use or changing land use purpose.

Complaints have been continuously expressed from various concerned parties in Lithuania about the fact that territorial planning laws and procedures guiding the delimitation of land use are not adjusted to the present market situation and the needs of inhabitants and companies.124 The IMF experts observed that the land rights restitution brought uncertainty in property rights which was predicted to persist due to the cumbersome land planning processes (IMF, 2007). A survey made by World Bank on business environment in Lithuania revealed that one of the greatest problems for businesses in Lithuania was related to the use of land for business purposes (World Bank 2006).

It has been discussed in chapter 7 that difficulties to find the land for e.g. manufacturing purpose lied partly in the fact that in Lithuania there was a lack of land intended for or allowing manufacturing activities and sometimes lack of access to such land. The situation with the lack of land for industrial purposes in Lithuania was caused by several authoritative strategies and legal acts of its national government: the land reform, restoration of property rights and territorial planning. Situation got extremely complicated when government attempted at

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123 Land usage purpose is ascribed by the documents of detailed or other territorial planning.
124 See for example, Seimo kontrolė (2002); Lietuvos laisvosois rinkos institutas (2006, 2007).
simultaneously implementing two of its strategies: restoration of right to land and territorial planning by fragmented and frequently amended legislation.

As was noted in chapter 7, in *Kaunas city* territory most of the land was ascribed “other” purpose of use, which not necessarily implied the right to use it for manufacturing, while land in the territories attached to the city in 1995 was ascribed agricultural purpose of usage. To be able to conduct manufacturing activities companies possessing such land had to apply for changing it into “other” purpose of usage and a special manufacturing manner. The territories of *Kaunas district* municipality were mainly rural and scarcely urbanised where, for the most part, both the buildings and land had been ascribed agricultural purpose of usage. To conclude, most of the land in the territories of our study was not intended for industrial (or commercial) purposes and to allow that, its major purpose (or manner) of usage had to be changed.

The process of changing land use purpose has been conceived as challenging by the interviewed sample SMEs. This chapter therefore seeks to explore the possible solutions and the involved actors. What made the solution organising process so complicated and time demanding and how could eventual hinders be eliminated? As changing of land use purpose has been significantly affected by the formal regulations and laws I wonder especially, what was the role of the mandated actors in the assistance (policy) organising and what results did it bring regarding the challenge solutions?

9.2 Effects of Land Reform on Land Use for Manufacturing

As mentioned previously, the latest land reform in Lithuania initiated soon after the restoration of Lithuanian independence in 1990 was based on the principle that the land ownership rights were to be restored according to the Lithuanian laws valid before the Soviet occupation and the land reform of 1922. However, although land plot borders were restored, where possible, according to the pre-Soviet maps and documents the determination of land use purpose was based on the at Soviet times dominating land use manner and the Soviet land reform from 1970 (Lietuvos laisvosois rinkos institutas, 2007). The Soviet attitude to the land use was primarily advocating maximisation of agricultural activities on land plots which now often stood in sharp contrast to the needs of the preset market actors (ibid.).

Part of the problem with using land (and premises) for manufacturing purposes lied in the fact that land use purposes have been determined after the Soviet usage of land, thus creating overflow of land plots intended for agricultural use and great lack of land plots for other purposes. Another part of the problem lied in the situation created by the territorial planning process and primarily its classification of land use that created limitations on companies’ abilities to use the possessed as well as the complicated procedures for changing it.

The realities and needs of economic actors in independent Lithuania during 2000-2006 and earlier pressed, though, for changes in land use planning. Most of the applications for changing land use purpose (ca 90-95%) in Kaunas city, as well as in territories of other largest cities Vilnius and Klaipėda, concerned changing
land use purpose into “other” purpose allowing industrial or commercial activities.  

The lack of land for industrialisation made many companies look for the land or buildings intended for other purposes with the intention to change the land/building use purpose to industrial one (or sometimes commercial). Thus, we have two problematic issues at hand here: i) manufacturing SMEs’ inability to use the possessed land (and sometimes buildings) for industrial activities (as a result of authoritative strategies), and ii) challenges in changing the major use purpose of the possessed land into the one allowing manufacturing (as the assistance provided to help companies to use the land). We will explore assistance policies organised to change the purpose of land usage.

9.3 Assistance Organised with Changing Land Use Purpose

Here I will address the ways solutions had been most frequently reached in practice and actors and resources that made those solutions possible during the period of 2000-2006.

The process of changing land use purpose was complex and involved several other processes, such as:

i) detailed planning process;
ii) land border marking process (cadastral measurements);
iii) confirmation to General Territorial Plan or changing it.

Procedures for changing land use purpose in the studied municipalities were not identical and therefore will be presented separately.

Actors involved

The very character of the problem solution to changing land use purpose required involvement of external actors, especially those from mandated public organisations. Both County Governor’s Administration and the Council of district municipality and, especially, the specialists involved in the detailed planning processes—municipal urban planners or state land use specialists—had an important role in organising change of land use purpose. However, a question that is important in this context is whether the solution to changing land use purpose have been most often organised with the help of those mandated specialists and political actors or have there been other actors involved who had considerable contributions in the solution organising processes?

In the official sources it is indicated that the major land use purpose is determined during the process of detailed planning (Lietuvos Respublikos Vyriausybė, 2004). The relevant legal documents let the final decision in allowing change of land use purpose (or determining land use purpose for newly formed plots) rest on the County Governor. The decision making process in determining or changing land use purpose involved several other actors that participated in

125 Interview with an urban planning specialist from the city municipality.
planning the use of land/buildings (detailed planning) and approving of such
detailed plan, as the laws indicate:

"Major land use purpose is defined by the decision of County Governor in
accordance to the special prepared and approved documents of territorial
planning (...) and detailed plans when forming new land plots."

"Major land use purpose is changed by the decision of County Governor in
accordance with the prepared and approved documents of formation and
reorganisation of land plots, acquisition of land to societal needs, land
consolidation and detailed plans."

(Lietuvos Respublikos Vyriausybė, 2004)

Accordingly, changing land use purpose rested on the process of detailed
planning. However, no major official sources described in more detail the very
process of organising change of land use purpose and clear descriptions of diverse
actors’ responsibilities and roles in it. The number of legal documents and their
vast amendments were difficult for an average company (and even experts) to keep
track of and apprehend. Applicants were advised to consult legal documents or
County Governor’s Administrations.

For our sample companies both processes of forming new land plots and
ascribing them major intended purpose of usage or changing it in agricultural or
residential land were important. However, in practice, determining and changing
land use purpose during 2000-2006 was not that uncomplicated and seemingly
unproblematic as it may look at a first glance from the official sources. Changing
land use purpose in Kaunas city and district required involvement of different
actors. Representatives of the interviewed manufacturing SMEs mentioned
mandated public organisations—such as territorial land use departments, local (city
or district) municipalities, the County Governor’s Administration and their
specialists—as their major contacts. Besides, often private consultancy companies
have been contacted by the SMEs to assist them in this process. Rural district land
use specialists and city area urban planning specialists were the major actors in the
process. Interviews have been conducted with major groups of actors to reflect
their experiences of how assistance has been organised (for the list of the
interviewed actors see Appendix I).

Both urban planners and land use specialists were well-aware of the problems
with lack of land suitable for manufacturing and their role in changing land use
purpose. However, they confessed of the difficulties pertinent to the process that
negatively affected their ability to assist and therefore the solution outcomes.
Processes of changing land use purpose involved several stages in each of which
different participating actors could affect the solution. In addition, the large
number and variety of legal acts regulating processes of territorial planning
confused even experts and mistakes (or intentional misinterpretation) were
unavoidable (Lietuvis laisvosios rinkos institutas, 2007). I will present the process
in more detail to see what made it so complicated and resource demanding as
encountered by the interviewees.
9. Changing Land Use Purpose and Detailed Planning

**Assistance with detailed planning in city municipality where changing land use purpose was allowed by the GTP**

The process of detailed planning was a prerequisite for making a decision on changing land use purpose. Defining or changing land use purpose in practice was carried out in the following way: major land use purpose was “partly determined or planned in the so-called General Territorial Plan and specified in the process of detailed planning.” The process of detailed planning implied preparing a map over the land plot (with its marking lines) and a detailed plan over how the buildings and the land were planned to be used by the manufacturing SMEs. Detailed plans were needed both in forming new land plots and in changing major purpose of an already formed land plot while in the district. In the city municipality this process was more complex than in the district.

Responsibility for organising detailed planning process lied with either the company (when the land is owned by it) or a mandated public organisation (municipality or the County Governor’s Administration) who disposed the land. A company that possessed land of “other” purpose or non-industrial manner of usage had to initiate the process of changing this purpose. This was done by applying at a territorial land use department in Kaunas city or district municipality that was directly subordinated the County Governor’s Administration. However, laws ascribed the right to organise the preparation of detailed plans to the director of municipal administration. Interested companies had to firstly, before initiating the process of detailed planning, apply for taking over the rights of the detailed plan organiser. Such legal regulations, even though treated as a formality, however, contributed in protracting the detailed planning and change of land use purpose processes.

Detailed planning of the land plot belonging or used by the company was most often conducted by hired private architects specialising in detailed planning. Processes of changing land use purpose were somewhat different in city municipality and rural areas.

In Kaunas city municipality solution organising processes to changing land use purpose differed during 1995-2004 from that after 2004, because of changes in the Law on Territorial Planning. In order to change the land use purpose from agricultural to other or even land use manner from residential to manufacturing similar procedures were required: “here in the city territory, we basically play with land use manner and sub-manner, but it is still a complicated procedure.”

Two types of assistance were organised. When the intended manufacturing purpose of the land plot usage was foreseen or allowed by the GTP of Kaunas municipality, then the procedures went smoothest. Before company or private architect representing it could start detailed planning special conditions of planning from the Standing Construction Commission (that represented different public

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126 Interview with an urban planning specialist from the Kaunas city municipality.
128 For more details see the Lithuanian Law on Territorial Planning (“LR Teritorinio planavimo įstatymas”) from 1995 with amendments 1 May 2004.
129 Ibid.
interest) had to be collected. This job pertained to the chief urban planning specialist. Prepared detailed plans had to be approved by the same Commission and finally, the City Council. Then, it was returned to the County Governor’s Administration from which final approval was issued. Such processes lasted up to 5-6 months in the least complicated cases. In general, these were the smoothest solution and assistance organisation cases.

**Assistance with changing land use purpose in city municipality when it was not foreseen in the GTP**

When company possessed or used land in territory where it was *not originally foreseen for manufacturing* in the valid GTP, then the process of changing land use purpose was complex and lengthy. These processes differed as well in different time periods depending on the legal regulations and the situation with GTP. Company (or its hired private architects) had to initiate the process attempting to change the GTP, as required by the valid laws of territorial planning.

After the GTP for Kaunas city municipality has been prepared in 2003 it *became the guiding document* for allowing the change of the land use purpose of individual land plots. It was possible to make changes in the valid GTP in order to allow using individual land plots as intended by the SMEs. Naturally, whether specific manufacturing activities were allowed depended on the particular manufacturing project and the location of the land plot. The Standing Construction Commission (*Nuolatinė statybų komisija*, SCC) had a crucial role in defining what amendments of the GTP could be allowed from the public interest (from health, environment and similar aspects point of view. If the suggested amendments in GTP were finally accepted, the Commission issued conditions for preparing individual detailed planning projects.

The opinion of this Commission was, however important, not the only one in allowing changes of land usage. A complex process of informing society and the elected representatives about the proposed changes in GTP had to be initiated. This was done somewhat differently before the amendments in the *Law on Territorial planning* in 2004 and after. In both cases the role of urban planners, and especially chief architects was essential in organising changes to the GTP in the city municipality.

Firstly, to be able to change land use purpose *in accordance to the legal prescriptions, local municipal GTP had to be consulted*. Kaunas city, though, was the only of 8 Kaunas county municipalities that finally in 2003 has prepared its GTP. Prior to that less detailed general plan was used for the purposes of detailed planning. In addition, before changes in laws 2005, a so-called “operative planning” was practiced. It allowed considering both detailed planning project proposals for the intended land usage (or change) in individual land plots and the change of the valid general plan at the same time. Even though protracted even then, these planning processes (including idea presentations, discussions and
adjustment to the conditions presented and public screening) took place in parallel, not subsequently as after 2005. Besides, the GTP seemed not so impossible to change before the law amendment in 2005, and especially its earlier version before 2003.

Before law amendments in 2005 changing General Territorial Plan of the city was not so complicated and the process was somewhat shorter. In less complex cases (where projects were small and of minor importance for the whole city plan), so-called operative decisions on changes in territorial plan according to proposed detailed plans could be taken in agreement between urban planners and City Board (or sometimes Chief Administrator). In operative planning, city architects used to assist companies by attempting to informally consult with the Commission on where and what changes of land use purpose could be allowed before company applications were submitted. It saved much time and efforts for the concerned companies. Urban planners claimed that their face to face communication with companies and the Commission members allowed them to better understand the plans of a particular company and thus explain it (beforehand) to the Commission. When the Commission members gave a positive response, application process for detailed planning could commence. This was the urban planners’ contribution in making the process smoother. Contrary to the procedures after 2005, the processes of detailed land plot planning and changing the GTP could proceed in parallel which allowed the process to be completed in about 0.5-1 year.

However, this crucial role of municipal urban planners was not appreciated by elected municipal representatives. While previous to the changes in 2005, the urban planners had been able to communicate with the applicants face to face, this has been prevented by the decision of City Council after 2005. This way the elected representatives attempted to decrease city architects’ discretion and possibilities to corruption. Architects claimed, though, that this way only more misunderstandings between them and the companies (or other applicants) occurred. The process before the correctly filled in applications reached the urban planners and they got the picture of the companies’ detailed project plans became only more protracted with more negative effects for the applicants.

Changes in the territorial planning law in 2004 made it much more complicated to make amendments in the GTP. Compared to the situation previous to the law amendments, detailed planning and thus changing land usage were allowed only in such cases where the new type of land use purpose or manner had been foreseen in the specific territorial planning documents, especially in the GTP of the municipality.

Now, before the permission to prepare a detailed plan could be granted and a list of conditions for detailed planning in that particular place from the Commission could be issued a complex procedure had to be initiated in an attempt to change the municipal GTP. Characteristic for the cases, where the change of land use purpose had not been not foreseen in the GTP, was a very prolonged procedure and lack of guarantees that land use purpose will be changed at all. It was impossible to predict how long the procedures would take as the position of different actors subsequently drawn into the process was unclear beforehand. Therefore, by hiring

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132 Interview with an urban planning specialist from the Kaunas city municipality.
private consulting architects SMEs at least attempted to affect the opinion of the chief municipal architect and the Commission. Organising detailed planning involved several chain processes with many mandated actors involved that all could influence the outcomes. This was particularly complicated, time and resource demanding. Most often problematic situations occurred in the rural areas with agricultural land use purpose attached to the city after 1995.

The process of detailed planning used to be initiated after the applicant company has been formally reorganised rights to organise it. However, after 2005 the process of detailed planning and amending the GTP were no longer parallel and the planned changes in the GTP had to be approved of first. The detailed planning process was, thus, made up of several stages.\(^{134}\) Let us have a look at what actors or procedures could assist or obliterate in attempting to change land use purpose.

To begin with, it was the concerned company that had to inform and attempt to convince the chief municipal architect and the representatives of the Construction Commission\(^ {135}\) of their business project and the reasons for changing land use purpose. The Commission, in turn had to take a stand on those suggestions in regard to the GTP and public interest. If and when such suggestions were preliminary accepted the urban architects had to suggest changes in the municipal GTP. However, as the new laws allowed to change the GTP only once a year \(\text{Teritorijų planavimo įstatymas, 2004}\), urban planners waited with suggesting such changes before a large number of individual projects for change had been accumulated (in the change of GTP in 2006 there were originally 70 applications for changing land use purpose presented). This had considerably protracted the solution process. At this phase project proposals were also open for public screening.

Problematic in this phase, according to the interviewed municipal urban planner, is that the so-called public screening phase allowed parties with conflicting interests to become involved in the process. Such conflict situations were not seldom initiated by the private or public organised interests—such as commercial competitors or stronger actors such as the Greens. Thus, a great part of the project success depended on the involved SME or their hired planning consultants’ ability to convince both the Construction Commission as well as other intersected parties (neighbours and organised interest groups) of the success or of the possibility of such a project.

However, especially smaller companies, often were in a rather weak position, lacking of information about the requirements of the Commission or the juridical aspects of process with conflicting interests involved. While the SMEs expected municipal urban planners or the hired consulting architects to act as spokesmen for the company, these were unwilling to get into frequent and complex legal disputes (regarding the intended changes of land use purpose).

“In this stage it is problematic that not all architects undertake detailed planning tasks knowing beforehand the juridical consequences of the interest conflicts and incompatibilities.”\(^ {136}\)

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134 Ibid.
135 Involving such administrative units and organisations as The Environment Protection Department, Department of Cultural Heritage, Kaunas Public Health Centre, etc.
136 Interview with an urban planning specialist from the city municipality.
9. Changing Land Use Purpose and Detailed Planning

According to an interviewed specialist, representatives of the Commission were not interested in issuing the conditions for detailed planning projects intending to change land use purpose where there had been greatly conflicting interests of the parties involved. So, a number of projects were rejected already at this phase.

In the second phase, a changed general conception of the GTP had to be considered and presented to the public. “Again we have discussions, considerations, principal decisions and so on.” (ibid.) The project conception of the GTP was then submitted to the City Council.

“We go to all the eight committees and explain to them in advance what changes are to be made in the GTP before the formal consultation procedures with the Council are undertaken. It is rather problematic and time demanding to explain it to all those committees. They also have various comments, wishes…”

At that stage, in parallel changes in the general conception of the GTP were open for the common public consideration. In this phase it was up to the County Council members and the community members or various NGOs, organised interests to attempt to reject certain projects or changes of the GTP.

In the next phase, previously allowed amendments (“sprendiniai”) in the GTP were made and presented for the public consideration and “again there come complaints, we have to be careful about deadlines.” (ibid.) After that, the solutions were presented to the members of the Construction Commission for approval, and then for the approval of the City Council. Approved had to be changes in the GTP concerning each amendment proposition of the until then remaining individual land plots. Here, the mandated actors had to respect the time limits defined by the law, but that was nearly impossible in practice. Then, the GTP project was submitted to the County Governor’s Administration (CGA) which was a supervising administrative organ. The CGA had to present its conclusions on whether the GTP project was prepared on time and according to the determined procedures with public screening, etc.

There had been many problems with deadlines. According to the laws there were very short deadlines fixed for many of the detailed planning processes (10-15 days or so), but this occurred, claimed the municipal urban planner, due to the lack of knowledge of the everyday planning processes.

“These time limits determined in the laws are unrealistic, but the (national and regional) government presents situation for the public as if it was possible to even shorten them. Here, the specialists of the municipality are always the guilty for delaying the process. The government, without any consideration to how this process is done in practice, force the deadlines upon us instead of allowing the municipalities to determine them. Government rather promises even shorter terms, but in fact the process only becomes longer.”

Afterwards, the conclusions from CGA were presented for public screening. After that, the GTP was returned back to the City council for final consideration. The project was considered in all the 8 committees of the City Council. The

137 Both quotations are from the interview with an urban planning specialist from the city municipality.

138 Ibid.
consideration process at the committees was complicated and prolonged. The interviewed municipal specialist called it therefore “making a deal with Ali Babba and his 41 thieves”, since, from his experience, everyone there attempted to change the process according to his/her own ideas and interests. Here, specialists encountered problems with deadlines again: “You can imagine when opinion must be issued for each of those remaining 30-60 projects for changing land use purpose examined in the City Council. How much time can this process require when the Council gathers once a week?”

Because of these protracted processes, reactions of different actors and the involved conflicts regarding individual projects, it was extremely difficult to say how much time the change of the municipal GTP could take in practice. The major problem, according to the interviewed municipal specialist, was not the procedures of detailed planning and changing land use purpose. However, detailed planning was intertwined with GTP and changes in individual land plots were allowed only by changing the very general plan. In practice, though, the general plan after having introduced those new rules has only been changed once. Once in two years.

This interdependency of planning processes after 2005 made the solution even more protracted since during the whole process of attempting to change the GTP the process of detailed planning was frozen. “The company or individual has to wait for the whole long process to finish until the practical planning job can start. This is frustrating.”

When the changes in GTP had been finally approved by the County Governor that allow the concerned company to change the land use purpose, it (or its representative) addresses the chief city architect to acquire Construction Commissions’ conditions for detailed planning. After that, detailed planning by hired architects could commence. When the detailed plan for changed land use purpose was prepared it had to be approved by the Commission and City Council. Finally, the applicant had to present the decision and the documents to the register centre where all information about real estate objects is collected to empower the governor’s decision on the change land use purpose.

In general, processes for changing land use purpose in the city differed somewhat both in length and actors involved depending on whether the changes had been allowed by the GTP (or the “general plan” before 2003) or not. In both cases, the company could either organise the process itself with the help of urban architects or could hire (a frequent practice among the SME population) a private consultant architect that not only prepared a detailed plan, but as well acted on behalf of the company in the entire (or parts of the) process by making contacts with involved actors and representing the company in meetings with the Commission. In each case the company had to collect great numbers of documents from various public organisations and state agencies that the Commission defined to allow the detailed planning process. Later, when the detailed plan was prepared, the confirmation process could require several rounds with the Commission to make final adjustments.

In both cases, it was the chief urban architect that defined the solution alternatives (F2) in consultation with GTP and the members of the Commission.

139 Ibid. The laws allow ca 20 days for the final approval of the General Territorial Plan (GTP) by the Kaunas City Council.
140 Ibid.
He was also a major contact person and participated in identifying and organising some of the resources. Indeed, the company had not much choice as only one of the solution alternatives was available at a time. The chief urban architect had to present the planned changes in the GTP to the concerned parties for approval: the City Council or Board, the public, the Commission, and the CGA.

If private firms dealing with detailed planning had not been involved in the first phase of the process, i.e. presenting the detailed planning project for changes to be made in the GTP, the company had to do it itself and also keep in contact with as many of the other involved actors (especially the Commission members) as possible. Some of the sample SMEs had not the time to become too involved in the process and therefore hired the consultants themselves remaining in a more passive position and waiting for the in changing the GTP results. Others had less assistance from private firms before the detailed planning process could start.

When the change was foreseen in the municipal GTP (assistance alternative F2-1), the assistance was organised much smoother and often had a more positive effect. In the second case, when it was not foreseen (assistance alternative F2-2) it was more complicated, protracted and with much less sure outcomes. However, this type of assistance has differed, as noticed, during the study period before and after 2004/5. In the first period parallel procedures—detailed planning and GTP change—had been applied that saved much of the precious time. From 2005 these processes became more protracted and involved public screening at several stages. In addition, the changes in GTP were planned by a municipal company “Kauno planas” that had exceptional right to it.

Assistant in Kaunas district municipality

A case

A wood processing company had purchased buildings in the countryside without land in a public auction. After some time, the company realised it needed to formalise its relationship to the land under the buildings to increase its chances for a larger bank loan without which its activities had been halted. In order to establish its rights to the land (preferably by purchasing it) company needed the land plot to be formed and registered. Firstly, a cadastral map over the land plot had to be made. Even though the land was in a (temporal) disposition of the district municipality, local mandated land use specialists did not offer such assistance. For that the company hired a consulting firm, its specialists had made cadastral measurements, but the greatest problem was to change the ascribed land use purpose from agricultural to manufacturing as the company intended to use the buildings on it for wood processing. The process of confirming the detailed plan and the land map to the legal requirements has lasted for a very long time as the detailed planning drawings had to be changed several times. Above all that, a claimant to the purchased land plot appeared who did not want to sell the land. Our company addressed district land use specialists for mediating in the situation to ease the process of purchasing the land from the owner. At the first interview, the company was pessimistic about the outcomes, but at a repeated interview it felt it was approaching some positive solution. Land use purpose had finally been changed and some agreement with the land owner was close.

141 Interviews with companies: 7d, 8d (case A), and 2d, 4d, 15d.

142 See the interview with district wood manufacturing company 7d.
In Kaunas district municipality the situation with changing land use purpose and detailed planning differed from that of larger urban areas. Kaunas district municipality lacked its general territorial plan (GTP) over the territory during the whole period 2000-2006, and many rural municipalities were in a similar situation. Even though the municipal GTP was missing, until 2005 detailed planning processes for the purposes to hire or, especially, purchase land under company’s buildings had been going on. However, the law changes in 2005 and the lack of GTP for the district significantly affected companies’ chances to change land use purpose and, in general, to form land plots around their buildings. Therefore, in the district we have two types of situations regarding the land use (detailed planning and changing land use purpose) challenge—assistance organised until 2005 and no possibilities for assistance between 2005-2006.

In the detailed planning and changing land use purpose processes in the district mandated state land use specialists located in the territorial land use departments and smaller units in neighbourhoods (and not architects) had a pivotal role. In the Kaunas district several types of land use challenge situations occurred for which some solutions were available during 2000-2005. The solution alternative available for the applicant SME was defined by the laws and depended on whether the company possessed or rented premises on that land or not.

When the premises companies used were originally (at the time of their construction) intended for manufacturing activities then the land plot belonging to them, when formed, could be ascribed the same purpose of usage. This was done by the land use specialists after they had included the particular plot in a larger cadastral territory plan, a process that took some time. It was only after the land was ascribed specific land use purpose and the land plot measured by a surveyor or geodesist that the municipality could sell the land or sign a land leasing contract to the company. In this case the process was carried out mainly by the mandated local actors. However, the shortage of public surveyors significantly retarded the process and later during the study period companies were allowed to hire private surveyors.

When company’s possessed premises were not originally intended for manufacturing, the change of land use purpose became much more complicated. To achieve a change in land use, firstly the purpose of the building usage had to be changed into one allowing manufacturing. In practice, the major intended purpose of building usage could be changed by the municipal architects, but if the land plot was already formed according to the original usage of the buildings then the company was in trouble attempting to change both the purpose of the building and the land. The interviewed land use specialist noted that such situations were problematic as they depended on the decisions of individual architects and sometimes such processes reached a dead end and there was a lack of legal guidance.\footnote{Interviews with land use specialist from the district municipality.}

A different situation was when the company possessed (privately purchased) free land intended for agricultural and not manufacturing activities. Before the manner of the land usage could be changed it was necessary to prepare a detailed plan over the intended (or already ongoing land use for manufacturing activities). Detailed planning was a first step in a long process in which the company was to be possibly granted the right to undertake specific manufacturing activities.
The detailed plans of the private land usage were prepared by private architects hired by the concerned SMEs and then confirmed by the local land use planners (or by district architect in more complicated cases). Permission from the owners of the neighbouring plots also had to be received. Changes of land usage in a free land intended for agricultural activities had to be made in accordance with the GTP or—previous to 2005—other major territorial plan. While the GTP in district municipality was missing, still until 2005 there were cases when changes had been, even if sluggishly, organised by consulting the GTP for Kaunas city and its neighbouring regions or the special plan for some territories in the district. It indicates that the municipality had its own ways of proceeding with the planning. Local land use specialists and the Municipal Council were the major actors in the process. Conditions and permission for detailed planning in the district also had to be collected from representatives of different public organisations, corresponding to the Standing Construction Commission in the city. If the County Governors Administration and its land use specialists approved of the final detailed planning project, the County Governor—as the final decision maker—issued a permission to change the land use purpose in regard to the decision of the Municipal Council.144

Yet, another situation was with land plots without buildings (“free land”). Detailed plans with intended major land use purpose for free land plots in municipal disposition were also prepared by the territorial land use units in every community until 2005. However, land use specialists unwillingly undertook planning the usage of other than agricultural land for which they were not trained. This had negative consequences on the availability of free manufacturing land plots for sale in the district.

Interviewed land use specialists complained, though, that while the Municipal Council approved of land use changes in lack of a systematic territorial plan (GTP) before 2005, little consideration was taken to the whole picture of territorial planning in the district territory, and industrial, commercial or urban premises were scattered over the territory without a logic plan. After the national government prohibited in 2005 changing land use purpose where the local GTP were missing, the individual land planning process in the district had entirely stopped.

In general, assistance with changing land use purpose when it was organised subsumed a process of detailed planning. While the last part of the process—changing land use purpose—was organised according to locally practiced ways (including some reference to national regulations) with the help of mandated actors, the initial part of it—detailed planning—was a decisive process in which SMEs had to rely on the assistance from private non-mandated specialists. This assistance, besides, was to be organised and paid for by the SMEs themselves. If not land use specialists, it was frequent that the private consultants acted as a linkage in assistance structuring (processes F2, F3). Besides, it was the hired consultants who most reliably could represent the wishes and the ideas of a particular manufacturing company knowing how to present them and to the decision-makers. Since assistance, in practice, was organised with the help of non-mandated actors, it implied a mixed actor structuration.

Land use specialists were unwilling to disclose in more detail the process and actors in changing land use purpose in the district until 2005 when it was done less

144 Interviews with land use specialist for the district municipality.
formally. This lack of information, however, does not prevent us from making some major conclusions of the overall adequacy and impact of the assistance organised on the solution results.

To conclude, SMEs could find themselves in several types of situations regarding the allowed usage of the land under their buildings. In situations where manufacturing was foreseen, simpler solutions with more positive outcomes were possible, at least, according to formal regulations. However, the manner of assistance via mainly mandated actors showed to be rather unsatisfactory. In other situations, where formal changes in land usage purpose were to be made, procedures were more complex, with more negative outcomes. Here, companies were reliant on a mixture of formally mandated and privately engaged non-mandated local actors.

9.4 Assistance Manner, Impact and Results

Assistance organised should be discussed in regard to the different types of situations city and district companies faced during 2000-2006. These can be roughly classified into 4 types:

1) Cases in city municipality 2000-2005, and 2005-2006 where the GTP allowed land use changes;
2) Cases in city municipality where the GTP did not foresee changes;
3) Cases in district municipality 2000-2005;
4) Cases in district municipality after 2005 (no changes in land use purpose allowed).

In general, the more complex the situations were, the greater importance different actor group assistance had. Although several types of actors participated and influenced the solution organising processes (especially in the city), only three groups were engaged in de facto assistance organising—i.e. involving other actors and resources and identifying solution alternatives. These groups were the following: private specialists (architects, surveyors and detailed planning consultants), municipal architects in the city and state land use specialists located in territorial land use departments in the district. It is those actors who SMEs were in direct contact with for assistance. As we have seen, the role and involvement of these actor groups were somewhat different in the different types of situations. Therefore, in assessing the overall assistance impact, it is important to assess the contributions and abilities of those actors. If not assisted by private or municipal architects, sometimes SMEs themselves attempted to also come into contact with important decision-makers, especially members of the Standing Construction Commission.

Impact and manner of individual actor assistance

Characteristic of the detailed planning and changing land use purpose processes were that SMEs had difficulties with the complexity, length and, especially, transparency of these processes. Normally, the procedures applied put great demands on individual SME’s abilities to initiate, affect and follow the solution process. Although many mandated actors with decision rights had been involved
Changing Land Use Purpose and Detailed Planning

in the processes, evidently too little public assistance was organised for certain types of (conflict-loaded, strictly, but incongruently regulated) situations. Besides, we have to remember that in the district territory no solutions have been organised since 2005. Due to the great lack of transparency or mandated specialists’ unwillingness to act, SMEs recalled, it was not unusual to pay undue favours to fasten or achieve favourable decisions.

Common to all those processes was also that for better results or smoother procedures SMEs were, in practice, reliant on the assistance from professional process participants (municipal or private architects, land use specialists) that had the knowledge of the entire process and their ability to influence on other participants, or at least do the manual collection of all the required documents. The idea of how a company intended to use the land if its purpose of usage was to be changed had to be presented to the chief architect or land use specialists and especially, to the members of the Construction Commission at a stage as early as possible. Especially important it was in cases where the GTP did not foresee the use of specific land plots for manufacturing. The interviewed specialists recalled that in many cases applicants wanted to be more offensive in contacting representatives of the Construction Commission and had, therefore, either themselves or via hired consultancy companies kept in contact with them during the entire process for explaining their plans and attempting to convince those mandated actors of allowing their intended projects. The more informed and convincing the actions of SMEs or their hired architects were at this stage, the greater were the chances for success (see table 9.1). It affected especially on the conditions to be issued for proceeding with detailed planning. This evidence is sufficient to conclude of the affirmative answer to both hypothesis 1 and 2 (see section 4.6) in this policy area.

Sometimes several specialists had to be hired – architects, geodesists or even detail planning process consultants. However, conflict loaded procedures and lack of legal guidance inflated the fees of such private consultants up to 10 times as they started to include the eventual lawyer costs. Not all smaller companies, therefore, could afford more lengthy services of the private architects and had to rely on their own abilities.

Chief urban architects (city) were other important actors in the assistance organising who had contacts with all major actors in the process. They assisted companies especially in the initial phase, with both consulting with the Commission members on their stand in individual cases before the process was initiated and later, by collecting the conditions for detailed planning to be handled over to the applicant company (or it representing consultancy firm). Besides, when changes in land use purpose required amendments in the GTP, the chief urban architect also had a crucial role when attempting to convince the City Council to accept the proposed changes in the GTP (in accordance with the conditions of the Commission). Here architects could favour some projects and affect the assistance results. However, the capacity and knowledge of municipal architects to participate in the process has been limited partly due to their duties with land reform and lack of qualified specialists. Private consultants complained of lack of municipal architects’ assistance to companies and willingness to cooperate. (Sample SMEs

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141 Interview with an urban planning specialist from the Kaunas city municipality.
146 Interview with a private consultancy firm specialising in detailed planning.
did not identify this type of situation why it is analysed only from the perspectives of some involved actors).

In situations when the manufacturing on the land was not foreseen, behaviour and reactions of the consulted external actors (the public, NGOs, other organised interest groups) had a direct effect on allowing companies to change land use purpose, especially related to changing the GTP. Since conflicts of interest were frequent, the interviewed specialists claimed that numerous proposals were rejected by the municipal urban planners, rather than attempting to find a solution. The Construction Commission, another crucial actor in permitting detailed planning and allowing changes in land use purpose, sometimes also rejected proposals at a very early stage in avoidance of (expected or experienced) conflicts. This was due to the lack of legal guidance in conflict situations. At a later stage (in the city and district) also the elected municipal representatives could for different reasons (possibly even private interest) object to the proposed individual projects.\footnote{Ibid. See also interview with an urban planning specialist from the city municipality.}

Because of all those reasons, it was often impossible for individual companies or even the experts (mandated on not) involved to predict the outcomes of the process. They could only attempt to influence the diverse actors with their knowledge or undue favours. The great uncertainty about the results and the fact that sometimes the project idea could be rejected rather late in the process (when it was not confirmed by the City Council or rejected during a late public screening) not only negatively affected the companies’ development plans, but also induced unnecessary high costs.

For companies intending to conduct manufacturing activities in the district territories where it was foreseen, the role of the public mandated land use specialists as the possible linkage of the process was pivotal. Actually it was they that had to interpret the other guiding documents (as the GTP was lacking) to define whether the land could be used for manufacturing. Since until 2005, the lack of district GTP was regarded not so essential for changing land use purpose and realising of business plans, assistance for the population companies had achieved some success.

However, our sample SMEs mostly had problems in the Kaunas district with making land use specialists to form the land plots (detailed planning) around their possessed buildings for manufacturing purposes. Those were Soviet times building that often had belonged to collective farms. Although land use specialists were responsible for determining usage of such land plots in several of the cases, companies did not get the needed assistance for years, indicating its inadequate manner. As early in the study period SME were not allowed to hire private architects and surveyors to fasten the process by undertaking the tasks of mandated public specialists, the processes were halted. In most of the cases companies could not acquire clear information on what type of purpose their used land will be ascribed or when the land plots will be formed so that they could proceed with detailed planning (for the purposes of purchasing or hiring the land, but also constructing or expanding their premises). Such assistance manner naturally was regarded as very unsatisfactory by the SMEs.

In general, situation in the district was complicated also before 2005 as regardless of the attempts to detailed planning, the responsible land use specialists lacked competence and willingness to proceed with these tasks. During 2005-2006,
any changes of land uses purpose in the district had been stopped waiting for the
district GTP to be prepared (situation of type 4).

As to the indications of the linkages between assistance organising processes
(hypothesis 3 and 4, see section 4.6), it must be said that there is evidence of the
linking role of the privately engaged consultants (non-mandated actors), sometimes
SMEs themselves, and occasionally by the urban planners in the city. Possibly
even land use specialists sometimes undertook these tasks, but it was not in their
competence and they lacked interest and willingness.

I continue the discussion regarding the adequacy of the assistance processes and
reasons for that in 9.5. In general, however, it must be noted that other actors—
members of the Municipal Councils, neighbours and community members—had,
as a rule, more influence on the use of the land plot than the (potential) owner or
user himself, or sometimes even than the assisting specialists. Sample SMEs
were mostly negative both of how and what assistance they had received in those
processes.

“The process seemed to have lasted for eternity without any solution... and
after such a reception we have lost all hope for a solution.”

“Changing land use purpose has cost us much nerve, they have tortured us a
lot, and we had to wait for half a year for a decision on whether our land
would not be taken for so-called societal needs. This is banditry on the
highest level going on.”

“We met always the same people in queues, probably they, just as we, have
refused to pay any bribes to these civil servants.”

These sample SME descriptions of the assistance they had received should be
taken into account when assessing the adequacy of the assistance organised, and
not only the assistance impact on the solution results. However, as the assistance
results are a major indicator of the assistance adequacy, I will briefly account for
them in the coming section.

Assistance results

The affected sample companies had attempted to acquire assistance with
defining or changing land use purpose and related detailed planning in 5 of the
recorded cases. Interestingly, all of those reported sample cases were from
Kaunas district municipality. Positive solution had been achieved in 2 cases and 1
more case was on the way to be solved. In both of the cases solution was
dependent on the involvement of private consultants who provided additional
knowledge resources and undertook procedural interaction matters necessary to
increasing assistance success. In the remaining 2 cases SMEs had failed to reach a
solution to the land use problem.

In general, greater success, according to the interviewed city and district
specialists was achieved before 2005 than after. Out of 70 applications to change
land use purpose in the city municipality during 2005-2006, only 41 have been

148 For similar results see even the study by the Lithuanian Free Market Institute (Lietuvos
laivovos rinkos institutas, 2006)
149 Interviews with district companies 4d, 2d, 7d, 8d, 15d (cases: 4d, 2d, 7d, 8dA, 15d.).
approved. Attempts to change the GTP had been made only once during that period.150

No data is available as to how often changing land use purposes succeeded in the district. However, the situation after 2005 and until the end of 2006 (and later) was even more problematic, as no projects for changing land use purpose were allowed. It resulted in many frozen business projects. Neither mandated actors nor the mixed actor structures could provide a solution to SMEs during that period.151

It is noteworthy that lack of GTP and competent specialists during the whole study period in the district resulted in a chaotic detailed planning and changes of land use purpose. Improper from territorial planning perspective constructions were allowed in many neighbouring/bordering territories.

Both in the city and district municipalities the identified solution organising structure was a mixed one including both mandated (mostly public) and non-mandated mostly private actors. This assistance structure, especially in cases where manufacturing on the particular land plot was not foreseen in the general city plan, could, however, produce different outcomes due to the involved conflicts and interests (in the city also from actors outside the structure). Sometimes the assistance from the involved mixture of mandated and non-mandated actors was positive, but insufficient, as when the neighbour or organised interests were against the suggested changes.

Conclusion: indications of an adequate policy?

In assessing assistance policy processes, we should differ between the situations with the formation of land plots around the buildings and cases where land use had to be changed for free land. An additional distinction is situations where the manufacturing activities on that land were foreseen by the legal regulations (GTP) and cases where such changes had not been allowed (like in the district after 2005) and the assistance was neglected.

The conclusion of the study is that a few attempts to change the land use purpose have resulted in positive outcomes, while the rest were not (see table 9.1). Successful results were, in general (also among the population) greater in cases where the formal regulations (GTP) allowed changes in the purpose of the land and all the required documents were in order. For such situations in the city, assistance, although somewhat sluggishly functioning, according to the actors, was organised (in the district only until 2005) and the formal procedures had been smoother and shorter. The way assistance has been regulated also indicates its policy like structure.

In some sample cases in the district, though, when formation of land plots for manufacturing around the used buildings was allowed and asked for by the SMEs, the mandated public actors neglected their assistance responsibilities. Only in the city municipality assistance with formation of the used land plot, where possibilities to apply for using it for manufacturing were foreseen, could be possibly deemed of a more adequately and repeatedly organised policy, according to the interviewed actors. There is too little empirical evidence among our cases to

150 Interview with an urban planning specialist from the city municipality.
151 Ibid. Interviews with a private consultancy firm on detailed planning; an urban planning specialist from the city municipality, land use specialist at the County Governor’s Administration.
make a stronger point, especially regarding the manner of that assistance. These actor claims are only (with some reservations) true of population SMEs, as no challenge solutions were recorded among the sample companies.

Table 9.1 Impact of assistance with changing land use purpose and detailed planning

<table>
<thead>
<tr>
<th>Assistance alternatives</th>
<th>Used land Manufacturing foreseen</th>
<th>Used land Manufacturing not foreseen</th>
<th>Free land Manufacturing not foreseen</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mandated actors city/district</td>
<td>-</td>
<td>-</td>
<td>x</td>
</tr>
<tr>
<td>Mixed actors: city municipality</td>
<td>A (3 cases)</td>
<td>x</td>
<td>C (2 cases)</td>
</tr>
</tbody>
</table>

Explanations:
- x – Indicates actor constellation in assisting in other types of land situation than those of sample SMEs.
- Impact: A-positive and sufficient; B-positive insufficient; C-no positive impact.

Also when land using for manufacturing was foreseen companies were often assisted by private consulting companies. Thus, some indications could be found for an adequate structuring, possibly policies, but of a mixed actor type, i.e. embracing both the mandated public and the non-mandated SME hired private actors. In the mixed structures, the role of SMEs in organising assistance was essential for assistance adequacy. In other words, there are doubts as if the mandated actors were capable to organise adequate assistance with positive outcomes on their own.

Sometimes solvable were also cases where changes of GTP were required. In reaching positive solutions companies were often assisted by private consulting companies, paid for defending their interests. The involved public servants (architects and planning experts) also provided some assistance as mediators between the company and the other mandated participants, but very often lost their interest in the project as soon as conflicting public or private interest got involved. In other words, the solution success depended in much on either a very fruitful communication by SMEs themselves or their hired private planning consultants with several types of important actors:

a) Standing Construction Commission members;
b) Organised public and private interests;
c) Municipal Council and its committees.

However, the more conflict-loaded the situations were, the lesser were also the chances to reach a positive solution with the help of mandated actors (urban planners). Sometimes land use specialists in the district undertook this informing and mediating role.

When other besides professional reasons (commission) impeded changing land use purpose and when public actors had no alternative resources or to suggest then companies were put in a situation where they were to look for solutions on their own. However, assistance attempts and the importance of individual mandated
actor groups (architects, land use specialists and private consultants) in diverse contexts should not be neglected. It was cumulative in its effect, and the more actors provided assistance the greater were the chances for success. Private non-mandated actors had been of great importance for positive impact or faster results, but far from all SMEs could afford them.

Although in some of our sample district cases solutions have been achieved (in forming land plots or changing land use purpose), they did not go smoothly. Companies had sometimes to wait for years for positive assistance. The interviewed parties (both SMEs and mandated specialists) conceived of the process of changing land use purpose as problematic both because there were no guarantees of changing it, and on the other hand, because the procedures for attempting to change it had been very time and resource demanding. Some local civil servants involved were frustrated over contradictions in laws and the lack of legal guidance or support for organising individual solutions. In short, the usage of land for other than agricultural or defined in the GTP purposes was not promoted, why industrial land and development were given very low priority.

If policy adequacy rests not only on the results, but also on the manner of the assistance organised, it then becomes problematic to call an adequate policy solutions that both the involved experts and SMEs criticise. In general, the time it took to arrange assistance, the way our sample SMEs had been received and drawn into the process, frequent lack of publicly offered alternatives and also the insecurity with assistance outcomes are significant indicators of the lack of smooth and adequate public assistance policies for the analysed land use challenges.

9.5 Factors Affecting Success of Assistance Organising

Contextual factors and the impact of the formal institutions

The land reform and the national strategy for restitution of property rights not only had a negative impact on SMEs ability to acquire land but, as was demonstrated, also to use it for manufacturing purposes. In general, the strategy and practice with both determining and allowing change of land use purpose in Lithuania (in both rural and urban territories) was closely related to land reform, diverse territory consolidation, formation, detailed or special plans and similar formal regulations. However, although strictly regulated nationally, the assistance output was finally determined by local public servants that in turn were affected by the political actors and sometimes—other organised interests.

The guiding national regulations lacked consistence and continuity. The land reform had changed the direction several times which not only put the brake on the process, but had brought it to the starting point at around 2000. This has significantly impeded the developing of city infrastructure and the planning for commercial and industrial zones in the city. Besides, the goals of land reform often were in conflict with those of territorial planning. It did not help much that the same mandated specialists had to take care of both of these processes. Not only

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152 Interview with an urban planning specialist from the city municipality.
did the experts experience these goals as incongruent, but they also suffered from lack of competence and resources to proceed with assistance.

The land reform process was highly politicised and seemingly prioritised as compared to the territorial planning. As the result of the clash between the formal land reform and territorial planning strategies modern industrial use of land gained low de facto priority in comparison to agricultural. The focus on promoting the status quo that relied on old agrarian relations severely obstructed the development of manufacturing activities.

Not only was there a lack of congruence between the national strategies, but also important contradictions between the government and municipal strategies of land reform and territorial planning. Actually, there was a severe discordance between municipal development needs and the aspirations and guidelines of the national strategies. Municipalities felt forced into a situation where they lacked independence from national government in solutions of their infrastructural and industrial development needs. Demands for very detailed territorial planning procedures, especially when attempting to make minor changes in the general territorial plan of the municipality, could serve as an example. This diminished their chances to assist companies. As was revealed, to a great discontent of many specialists, even changes in land use of small plots of little strategic importance for the municipalities required changes in the GTPs and long approval procedures. That especially impeded changing land use purpose after 2005. In other words, it was not difficult to change land use purpose, but instead the very GTP, and where changes in the later were not allowed, there remained no chances for the company to change the land use purpose of their land, at least in the nearest future. An interviewed land use specialist at the County Governors Administration wondered “why the general territorial plan has become so unchangeable?”

As a result of this discrepancy between nationally regulated land reform and the local development needs, local civil servants (urban planners and land use specialists) felt they were ascribed duties they lacked training and interest for, or sometimes—abilities to make the assistance more adequate. This resulted in numerous strategic planning mistakes and lack of good will towards their tasks. Lack of other resources—e.g. competent specialists of land measurement (geodesists)—and sluggish system of making use of their services had also impeded the process.

In addition, while attempting to centrally steer the processes of land reform and territorial planning, the legislators were badly informed of the local context. Therefore, the regulations often were of little relevance as guides in practical situations (especially in the work of urban planners) or presented requirements that local municipalities were unable to fulfil (such as with the GTP planning in the district). As a result of the frequent amendments, the legal acts were poorly understood and they especially lacked anchoring at the local level to be established as formal routines for assistance organising (e.g. for changes in the GTP and similar). “One problem is that, in principle, the procedures for preparing the GTP

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153 Interview with a land use specialist from the Land Use Department at the Kaunas County Governor’s Administration.

154 In Kaunas district municipality defining land use purpose (for land leasing contracts) was ascribed (forced on) land use specialists of local land use departments. Such specialists had to plan the use of originally agricultural land for non-agricultural purposes—the task that, according to them, exceeded their competence. Normally this job was done by the urban planners or architects.
or changing it are not clear, especially when applied in practice.”

Frequent changes in strategy and contradiction in the formal guidelines hindered local participants from working out and establishing (institutionalising) smoother assistance practices.

Not only were the major public assistance actors hindered by the lack of guidance, consistency and understanding at the national ministries and their detailed regulations, but they were also impeded by the attempts of the local politicians (elected representatives) to control it their own way without establishing a more fruitful communication.

The publicity in the planning processes, especially regarding changes in the GTP, frequently had a negative impact on SMEs possibilities to make intended changes in land use. Public screening of the planning processes was raised to the level that often made it act as a hinder. Instead of only having to inform the major concerned parties, i.e. neighbours, companies had to subject themselves to the will of any public interest. According to the municipal specialist, that could include even organised competitors or other parties with the purpose to impede the development of the company. Indeed, the neighbours or other interested parties were allowed not only to protect their vital physical interests in relation to the planned project, but also attempt to protect the value of their property related to the specific features of the surrounding environment. This often resulted in stagnation of development since no changes were welcome that did not change or increased the value of their property (Lietuvos laisvosois rinkos institutas, 2007). "The public screening is often used to halter businessmen."

There were evident problems with defining who and when has a justified interest in actively participating in the planning procedures.

While it may be argued that public participation in the planning process of all levels is important, the Lithuanian realities were less adapted to the dialogue practiced in the democratic societies from which such procedures had been replicated. Adopting so-called democratic public screening procedures left the involved actors with little guidelines and assistance (pertaining to the states with rule of law) in frequent conflict situations. It was much easier to reject considering cases with conflicting parties at all or transfer the burden to the private actors (consulting architects) that to look for legal solutions on their own (with the help of private attorneys) establishing new legal practices. Companies were then made dependent on those actors that had better solutions.

In changing land use purpose, where existent, municipal GTP has become a conclusive document for determining whether the change of land use purpose will or will not be allowed. However, by the end of the study (and even later, in spring 2007) of all county municipalities only that of Kaunas city had its GTP prepared since 2003. Kaunas district municipality still lacked its GTP and the CGA was waiting for the regional plan to be finalised during 2007. This lack of GTP has not so much affected the solution process before 2005 as between 2005-2006. Previous to that, though, changes in land reform, reform of property right restitution obstructed the land use.

155 Interview with an urban planning specialist from the city municipality.
156 Interview with an urban planning specialist from Kaunas city municipality.
157 The processes of public screening, according to the interviewed municipal urban planning specialist, had been replicated from Canada.
Changing Land Use Purpose and Detailed Planning

Also the length of the process when attempting to change the GTP had a negative effect on both sample and population SME development. “Changing land use purpose can take a long time, up to 2 years or so. After 2005 situation got only more complicated.” The procedures gradually became even longer and more resource demanding from the companies.

In short, for the reasons presented here significantly diminished the abilities of mandated or mixed assistance structures to organise adequate assistance in accordance to the prevalent formal regulations. The lack of adequate policy organising related to the presented hindrances in both studied localities indicates a lack of implementation linkage. Such indications provide a good reason to explore further whether the employed bottom-up methodology could possibly miss some important linkages between the formal macro (national level) strategies or policy ideas and the local assistance processes. Chapter 14 will therefore review major formal national (and were relevant EU) strategies in search to identify whether there at all were policy aspirations to assist SMEs with their land related impediments in fulfilling the overall objective to assist SME development and eliminate unnecessary development hinders.

Local actors’ roles and assessment of their abilities to assist

Having considered the reasons to the time and resource demanding process with changing land use purpose (and the GTP) it is time to ask what (if any) assessments the mainly involved actors made of their abilities to assist and whether the interviewees have been making suggestions or found any solutions to improve the situation.

All three major types of involved actors (urban planners, land use specialists and private consultants) had a good picture of manufacturing companies’, especially SME’s, problems with both using land for manufacturing purposes and changing land use purpose. However, the local mandated actors (public servants) complained of their abilities to assist companies. Specialists were especially pessimistic about their role after the changes in law in 2005.

Attempts had been made to bring key local and national decision-makers’ attention of how complicated the situation had became with changing land use purpose for rather small areas (some 0.5 ha or so) with no or little strategic importance for the municipality. The local experts considered it unfair that such small projects required same procedures and resources as the large ones of significance for the municipality. Concerned of the meaningless an burdensome detailed planning and the GTP change procedures urban planners had several times suggested the City Council and even the Ministry of Environment to reintroduce the “operative planning process” used before 2005, but without any success: “Nobody cares about the suggestion neither the Ministry of Environment nor the City Council.”

In addition, city architects made attempts to even clarify the ambiguities in laws and the time limits determined for the procedures in their numerous contacts with the Ministry of Environment (responsible for territorial planning), but fruitlessly. Local urban planners complained that the specialists preparing

158 Interview with an urban planning specialist from Kaunas city municipality.
159 Ibid.
suggestions on territorial planning laws and regulations “do not understand the process themselves; the regulations lack of consistency, and the law suggestions are unclear when attempted to apply in practice.” The planning specialists at the Ministry insisted that detailed planning process was meant to represent a compromise policy and aimed “only at providing guidelines what to regulate, not how.” Ministry specialists argued, in principle, that the laws were good, but their inappropriate application by local experts caused people’s dissatisfaction. Lack of competence and specialists in municipalities and local administrations was to blame. Ministry experts were of the opinion that “flexibility of local specialists is the key factor of a successful solution to land use questions.” However, they admitted that it was a political process where the heaviest role rested with the politicians and not the planning specialists. “...On the other hand, the role of specialists may fade as political decisions take over the dominance.”

We had already discussed (in the section on impact) how the roles of various actors affected assistance success. Some improvements that have been practiced in the city municipality concerned the initial contacts of the urban architects with the Standing Construction Commission on where and what requirements will be needed to allow changes of land use purpose. When such information was presented to the applicant company, it could adjust and specify the application. This assistance, when organised, saved considerable time and increased solution success.

However, the City Council made a decision in 2006 to forbid municipal urban planners to proceed with this process due to the suspicions of corruption. City architects were prevented from meeting their clients (companies and individuals) face to face and only written communication was allowed. On the one hand, urban planners were in a position that allowed them to choose how to present detailed project plans of companies to the members of the Commission and how much to engage in the process of assisting applicants to adjust them. Personal sympathies and interest could play an important role. On the other hand, lack of face to face communication created even more complicated situations to those applicant SMEs that could not afford services of experienced private consultants and prolonged the process. What companies needed was advice on how their plans could be realised and how to present their applications.

“This is absurd! I have examples of how a company is continuing the correspondence with our specialists for about a year and swearing because both parts cannot understand each other. It is a bad solution for all—both for our specialists who cannot provide correct answers to incorrect or incomplete applications and for the company.”

Urban architects had attempted to disregard the prohibitions, but could not act as offensively as before. “But we cannot do much to improve the situation. A whole range of municipal legal experts are watching us. We are forced into certain frames and cannot do much.”

160 G.Tiškus, Ministry of Environment, Kaip planuosime žemę rytoj? Žvilgsniai is varpinių, speech in the conference 2007 02 20 Teritorijų planavimo sistema: problemos ir galimybės.

161 Ibid.

162 Interview with an urban planning specialist from the city municipality.

163 Ibid.

164 Ibid.
Besides, the public screening procedures pertaining to changing land use purpose obliterated even more local actors’ abilities to assist companies and resulted in much less predictable outcomes.

Another major hinder for success in organising assistance has been resource inadequacy. Lack of public mandated actor competence, lack of guidance in conflict situations and lack of consistence and congruence in legal regulations all had a negative effect on assistance adequacy—actors’ willingness and ability to produce a positive impact in solving the land issues.

In short, both mandated (urban planning) specialists as well as hired private agreed on the need to reintroduce the simpler and smoother operative planning procedures for small territorial planning projects, but without support from the formal local or, especially, national decision-makers. In other words, the made assessments of their contributions did not necessarily lead to such policy learning that affected the outcomes. As a response to the hypothesis 5 (see section 4.6), it must be mentioned that it was not enough for local actors to assess and de-learn from the assistance success or its lack, but in the tightly centrally regulated policy area, it required a policy learning upwards, starting from the local political to the national actors. An important hindrance to policy learning though was lack of transparency in the local processes. Or perhaps, this lack of transparency was a reaction to the other actors’ unwillingness to de-learn?

**Trust and interactions between actors**

Mistrust among the involved actors was characteristic to the territorial planning and change of land use purpose processes (especially in the city). Urban planners felt misunderstood and mistrusted by the local elected politicians, but also mistrusted them. Evidently, there were occasions where those two actor groups could act on behalf of their private interest. As a result of this mistrust and lack of fruitful communication, the urban planners’ suggestions for improvements in detailed planning process have not been treated seriously by politicians.

Neither was the cooperation between the County Governors’ Administration—representative of national government in the region with supervising powers in territorial planning—and the Municipal Councils smooth or fruitful. Specialists at the Ministry of Environment (responsible for territorial planning) lacked trust for the municipal planners and local municipal procedures, while local planners mistrusted the Ministry for its lack of interest in local matters and communication. Decision-making realities on the local level were not in congruence with the national regulations, at least regarding time limits. In short, both organisations demonstrated lack of willingness to understand each other.165

Even greater misconceiving and conflicts existed between two national strategies and the pertaining regulations—the land reform and territorial planning processes. The major national actors—the Ministry of Environment and the Ministry of Agriculture had both two contradicting strategies and tasks for municipalities. On the one hand, conducting land reform required that restitution of land rights and formation of additional plots for the legitimate owners were prioritised. On the other hand, territorial planning regulations required local specialists to develop municipal territories according to a congruent development

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165 Interview with an urban planning specialist from the city municipality.
conception. These two goals were constantly in conflict with each other and so were some local and national actors.

“Politicians have everywhere loudly declared that the land reform would be completed at the end of 2007. Nonsense. What they meant was—leave it to the municipalities and they will complete it. This is nothing else than a purposeful attempt by the central government to strangle municipalities since they do understand that it is quite unrealistic. They press municipalities to restore rights to land in Kaunas to as many owners as possible. Now from those private land plots municipality itself has to buy up parts of the land plots at market price for public infrastructure.”

Moreover, national ideas and changing classifications of territorial planning and land created much obscurity for local specialists. However, objections from local specialist against too detailed central regulations and sometimes meaningless complexity in the planning processes had not been properly attended by the national decision-makers. As a result of poor fit between the goals of local strategies and the multiple conflicting local needs as well as the lack of trust, the observed impediments in the assistance process could not be successfully attended. Processes remained complex and lengthy with all the negative consequences for manufacturing SMEs.

Due to the clash between the national strategies and lack of adequate resources, in using their discretion local specialists often found possibilities to misuse the situation. As a result of malfunctioning local mandated assistance structures, the documentation process lasted for months and years, access to information was obstructed and transparency in some processes often ignored. All this required much time and financial resources from companies to increase the success and adequacy of the assistance offered which often resulted in privately enrolling non-mandated consultants (a mixed assistance structure) or offering undue favours for mandated specialists, or sometimes both. In many cases still the assistance was inadequate or its outcomes unsuccessful. To conclude, assistance if delivered by attempting to confirm to the formal (especially national) regulations often did not result in adequate policies. Performance, i.e. greater discretion of assistance actors, when applied, was also problematic, as it sometimes built on a lack of rule of law and prevented some companies from access.

Companies’ role

SMEs that could not afford private professional assistance had to undertake an active role in the process. Knowledge of the procedures could empower companies and increase their chances for successful assistance. However, an ordinary businessman had problems with filling in documents and applications. Especially companies encountered difficulties in presenting their plan proposals to the urban architects or members of the Standing Construction Commission. Complex and sometimes non-transparent procedures severely reduced applicant SMEs chances to reach a more successful solution. An architect from consulting company dealing with detailed planning noticed:

\textsuperscript{166} Ibid.
“There is a lack of information on how to present the needed documentation. It is difficult to get the planning conditions, and the process of confirming plans to conditions is both complicated and prolonged. It is with these processes that companies ask for our assistance.”

Therefore, lack of information and assistance with those issues diminished company’s access to the process. SMEs role however, was essential for achieving more success in assistance outputs and its adequacy in general, a fact that could not easily be revealed with the help of the top-down methodology (especially the relationship between the hired consultants and the mandated process actors).

Resources

Contradicting and frequently changing legal regulations, meaningless and burdensome detailed planning and the GTP change procedures, low priority for development of industrial lands as compared to agricultural, all these are signs of inadequate national resources.

“The very laws, legal acts have been changed nearly 20 times during the reform period. And what is worse, these changes have occurred not in the sense of improving some taken course, no. Until year 2001 reform has proceeded, let’s say towards one direction, and then, the Constitutional Court changes its direction completely.”

In addition, lack of qualified and motivated specialists, dilemmas created by discretion and lack of legal guidance negatively influenced the assistance processes. Besides detailed planning work, mandated specialists were overloaded with tasks pertaining the ongoing land reform and the conflict situations it entailed.

“There are attempts from various decision-makers to make us, (read urban planners) responsible for conducting the land reform in Kaunas city, but this is not our responsibility. However, there is no other responsible department at the municipal administration dealing with that.”

Many projects were rejected because of the conflict situations with several interest parts involved where literally speaking “the guns were raised”. The fact that during the study period legal rights or the responsibility of the concerned mandated actors (especially architects) had not been clarified in the laws or judicial practices—at least not to the knowledge of the interviewed specialists—indicates insufficiency of formal institutions and the rule of law. As a result of this legal insecurity and inadequate tasks interested architects to fill municipal vacancies were lacking. For the same reason, the fees of private architect services had increased heavily (up to 10 times according to the IP) since they had to take into account the lawyer expenses. Services of such firms as well as consultancy fees for detailed planning were not regulated and thus seldom available for smaller businesses.

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167 Interview with a private consultancy firm on detailed planning.  
168 Interview with an urban planning specialist from Kaunas city municipality.  
169 Ibid.
Conclusion

Access to suitable premises and land is a critical issue for the development of manufacturing SMEs. Unless they are solved often companies cannot proceed with the solution of other important challenges such as access to additional finances. In the studied transition context, however, the importance and frequency of land issues in diverse SME challenge solution processes made them stand out as one of the most aching problems in Lithuania in general and Kaunas region in particular. This was one of the societal and companies’ needs that clearly required to be treated as policy problems and were in need of public policy solutions. The lack of adequate public assistance policies (protracted or non available solution organising) implied dangerous delays and changes in the plans of companies that considerably lowered their competitiveness in the market.

Complaints about the strategy and implementation of the ongoing land reform not only were frequently escalated in the national mass media, but were also among the most frequent at public audit and control agencies: the Seimas Ombudsman’s Office of the Republic of Lithuania, Special Investigation Service of the Republic of Lithuania, State President Office, etc. Seimas Ombudsmen in their yearly analysis of the situation with land reform and restitution of ownership rights noticed that local specialists were often accused of bureaucracy or malfunctioning. The ombudsmen recognised also the lack of good will and cooperation on those issues between municipal and county administration civil servants. Besides, with still ongoing land reform local specialists were overloaded with detailed planning work and conflict situations.

170 See e.g. Seimo kontrolė (2002); Valstybės kontrolė (2007) and reports from Special Investigation service at www.stt.lt. Citizens and companies complained mostly about the extremely prolonged waiting processes to restore land ownership rights or inability to restore the rights to the original land plots where those were given other legal owners. Very complicated and prolonged procedures were reported in the interviews with companies pertaining to legalizing the ownership to the land plots, such as cadastral land measurements, detailed planning procedures. Land owners complained of being unable to use the land for the intended purpose.
10 Attracting a Skilled Workforce

This chapter addresses assistance organised to one of the four major identified development challenges of our sample SMEs—lack of (skilled) workers. It depicts the ways sample SMEs tried to address this challenge and looks at which external support the companies used in practice. It will attempt at identifying the eventual SME assistance structures that evolved in helping SMEs to cope with the shortage of workforce. In terms of public policy adequacy, this chapter addresses the success of actors, strategies and resources involved in making a positive impact on solving workforce problem of those companies.

10.1 Background to the Challenge

The Lithuanian labour market has during the past 18 years been struck by great losses in workforce. Since the restoration of independence in 1990, at least 300,000 people have left Lithuania for employment in other countries. This amounts to about 10% of the total number of Lithuanian residents (about 3.4 million in 2006). In 2001-2006, 168,700 inhabitants left the country, most of them as job emigrants (Pilietinės visuomenės institutas, 2005; Nacionalinės plėtros institutas, 2006a). These are, however, preliminary figures, since unofficial emigration is estimated to be much larger (ibidem.), but instruments to measure it were lacking. In fact, many emigrants left Lithuania without making a record in the official register. In particular, small settlements and rural areas have been drained of inhabitants.

Emigration has especially affected manufacturing and processing industry in Lithuania since many of the emigrants had diverse industry professions. The challenge that comes with keeping or attracting a skilled workforce has only grown in importance during the study period and finding solutions to it has become very problematic. Lithuanian accession to the EU in May 2004 further increased the access to the western labour markets, which has only fuelled the problem. Some 50% of all companies in Lithuania experienced a workforce shortage in 2006-2007, which makes this a major macroeconomic issue (UAB ETKC, 2007).

Emigration created substantial job vacancies for qualified specialists in manufacturing industry in the whole country. Kaunas, the fourth largest city in the Baltics, has historically been a major industrial centre of the region, enrolling

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172 The recent Lithuanian immigrants in Great Britain are claimed to amount to about 200,000; large numbers of Lithuanians have also emigrated to Ireland, Spain and the US; somewhat smaller numbers to Germany, Scandinavian countries, Canada and Australia, see Pilietines visuomenes institutas (2005); Nacionalines plėtros institutus (2006).
173 According to the data from Lithuanian Department of Statistics, job vacancies in processing industry in Lithuania in 2006 amounted to 5,274 or 27% of all offered jobs (19,533); source: Annual data on job vacancies and occupied posts, Job vacancies and occupied posts, by kind of economic activity, www.stat.gov.lt.
nearly 1/4 of the workforce in the processing industry.\footnote{174} No wonder that lack of suitable workforce was perceived as a major challenge among many sample SMEs.

The ever-increasing migration to the EU and US was a major, albeit not the only, cause to the urgent Lithuanian workforce shortage. Another important factor of the difficulties in finding skilled workforce was a lack of education and suitable professional skills among jobless. As late as 2004, 40% of the unemployed in Lithuania had no profession and only secondary school or lower education.\footnote{175} In this group, there was an especially large portion of young people with no or non-adequate education. In fact, emigration had a major impact on the plummeting unemployment numbers in Lithuania from 16% in 2001 to 5.6% just 5 years later, in 2006. The high unemployment in the age group 15-24 decreased from 28% in 2003 to ca 15% in 2006.

Extensive emigration and lack of skilled jobseekers had contributed to the continuing demand for workforce. In fact, the demand kept increasing even after 2006 and amounted to 12,645 job vacancies only in Kaunas region of which 26% were in processing industry. This was an increase by 23% as compared to the first half of 2006.

With this background in mind, we will now turn to the analysis of our sample. The next chapter explores how this challenge was perceived and identified by the companies of our study.

10.2 The Challenge

In our sample, lack of work force significantly impeded thirteen (of 31) companies in their development. Attempts have been made in at least 14 cases to organise solutions to this problem. Lack of workforce has been a major challenge to 5 or 33% of the sample district companies and to 8 or 46% city SMEs. Employee shortage had an effect on all the studied industries: food industry (2 companies), wood processing industry (4 companies), furniture manufacturing industry (3 companies) and sewing and textile industry (5 companies). In the city municipality, lack of workforce shortages was mostly felt among wood processing and sewing industry while in the district furniture manufacturers were affected most. The situation was particularly serious in the sewing industry in Kaunas city,\footnote{176} where 5 of the 6 interviewed companies had been stroke by the lack of specialists.\footnote{177} In general, the interviewed sewing companies employed a relatively large number of people: 42, 31, 110, 70 and 330 employees and had several job vacancies or were dissatisfied with the qualifications of their employees.\footnote{178}

\footnote{174} The figures for 2006 indicate that 23.3% of the workforce was enrolled in the processing industry according to EURES. Source: \url{www.europa.eu.int/eures}, retrieved 2007 03 16.

\footnote{175} The Lithuanian Department of Statistics, Press Release Nr. 03/128, 2004 09 29.

\footnote{176} No sewing companies from the district municipality have been interviewed as this industry was not among the 3 most dominant ones there.

\footnote{177} Out of these companies 1 was a company that did not classify as a SME according to the number of employees which amounted to 330, but it did qualify as an SME in regard to the yearly turnover and other economic statistics.

\footnote{178} The interviewed textile industry had only 5 employees, but it had also a specific profile based on the use of traditional handicraft technologies.
10. Attracting a Skilled Workforce

The workforce emigration created several problems for the employers. Firstly, it did not only drain the Lithuanian market of many specialists, but contributed significantly to the great rotation of employees in the manufacturing and processing industry. Introducing every new employee to his work tasks required much time and resources from SMEs. It was an extra burden for the companies to devote resources to employees whom they often could not make to stay. Such situations presented a related workforce challenge to the employers—to make the available specialists stay in the companies.

Secondly, outmigration resulted in a great shortage of specialists within certain manufacturing activities, particularly in wood processing, furniture manufacturing and sewing industries. Employers complained: “Actually, to be a bit blunt, the ones who stay are women, pensioners and children or those who are not willing to work.”

The following example from a wood processing company highlights the problems involved in finding suitable specialists in some industries.

A wood processing company in Kaunas city has been struggling with lack of workers to its newly opened manufacturing line for 1.5 years at the interview occasion. The manager complained about the difficulties in both finding and keeping good employees. In just 18 months the company has changed about 50 (!!) workers (the total number of employees in the company was 35). Some of the workers have left for other companies and higher salaries (shortage of specialists made the salaries of skilled employees inflate several times!) some changed jobs, others emigrated. The manager complained: “If you can find one good specialist per year— it is seen as a good result in this business. What can you expect with such statistics?”

Even if finding less skilled employees seemed less complicated, it was resource demanding to train a specialist for a particular task: “When it comes to the human resources, you have to invest in an employee ca 1-2 years until you have moulded the specialist you need.” However, it turned to be problematic to find motivated workers even for less skill-demanding tasks. “It is even hard to find persons that could be trained for an easier job tasks in a month or two. It is difficult finding workers you could trust.”

How did this lack of satisfactory solution affect the development of the company? Since 2000 and during the whole study period the wood processing industry has been experiencing a growth period and this company had enough of orders, sometimes more than they could manage. “We could open another manufacturing line, but we have no inclination for that with regard to difficulties with finding qualified employees.”

This example illustrates the situation as it was perceived by SMEs not only in wood processing but also in furniture manufacturing, sewing and some food-processing industries in the sample municipalities, and in those manufacturing industries in Lithuania in general.

In short, the workforce shortage challenge consisted of two interrelated issues—difficulties in finding and attracting skilled employees to the job vacancies and preventing (mostly skilled) workers from leaving companies. However, companies

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179 Ibid.
180 Interview with a city wood-processing company (15c).
looked for external assistance mainly with the search and attraction of skilled employees making it a policy problem for the addressed public and private actors.

10.3 Actors Addressed for Assistance

Frequently, companies had several, sometimes numerous, jobs on offer. They did not approach the assistance actors for analysing or identifying the challenge since they perceived it as evident. They turned to public and private actors to assist them in the search for alternative solutions to finding and attracting the needed (often skilled) workers.

Our sample companies have reported contacts with at least eight different actors in the Kaunas region. Except for the two private actors—Edmundas/LCG company (a subcontractor in sewing industry) and a private employment agency, the remaining actors were mandated specific tasks in the national government labour market measures—to train and educate skilled workforce or mediate between employers and jobseekers. Initially, SMEs had contacted several types of actors: 1) The state Labour Exchange Agency (LEA), 2) Kaunas Petrašiunai Labour Market Training Centre (LMTC), and 3) some vocational training schools in Kaunas city (VTS), including Training Centre for Construction Specialists; Vocational School for Construction Workers, and Kaunas Vocational Training Centre for Service Business Specialists. All of those actors had been interviewed for the study.

In general, the following were the most frequent ways sample companies attempted to look for solutions:

- a) via Lithuanian Labour Exchange local offices;
- b) via Petrašiunai LMTC;
- c) via three vocational training schools;
- d) via private actors—employment agencies, acquaintances and companies, and
- e) via advertising.

Often, several types of solutions were attempted by the same company. Solutions of type a), b) and c) were attempted by addressing the public actors mandated labour market tasks by the government and the remaining type d) and e) refer to solutions organised by the companies via private non-mandated actors.

Local Labour Exchange offices and Petrašiunai LMTC were the actors sample SMEs were most in contact with (8 and 4 times accordingly). Some companies have been in contact with the vocational training schools or non-specified private employment agencies. Often, workforce or advice was looked for at other companies (especially recently bankrupt ones) in the same industry. Advertising in local and regional newspapers, internet and television, was another popular measure.

One of the most frequently contacted assistance actors, Lithuanian Labour Exchange at the Ministry of Social Security and Labour, was established in 1991 and in 2006 it had 46 local Labour Exchange offices: one in Kaunas city and one for each of the 8 district municipalities in the Kaunas region. The state Labour Exchange Agency (LEA) had been authorised to implement state employment guarantees on labour market, provide assistance for job seekers in finding job, provide employers with necessary skilled labour force, involve registered job
seekers into population employment programmes (vocational training and retraining, organisation of own business, placement into public works and works financed from the Employment Fund, establishment of new jobs, activities of job clubs). It also paid unemployment benefits. LEA organised adult vocational training and re-skilling via public procurement where Petrašiunai LMTC, vocational training schools and private companies participated.

In their search for skilled workers, sometimes companies addressed vocational training schools for help. The analysis below refers to attempted assistance by several schools—Vocational Training School of Construction Workers, Training Centre for Construction Specialists (a vocational training school) and Vocational Training Centre for Service Business Specialists. The schools offered training of both young specialists and re-skilling of adults for demanded specialties in sewing, wood processing and manufacturing industries.

Yet another contacted actor, Petrašiunai Labour Market Training Centre (LMTC) in Kaunas was a private professional training organisation with experience from 1958. Originally it was established as a vocational training centre at the Soviet Lithuanian Ministry of Construction and after the restoration of independence reorganised into a private limited company. During the study period 2000-2006 the centre conducted adult vocational training and re-skilling courses for dressmakers, joiners, saw frame machinists and some other demanded specialties in wood processing, furniture manufacturing and construction industries.

The approached actors perceived the lack of workforce in processing industry and their ability to assist companies as a difficult task. They described it as a complex issue both in need of suitable workforce to be skilled, lack of interest in some of the specialties as such (especially dressmakers and saw frame machinists) as well as inability of many employers to attract specialists by higher wages and more attention to the employees. Thus, actors saw the success of their assistance conditioned on the cooperation with or behaviour of employers.

The following sections will analyse solution alternatives identified and actor constellations that evolved in organising resources for chosen assistance. In addition, alternatives that have been identified, but not organised, will be presented to discuss actor flexibility and resource adequacy.

10.4 Identified Assistance Structures

Let us now explore the ways SMEs had attempted to solve lack of workforce. What public or private actors have been addressed for assistance? What assistance could they offer and did they make it their task to assist sample SMEs? In their attempts to assist how did actors and resources (local, national or EU) combine into possible assistance structures and with what impact for the workforce challenge solution?

Sample SMEs most often addressed the mentioned mandated actors in their search for available specialists—jobseekers as well as those under training, (solution alternative F2-1) The mandated actors frequently offered an additional

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181 Interview with a representative from the state Labour Exchange Agency; also information from its website: www.ldb.lt.
alternative (F2-2)—training of company employees (with financial assistance from government)—that too few companies had considered in the first hand. The analysis below explores how these challenge solution alternatives manifested themselves in organising assistance resources.

Solutions to the challenge were organised or attempted in different ways. The assistance organising structures depict primarily assistance that had reached the resource organising phase and was used by several of the sample companies. The roles of actors in different assistance organisation phases and their interactions were crucial for those assistance structures to evolve. Sometimes, though, actors depicted assistance organising structures relevant for our studied manufacturing industries in general, but not (explicitly) reported by our sample companies. In such cases the distinction is highlighted.

Companies initially turned to several of the actors for assistance and several of them—especially LEA, VTS and LMTC—actually participated in both identifying further solution alternatives, resources and organising them. Here the roles of those actors and internal and external resources organised will be explored.

**Assistance structure via LEA**

Sample SMEs were primarily searching for available specialists through direct contacts with LEA. The agency was a major assistance organising actor for both types of solution alternatives.

Well-aware of shortages of skilled specialists in the region and great numbers of job vacancies, especially in certain industries, local Labour Exchange offices attempted to mediate between jobseekers and employers. For whatever of the two major assistance alternatives SMEs addressed the agency it frequently suggested companies considering both solution alternatives. Some of its assistance measures were more popular and successful than others among sample SMEs as well as the small and medium business in the studied manufacturing industries.

In general, LEA assisted SMEs primarily with advertising job vacancies in mass media, but that would not necessarily lead to success in assisting companies. Therefore, specific measures were needed. LEA had assisted with both own resources and the available government programmes. In directing jobless with relevant skills to available job vacancies LEA occasionally succeeded in assisting SMEs with: a) employing physically disabled people, b) providing support for jobs for long time unemployed and attracting jobseekers from the whole regional labour market by increased labour mobility measures, or c) attracting senior or retired specialists (or retaining them in the companies). There were other resources suggested by the LEA (see section 10.5), but they could not help sample SMEs when needed.

Some sewing companies from our sample have occasionally accepted employing physically disabled people in the absence of better offers. In such cases, LEA offices have mediated government compensation for employment of the disabled. In the particular cases analysed it was actually vocational training schools that suggested this alternative to companies. Jobs in other studied industries were too heavy or complicated to make use of disable workers.

Measure b), or increased regional mobility programme, allowed employers to register their job vacancies and search for specialists even in localities other than their own municipalities. This measure applied even to jobseekers. This type of
assistance has been used by a food-processing company in the district. LEA has attempted to organise other resources—a government compensation for establishment of jobs for retired specialists (measure c)—to a district wood processing company. All of the measures attempted have been organised only occasionally. The next chapter on the impact of assistance structure will discuss what reasons prevented these measures from bringing more success in assisting sample SMEs.

When addressed by SMEs, LEA attempted to also organise assistance with the second solution alternative—retraining of employees (or re-skilling of less or non-skilled jobseekers) for the demanded qualifications. LEA mediated special government assistance available to compensate the employers for the re-skilling of their non-qualified employees if those could behold their jobs. It was the responsibility of the agency to arrange public procurement for purchasing adult re-skilling courses for the demanded specialities. In that the agency cooperated with other actors—VTSs, LMTC and sometimes larger private companies that organised adult courses of professional training. Assistance could be organised via any of those actors that won public procurement. Some of the interviewed companies, especially in the sewing industry, have used this assistance.

Several of the companies indicated direct contacts with Petrasiumai LMTC in search for suitable specialists among their course participants. Other SMEs experienced contributions by the centre mainly via LEA that redirected jobseekers who were re-skilled at the centre to those companies. Occasionally sample companies accepted to cooperate with LMTC in offering a work practice to the trainees of specialities they would be interested in. Nevertheless, in none of the cases companies were able to find suitable employees among LMTC trainees.

On other occasions similar adult re-skilling courses of the same specialities could be arranged either by schools of professional training or large private companies in constant need of certain specialists.

LEA’s role in assisting sample SMEs and its interaction with other actors allows it to be treated as a solution organiser or a linking actor between several organisations around which a structure of assistance occasionally evolved. This was the most frequently used assistance structure among the sample companies. However, we will discuss its importance for SMEs regarding solutions of their workforce challenge in a forthcoming section on assistance structures’ impact. Only then we will be able to assess it in terms of assistance policy output and adequacy.

**Assistance organising via vocational training schools**

In some cases, VTS have acted as assistance organisers. In such cases they either have been contacted by SMEs directly to assist with specialist search or re-training or took contacts with companies themselves. Schools could offer companies several ways of making use of their students based on school’s internal resources: a) enrolling school students in companies’ activities during work practice, or b) employing school graduates. On few occasions sample SMEs (sewing industry) succeeded in enrolling school pupils or graduates in their companies to fill (at least partially) their vacancies for demanded specialities.

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182 Interview with a city sewing company (1c).
As to the work practice, schools were active in searching for contacts with companies that would accept their students for practical training with prospects for future employment. The interviewed schools had established contacts with a number of companies in the manufacturing sector. VTS showed flexibility in adapting to the employers’ needs when organising work practice for their students. Professors kept lists of companies’ needs they were in touch with to see what students they could send for short-time practice or recommend after completed training. For example, to adjust to the employers’ needs, schools tended to arrange work practice for wood processing specialists during March-November months. This way companies that were often overloaded with jobs during the warmer half of the year could make most use of the young specialists. Occasionally schools could assist companies with their pressing orders by releasing their students for assistance instead of their practical work at school. In general, according to the school representatives, especially last year students have been of interest for the employers of the studied industries, and it was seldom difficult to arrange job practice for them. However, this type of assistance was only occasionally used by the sample SMEs and it was schools that took the first contact. Sometimes sample companies had been able to enrol school graduates to their vacancies.

Schools would sometimes suggest companies re-training of their employee in the evening courses for adults. Occasionally employees themselves found courses at VTS that matched their qualifications. For example, employed dressmakers with no formal education would go evening courses to get a certificate their employers needed to qualify for export to the EU. Schools frequently attempted to adjust their courses to the situation of the employed by among other things offering individual evening training and flexible schedules. However, the interviewed company managers indicated that this measure did not normally attract new re-skilled specialists, but only increased the qualification of the already employed.

In sum, vocational training schools had sometimes succeeded in organising assistance to SMEs on their own with the help of internal resources or sometimes by involving LEA and government assistance programmes (for example, for employment of their disabled students). Therefore, there evolved an independent solution structuring via schools occasionally used by the sample SMEs for their vacancies. It was also quite adequate in its manner from the SME point of view. In other cases, especially in the re-skilling alternative, schools were mostly involved by the LEA as a part of LEA assistance structure. As the assistance organised via VTS was seldom used by the sample companies, it shows too little evidence of a systematic assistance structure and thus policy.

Sometimes partial solutions were achieved by assistance from private employment companies, but there are too few cases reported to discuss this

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183 Ibid., see also interview with the Training Centre for Construction Workers, section for wood processing and construction.
184 Interview with a programme manager at the Vocational Training School for Construction Workers.
185 There was a positive cooperation between the vocational training school with textile and sewing classes and some sewing companies.
186 Interviews with sewing companies (1c, 3c).
187 Interview with a city wood-processing company (16c).
assistance as an alternative assistance structure. Rather it should be treated as occasional solutions.

Conclusion

The empirical evidence suggests the existence of at least one assistance structure organised to assist manufacturing SMEs from the studied industries in Kaunas region—via LEA—and an additional ad hoc assistance structuring via vocational training schools. Sometimes the VTS assistance was a part of the LEA assistance structure, and occasionally schools could come up with solutions on their own or by engaging LEA and government assistance. The assistance structure via LEA could engage both VTS and LMTC as retaining actors, while for attracting workforce both LEA and VTC or LMTC, when directly addressed by the companies could suggest solutions both involving or independent of other assistance structuring actors and resources. It was very seldom though that the sample SMEs contacted LMTC directly.

Assistance with attracting specialists to job vacancies in sample SME cases were organised primarily by one major actor, either LEA or VTS, while assistance with adult re-skilling was based on interactions with several of the actors: LEA, VTS, LMTC, i.e. was of an inter-organisational character. However, in attracting the needed specialists assistance actors frequently relied on their own or other assistance structure actors’ re-skilling capacities. When contacted regarding adult re-skilling, LMTC and VTS often cooperated with LEA in organising government compensation for the employees to be trained. To be eligible for re-training compensations, the employees had to be warned with firing. In organising assistance with either of the solution alternatives actors had attempted to organise various own and available government (or occasionally EU) resources.

In addition, while most often the interviewed companies approached public mandated actors (LEA, VTS and LMTC) to assist them with one predefined solution alternative (finding demanded specialists), frequently the actors identified and attempted to organise alternative ways to assist—(such as re-training) thereby engaging themselves more actively in assistance organising. Nevertheless, the empirical analysis reveals that the two referred types of assistance to the lack of workforce have contributed only occasionally. Pressing demands and shortage of time often prevented SMEs from considering the re-training alternative.

10.5 Other Assistance Alternatives

In addition to the analysed resources and assistance organised, the approached actors (especially the LEA, schools) have attempted to identify additional alternative solutions. I will consider alternatives suggested by each major actor who for various reasons have not been attempted in organising solutions by or to sample SMEs.

Via LEA

In general, searching for available specialists, rather than retraining the employees, was more popular with SMEs, as it implied a faster solution organising.
After considering the particular situation and the needs of a company, in addition to the previously mentioned measures, the state Labour Exchange Agency used to offer companies also other ways to assist—for example, via labour market fairs, where employers could come into contact with jobseekers or by making use of a newly created data bank of retired specialists. Both of those measures were primarily based on LEA’s own resources. In addition, the agency would suggest a government compensation for establishing new jobs enrolling long time unemployed. Here I will not consider measures that have not been mentioned by the interviewed SMEs or were introduced after the interview occasion.

Labour market fairs arranged by the local LEA offices, however, could seldom provide a solution to smaller companies, as these were often not capable of attracting the available workforce on the same conditions as larger or better off companies marketing themselves much more offensively there. Support for creating new jobs could not be used by concerned sample companies as LEA could not find jobseekers capable of undertaking offered jobs. Thus, solutions could not be organised this way not due to the lack of solution alternatives, but due to their inadequacy (or insufficiency) to the needs of the studied SMEs. Indeed, many companies were sceptical about assistance mediated via LEA and were longing for “real” specialists or jobseekers interested and capable of performing the needed tasks. Many SMEs would have considered providing certain practical training in the company if a suitable potential employee was found.

Via Schools of Vocational Training

When in contact with companies from the manufacturing industries schools showed considerable flexibility and attempted even other ways of addressing the lack of specialists. The interviewed vocational training schools had made attempts to make use of various EU assistance projects on competence development or exchange of experience with foreign partners to address the needs of the Lithuanian labour market. For instance, a new type of course at a VTS, which was made possible by an EU project, served to attract more students to low interest dressmaker’s speciality introduced in 2005. This positive measure implied, though, a more indirect and rather modest help to SMEs. Some companies were even pessimistic about its impact: “It is no longer possible to attract people to the sewing education, people do not want to work in this industry any more. The situation has only worsened the past 10 years. Vocational training schools can no longer collect full classes. They do try with nice names and titles to attract attention to something else, but in vain…”

Sometimes vocational training schools would send their students to companies for short time assistance with large orders, but none of our SME had used this help. It was often larger and more prospective companies that schools preferred establishing contacts with for that type of cooperation.

In short, even if attempted alternative measures might have been relevant for the SME needs and were based on the creativity of actors, they were not necessarily sufficient in the time period. In addition, employers needed to show their interest in the students to make them stay in the companies after having completed education.

188 Interview with a city sewing company (3 c).
189 Ibid.
Sometimes the schools confessed that the Soviet system of master and apprentice worked very well and allowed the new specialist to be integrated into their tasks and feel the needed support from the employer. Now the young newly educated specialists felt lost and alone in their new jobs and this frightened them off.

Training by Private Companies

Sometimes larger private companies in need of specialists could win public procurement for organising training courses. Although the training was meant to increase the supply of the needed specialists in the regional market, often such companies intended to make the trained specialists fill their job vacancies. However, even though those companies were both modern and rather well organised, they did not always succeed in making the trainees stay with them. Many graduates had chosen to emigrate or look for jobs at other Lithuanian companies.

Other smaller companies in the business, such as the sample ones, could possibly feel some effect of this type of training, as they were mostly looking for specialists with work experience from other companies. However, arranging training courses was out of the question for the studied SMEs as it demanded too much time and resources, but could often consider training of suitable individual employees. Lack of specialists created great job rotations in the studied companies and only the ones who could offer the best salaries could make the best specialists stay.

Conclusion

The suggested alternative solutions indicate actors’ interest in assisting SMEs, often correctly identifying their needs. However, lack of use or positive impact of these alternatives indicates their inadequacy or SME lack of access. This is true of both the referred formally regulated and individual assistance alternatives.

10.6 Solutions Organised or Attempted by the Companies Themselves

As the assistance from contacted public or private mandated actors was often inadequate, companies frequently had to look for solutions engaging private non-mandated actors or on their own.

In their attempts to find skilled specialists, they often turned to other companies in the same business, especially those recently bankrupted. This popular search for specialists among the recently bankrupt businesses often, however, resulted in failure or only in partial success. The few available specialists often had been approached with multiple attractive offers difficult for smaller and less well-off companies to match. As a result of this great demand of “free” specialists, they rarely were in contact with employment agencies. Due to their great shortage, finding some of the specialists, for example, saw framer machinists and

190 As an example could be mentioned sewing companies Baltija, Dobilas, Audimas, information from the interviews with LEA, LMTC.
dressmakers turned to be extremely difficult. This need, although imminent, remained unsolved in many companies both in our sample and in the trade.

One sample wood processing company has organised solution to its lack of skilled workers by hiring qualified workers from another company to train his employees. “Had my workers at the start of manufacturing had the competence they have now, the company would have achieved much better results by now and I would perhaps not have found myself in a situation now attempting to change specialization.” However, not all specialists could be trained this way.

Knowing how little assistance with finding suitable employees via LEA, VTS and LMTC could help, companies sometimes tried to attract specialists from their competitors and occasionally succeeded in that. In the situation where the domestic work force did not suffice, some companies solved the problem by importing workers from neighbouring, less economically-developed countries, especially Byelorussia and Ukraine. This was especially true of construction but, to some extent, even for wood processing or sewing companies. In these countries there was a surplus of cheaper, better motivated skilled workers who could have meant survival or growth to many Lithuanian companies. However, none of the interviewed SMEs had attempted this alternative because of difficulties with labour and residence permits. Until 2007 the policies of Lithuanian government had not been adjusted to this development and did not facilitate import of work force. Lastly, own advertising in local and regional newspapers and other mass media or searching for specialists via private network was frequent and often one of the more successful ways to find specialists.

In sum, the approached bankrupted companies or acquaintances did participate only in the last solution organising phase, namely identifying potential jobless specialists to be contacted by the SMEs. In such cases solution organising processes circled entirely around SMEs and could be characterised as self-organising. Success of this solution alternative depended largely on the company’s contacts in the trade, local knowledge and prompt reaction. Occasionally the sample companies had succeeded in tracing specialists this way.

10.7 Impact of the Assistance Organised

Having analysed contributions by each major SME contacted actor and assistance structure organised to assist the sample companies it is now appropriate to analyse their impact. This section presents conclusions on the impact the assistance actors alone or in interaction with others (via assistance structures) have achieved on the solution of sample SME workforce challenge.

Impact of Assistance Structure via LEA

Assistance via the state Labour Exchange Agency has been organised both with attracting available jobless specialists (alternative F2-1) and with re-skilling of companies’ employees (alternative F2-2). The delivered assistance to our sample companies included following:

191 Interview with a district wood-processing company (12d).
• Assistance for employing physically disabled jobseekers;
• Assistance for establishing new jobs;
• Assistance for employing long-time unemployed;
• Assistance for offering jobs to senior (retired) specialists.

Assistance organised with attracting skilled workforce by employing physically disabled people only occasionally (used by only one of the sample sewing companies) brought partial success as it did not bring the desired result (impact B, table 10.1). The disabled workers often needed longer time than ordinary staff to fulfil their tasks, but could not be employed full time. The attempted solution by the company to employ them half time while allowing them to complete their tasks by working longer hours had encountered hindrances from inspecting agencies “Even though some of our workers do not manage to do the job in half time, since they work slower, the institutions (read state inspecting agencies) show no understanding for that.” State Labour Inspectorate used to fine the companies where disabled workers were found working longer hours than they were employed for. Problems with extended working hours as well as difficulties in finding disabled capable of performing certain physically heavy tasks was the reason this measure would not fit most of the SMEs in the studied industries.

In one sample case, a district food-processing company organised assistance via two formal measures: government assistance was offered to establish new jobs and non-skilled long-time unemployed have been attracted by LEA to the company from another district (increased labour mobility measure). Both measures were used and were a success. These measures possibly helped because they were applied early in the study period and because the company needed larger number of non-qualified workers. However, none of the other sample SME have mentioned this resource. The state Labour Exchange Agency noted the failed effect of its assistance to many industries. Many manufacturing companies of city municipality had their manufacturing premises in the districts and so extended the reach of the employee search. Companies therefore often already had knowledge and labour contacts in those districts and this LEA measure was of little help in such cases. For skilled specialists this programme was of little help, as they were in demand in many localities.

Attracting senior or retired specialists was not an effective measure either. Sometimes companies would accept keeping specialists after retirement or attracting some, but experienced retired specialists showed little interest in undertaking often heavy manual jobs in manufacturing industry. “Our company would even accept employing pensioners, but there are very few ones that still can or will work.” So, this type of support provided by government via LEA was of very little use among sample companies.

As mentioned in section 10.4, LEA assistance structure provided even for retraining of adults and non-skilled employees for the demanded specialities in cooperation with VTS, LMTC and occasionally larger private companies. Government offered preventive measures for companies against firing their non-

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192 Interview with a city sewing company (1c).
193 Ibid.
194 Interview with a city food-processing company (4c).
195 Interview with a city sewing company (1c).
qualified employees. Those employees could be trained in cooperation with LEA at LMTC if companies would keep them afterwards. Even though these services were used by several sample SMEs, in general, employers were not satisfied with the re-trained specialists send by LEA. The criticism was especially directed towards training of specialists at LMTC. In fact, sample SMEs confessed the trained specialists often needed additional training with modern equipment in their new work place. A company owner put it this way: “There’s a lack of attention to human needs. The labour market training centre receives its financing for the number of people they train and this makes them forget the individuals and their training quality.” Centre, confessed of the lack suitable trainees and often suggested employers to look for an interested specialist themselves and then send it to the centre for re-training. However, companies had same difficulties in finding suitable people or employees to be trained as the centre.

Companies were mostly interested in LMTC’s help to find appropriate workers. In cases when companies attempted cooperation with the centre in arranging practical work place training for the course participants it did not bring a positive impact. Companies were disappointed at the possibility of finding potential employees from those courses. Some of the participants were either uninterested or incapable of being trained for the particular tasks. Possibly other specialities prepared at LMTC were more positively treated by other companies, but not by our sample. Vocational training schools in general looked negatively upon the rather recent establishment of LMTCs in Lithuania and criticised their lack of long-term experience, qualification of teachers and technical equipment for teaching purposes. Thus, even though companies sometimes approached LMTC directly and the centre attempted organising solutions, they most often did not bring any positive impact on solution. For this reason, LMTC assistance was not adequate to sample SME needs (marked by a dotted line in figure 10.6). Since some of the assistance offered by LEA (re-training) was related to this actor, it made even LEA suggest assistance organisation be treated as insufficiently successful. Its contribution in organising re-training was inadequate due to the lack of skills of the re-trained specialists or shortage of courses for the demanded specialities.

Why this lack of success via LMTC? Interviews with centre representatives disclose that they had a good picture of the great job vacancies in processing industry of the region and shortage of specialists of certain qualifications. However, the centre experienced difficulties in collecting classes for demanded specialities. It was much easier to fill groups for joiner training than those of saw frame machinists or dressmakers. In fact, centre had hardly ever collected full

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196 LMTC representatives claim that some branch companies (but none from our sample) have been in direct contact with them for either search or retraining of specialists and they have been able to assist. They claim to have made a positive impact on challenge solution in some cases. However, none of our sample SMEs have mentioned that why we deem the assistance via the centre insufficient.
197 Interview with a city sewing company (1c).
198 Interviews with sewing and wood-processing companies (for example 1c, 14c).
199 A city sewing company 1c cooperated with Petrašiunai LMTC regarding practical training, but the company was not satisfied by the students and did not find any potential employees among them.
200 Interview with Kaunas Vocational Training Centre for Service Business Specialists, textile section.
Attracting a Skilled Workforce

groups in the last years of the study period.\textsuperscript{201} For example, Petrašiūnai LMTC had once only managed to train 11 saw frame machinists for the whole Kaunas region as compared to ca 125 joiners. Nearly all wood processing and furniture manufacturing companies needed both types of specialists. The centre was partly dependent on the assistance from the government and LEA how frequently they could offer training of demanded specialities. Besides, the participants in courses arranged by the centre did not necessarily add up to the numbers of new specialists retrained. Some course participants already had experiences from the speciality trained and were employed by companies as specialists although they lacked formal certificates obtaining which became important after the EU membership.

In addition, LEA assistance structure during some periods was unable to organise courses for certain specialities in demand by our companies (dressmakers, saw frame machinists). Besides, for some other specialities (such as sewing technologists or traditional textile specialists), there were no training courses organised by our studied actors or elsewhere in the region.\textsuperscript{202} The organisation that won public procurement for training of certain specialities had the right to arrange courses during that year with the help of financial support from the government. Representatives of the LMTC, however, meant that the Vilnius central Labour Exchange Agency was less flexible than could be desired as it undermined announcing public procurement for training of demanded specialities more often. The centre did not see greater possibilities to make a positive change as they perceived themselves as too small actors in the professional training chain and heavily dependent on LEA and the structural factors—emigration and lack of interest for some of the demanded specialities.

Of the three type of actors conducting re-skilling courses, though, VTS seemed the most accepted and flexible alternative among sample SMEs which indicates them as somewhat more adequate assistance actors. However, schools have also experienced similar problems with attracting specialists to some of the courses in demand by the studied manufacturing activities. In its attempts to increase numbers of students in the courses for least attractive specialities the LEA redirected even such social groups as long time-unemployed or prison inmates. Schools had experienced that it was somewhat easier to collect adult groups for the unattractive specialities than attract young students to the ordinary professional training education.

How adequate were the resources LEA used in organising assistance? The Labour Exchange Agency had often attempted to mobilise government assistance for attracting broader range of potential employees. However, of the government measures to attract the needed specialists, only a few—mobility programme, integration of disabled into labour market and compensation for employment of long-time unemployed—were occasionally of some use to both our sample SMEs and the population of the studied manufacturing industries in the region in general, as interviews with the actors reveal. Another type of government assistance for re-skilling of specialists as a preventive unemployment measure had little relevance to our companies due to difficulties in finding interested and suitable trainees.

\textsuperscript{201} Interview with a representative from Petrašiūnai LMTC in Kaunas city.

\textsuperscript{202} Lack of special courses has been observed by several city and district companies (4c, 6c, 11d, 12d, 15c).
Besides, the focus here seemed to be on the prevention of unemployment rather than companies needs of particular specialists.

An additional note should be made on the adequacy of LEAs measures in matching jobseekers with the jobs offered. Frequently, companies had reported situations when a job seeker sent by LEA comes to their offices not to ask for job, but to refuse it! Their only wish was to get written rejection from employer to be delivered to the State Labour Market Exchange Agency. Jobseekers used to present themselves as follows: “I am sent to you by the Employment Agency, but write to them that I am not suitable for this job.”

In sum, LEA was the most frequently addressed mandated actor (8 cases) by our sample companies and it had more often than other mandated actors engaged in organising assistance with coming in contact with available unemployed specialists. However, besides the two above analysed cases, the remaining sample companies (6) were dissatisfied with the assistance they have been offered via LEA. In general, jobseekers sent by LEA seldom were skilled enough, capable of performing their tasks or even interested in undertaking jobs. In addition, regardless of the involved actors’ efforts, neither of the two major solution alternatives organised via LMTC were satisfactory or sufficient enough to solve the lack of specialists in the studied manufacturing SMEs other than occasionally.

In sum, the assistance analysis indicates only very occasionally achieved positive impact (in a couple of cases analysed) via inter-organisational assistance via LEA. This is not sufficient as an evidence of an adequate policy. It was not that the resources were non-existent or actors role different from other cases, but that the resources were non-adequate to the needs experienced by sample SMEs in their particular situations.

**Impact of Assistance Structuring via Schools**

Schools were well-aware of the lack of specialists in the manufacturing industry of the region (and Lithuania). They had continuous contacts with the state Labour Exchange Agency and companies or particular organisations/associations of the manufacturing industries, thereby regularly checking the demands of professional education in their efforts to match their educational programmes with employers' needs. In fact, many similarities between schools have been observed. Schools could offer employers in urgent need of skilled workforce either making use of their students during their work practice training or mediation between graduates and interested companies. However, the ways of filling job vacancies proposed by schools were not considered attractive by sample SMEs.

Often schools had been active in their efforts to organise assistance. Their primary concern, though, was finding appropriate employers for their graduate students. Occasionally sample companies had attempted to enrol students for work practice, but these measures were not frequently used or successful to bring a considerable positive impact. Besides, not all demanded specialities had attracted interested students and thus schools could barely help with certain vacancies. Some of the interviewed companies had been in contact with schools for skilled graduates. However, finding potential employees was easier with some specialities

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203 Interview with a city wood-processing company (15c). Similar evidence was presented by several interviewed companies.
and very difficult with others—such as dressmakers or saw frame machinists—because lack of interest prevented schools from offering those courses some years.

How could this lack of success via VTS be explained? In general, schools complained about a considerable lack of interest among the companies, especially smaller ones, in contacts and cooperation with them. A school representative has noticed: “The old Soviet stereotype is still valid that schools have to search out for the employers to their students instead of companies approaching schools themselves.”

School representatives advised more sceptical companies to check the student skills during graduation exams or simply by paying a visit to their practice activities at school. The ones who did could select the best students for employment offers. However, schools claimed that employers often neglected that opportunity. What prevented more companies from using this opportunity?

Smaller companies with few specialists and job vacancies seldom could afford resources and attention needed for practical training of the students. In addition, SMEs complained about difficulties in preventing young specialists from emigrating and feared frequent job rotations it created. Schools suggested employers to pay some grants or salaries during work practice to make students stay after their education, but the legal regulations complicated that.

The interviewed SMEs showed a greater interest in specialists aged 35 or older primarily because this age group was less mobile and the risk of losing such specialists for the markets abroad was considerably lower than with recent school graduates.

Besides, schools claimed they were interested in establishing contacts with prospective, modernised and better of companies to secure better future and salaries for their students. Companies could, on the other hand, be obliged to support schools with raw material or sign long term contracts of cooperation in return for that. Therefore, it was more often larger companies that showed interest in such contacts. Those companies had often continuous needs of more specialists and could present those needs beforehand. Ability to predict the needs and address schools beforehand contributed greatly to the success in organising solutions.

As an alternative solution, both labour exchange offices and schools had suggested to companies that better non-skilled employees be sent for re-skilling with the help from government programmes on preventive unemployment measures. However, even this was often a difficult task for the companies due to the lack of suitable employees or shortage of time. Besides, even though companies appreciated the quality of courses at vocational training schools, these sometimes lost the public procurement competition in adult training courses to LMTC or some private companies.

The analysis suggests important conclusions about vocational training schools’ ability to assist. It is evident that schools had taken an active part in identifying the needs of companies in processing and manufacturing industry, especially by coming into contact with some of them. Schools have even been active in suggesting alternative solutions to the employers. They strived to meet the companies’ needs by making their assistance flexible and accessible, for example, in their re-skilling courses for adults. In their attempts to attract more students

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204 Interview with the Training Centre for Construction Workers, section for wood processing and construction.

205 Interviews with vocational training schools (VTS).
schools had sometimes, using their discretion, taken upon creative solutions. In assisting SME educators organised both external (those of the government and the EU) and own resources. The Lithuanian government and the EU assistance programmes for competence development of the teachers and development of new training programmes had been of some help in increasing the quality of the courses or attracting new groups for re-training (especially the adults). Also the internal school resources that were organised to match skilled students with the companies’ needs (such as via work practice) have shown to be a step towards success. Yet, school assistance was seldom applied by the sample companies. What major explanatory factors could be identified in the study?

Firstly, in general, success in attracting young newly trained specialists depended often on the contacts between companies and the training organisations. However, the schools have been more inclined to cooperate with modern, prosperous, often larger companies why the SMEs possibly missed out the important contacts. Active and prospective employers with good contacts with schools could expect schools sending some of their best students for work practice.

Secondly, regardless of their attempts, schools (neither LMTC, nor other educators) could supply all demanded specialities (saw-frame machinists, sewing technologists) or groups were small and the shortage of applicants too great. In addition, the workforce needs of small and medium businesses were often urgent and crucial for their survival. Therefore, retraining of employees or additionally training of school graduates—as they did not always have adequate qualifications for the demanded speciality—was not a popular alternative.

And lastly, regardless of schools’ attempts, their contribution was, however, frequently insufficient either due to the lack of trained specialists or the time companies were obliged to wait until students had received adequate skills. Even though it did not apply for all types of needed specialists, cooperation and active engagement from both school and the interested employer could increase chances to successful solution.

In sum, the assistance offered by the VTS on the few occasions it was organised to help our sample manufacturing companies brought very limited success. Even though SME assessed the assistance from schools more positively than that of LMTC, it was both occasional and insufficient to solve the workforce needs. Additional positive impact from other assistance actors and more adequate resources were needed (see table 10.1).

Table 10.1 Impact of the assistance organised with attracting or retraining of workforce

<table>
<thead>
<tr>
<th>Actor types</th>
<th>Assistance impact</th>
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</thead>
<tbody>
<tr>
<td>Mandated actors: LEA</td>
<td>C (6 cases), B (1 case), A (1 case)</td>
</tr>
<tr>
<td>Mandated actors: Schools</td>
<td>B (2 cases) ad hoc</td>
</tr>
<tr>
<td>Non-mandated private actors</td>
<td>A (2 cases) B (2 cases) ad hoc</td>
</tr>
</tbody>
</table>

Explanations: Impact:  
A- positive and sufficient; B-positive insufficient; C-no positive impact.
10.8 Solution Organising Results

Regardless of the assistance structured organised and individual SME solutions outside them, too many job vacancies at sample companies remained unfilled. The sample SMEs had attempted to solve lack of workforce 14 times, of which only 3 have been successful (impact A, table 10.1). However, only once the mandated actor assistance was sufficient for tackling a lack of workforce and attracting of available specialists. In 5 additional cases, some needed employees have been attracted, but considerable vacancies for skilled specialists remained. This type of solution is here called partial, not entirely solving the workforce needs. The remaining 6 cases had ended in failure or very insignificant success (table 10.1). The state Labour Exchange Agency admitted that the situation with attempts to fill job vacancies was similar with the studied manufacturing industries in the whole region at the end of 2006. No significant differences between city and district cases could be identified.

Some success in solving the challenge

In general, our sample SMEs had achieved some success in 8 cases (out of 14) and only in 4 of them with the help of the assistance structures via mandated actors. Of all the reported contacts with 8 actors, only the state Labour Exchange Agency and two schools of professional education had been able to contribute positively to satisfactory or partial solution. However, even these actors often have not been able to provide sufficient or some help. LEA has been contacted in 8 cases and schools in 4 cases. To conclude, although in most of the cases some (mandated) actors have been contacted, often they have not been able to help, or their assistance was insufficient.

When the assistance organised by the addressed mandated public and private (LMTC), actors did not suffice. SMEs actively attempted to look for solutions via their private network of acquaintances, bankrupt companies in the same industry or by advertising in mass media. In 5 of the studied 14 cases this solution worked as partial or satisfactory. However, too many companies were pessimistic about their abilities to either find workforce with the help of actors or in their own.

No solution

Lack of workforce in processing industry was prominent in the whole country; it was uncommon for companies to succeed in their search for workforce, regardless of the alternatives attempted and assistance offered. Six of the solution organising cases have resulted in failure to find needed workforce and in several more cases the needs have not been fulfilled entirely.

To illustrate this, we return to the example with a city wood company producing log houses presented earlier in this chapter. In his search for suitable workers, the manager had employed the following strategies: a) advertisements in local newspapers; b) search with fellow and bankrupt companies; and c) contacts with public and private employment agencies. However, after the 18 months continuous search for suitable workforce, the manager was very pessimistic about the possibility of a successful solution. The manager confessed: “We could open
another manufacturing line, as we have no shortage of orders, but we have no inclination for that with regard to difficulties in finding qualified employees the one already in place.” Yet another employer from sewing industry described the attempts to find the solution as follows: “At present the problem with lack of qualified specialists remains. Among our 12 employees we have 1.5 specialists.”

A lack of skilled specialists in demand contributed strongly to low profitability of companies and impeded their development. In fact, sometimes difficulties to find qualified workers were a major reason behind the company owners’ decision to stop manufacturing at all and undertake other activities.

Sometimes solutions were missing due to the shortage of education of certain specialities (a sewing company in search for technologists, traditional textile techniques, saw frame machinists). Other reasons were lack of interest in certain specialities, low wages, unattractive jobs and extensive out migration of workforce. In general, the lack of suitable workforce presented such structural and institutional difficulties in solving it that interviewees (both SMEs and actors) often described it as a problem without solution in the nearest future.

Conclusions

In general, sample SMEs rarely had some success in their search for solutions to attract needed workers. Some of the addressed actors have attempted to assist individually or in assistance structure constellation by organising own or external resources. In fact, two structures of assistance organised by mandated actors have been identified from the studied cases. However, in very few cases assistance from mandated labour market actors have been of help. In those cases positive actor or assistance structure contribution was achieved with the help of government assistance programmes – one for integration of long time unemployed in the labour market including labour mobility measures and the other for integration of disabled. Companies have shown to be at least equally successful in organising solutions themselves either on their own or by engaging private non-mandated actors. Many times though organised solutions were insufficient. In sum, SME efforts in attracting workers were successful only in three of the 14 identified cases.

10.9 Conclusions: Indications of Policy Adequacy?

Sample SME had received assistance from the identified assistance structure via LEA and the less structured VTS assistance several times, but only occasionally it resulted in a positive effect in terms of filling their job vacancies with the needed specialists. Even though actors approached by SMEs could offer several ways to assist involving different own and government resources, interviews indicate, however, that those measures were rarely attractive or worked well for the small and medium businesses in the studied industries. As success in assistance was only occasional neither of the assistance organised could be an output of SME assistance policy adequate for addressing the workforce needs of our

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206 Interview with a city sewing company (1c).
manufacturing SMEs. Instead, the assistance of LEA (including that via LMTC) could be regarded as inadequate assistance policy, while some assistance via schools indicates some successful and adequate ad hoc, assistance that lacked a more systematic and repeated pattern. In addition, SMEs perceived the assistance results of some actors—such as that via LMTC—as less adequate than that of others as it tended to lack a positive impact. In this policy issue it was the assistance impact that SMEs regarded as a major indicator of policy inadequacy.

In sum, the empirical data from sample SME cases indicates the lack of adequate public policies aimed at training and directing relevant specialists to SMEs of the studied manufacturing industries.

The analysis results support hypothesis 1 (for all hypotheses tested see section 4.6). As to hypothesis 2, it must be noted that although organised mandated actor assistance did not often enrol non-mandated actors (except for private companies that won public procurement to train certain specialities), sample SMEs received great help from the alternative assistance structuring, especially via private networks, mass media or actively contacting other (often bankrupt) companies. For such alternative structures to occur and succeed the initiative and engagement of SMEs was essential. In cases when SMEs addressed both the mandated actors and the alternative structures and succeeded thanks to the later, only thorough assistance analysis could indicate the lack of the success of the former. The mandated assistance actors were not very well aware how well they could have helped SMEs. Besides, SMEs themselves were suggested to actively search for the potential specialists to be retrained by the mandated actors, which is also an indication of somewhat common assistance organisation.

Although the preceding analysis have already indicated some major factors conducive to assistance success or failure, the next section presents a more thorough summary and the answers to the remaining hypotheses, especially related to policy adequacy in a transition context.

10.10 Factors of Success or Failure

The conducted empirical analysis did not identify some public policies with attracting and retaining of work force adequate to the studied SME needs. Only sporadic (ad hoc) success in the organised assistance or solutions attempted by the companies themselves was observed. The recorded cases of attempts to find, attract or re-skill needed specialists, regrettably, often ended in failure. Great staff shortages remained in the areas critical to companies’ growth or survival.

Now, having analysed different ways to search for and attract needed specialists, what major behavioural, structural and contextual factors were identified with the help of the bottom-up methodology to explain the particular solution organising impact? In this challenge type, I find some transition context factors to be an important impediment for organising adequate local policies. Before analysing the roles of actors and adequacy of resources engaged, we should pay attention to how some context factors affected on the actors’ abilities to assist.
Contextual factors

Both companies and actors involved recognised that one of the reasons why assistance from LEA or schools often failed was lack of interest among the remaining unemployed to undertake jobs or re-skilling activities. Companies complained that many of those jobless that were left in the country “did not actually care of undertaking any kind of job”\(^\text{207}\), neither in particular company nor in the industry in general. Jobless were particularly uninterested in some of the more difficult or least prospective professions—including dressmakers, saw frame machinists, some other wood processing specialities and construction workers—where the recruitment needs were urgent. The situation since 2000 had only worsened. The interest in dressmakers, saw frame machinists, and some other wood processing specialities in great request had been drastically decreasing since 2000 and especially so among the young people.

Besides, extensive ongoing job emigration and possibilities to emigrate for newly trained specialists fuelled the problem. There were great differences in salaries between the domestic and western markets to which access now was open. Workers always compared their Lithuanian salaries to those they could be offered abroad, and that made a difference! According to the companies, EU integration was a cause that potential or present employees often presented unreasonable demands for salaries and other job benefits: “Sometimes people want salaries they don’t deserve.”\(^\text{208}\) The process of socio-economic transition did not yet bring the level of Lithuanian salaries to the EU average. Higher salaries and better socio-political situation was a major explanation to why large numbers of industry workers kept leaving the country during the whole study period. Because of that both VTS and LMTC often failed in collecting full groups of students or adults for some of the most demanded specialities within sewing and wood processing industry.

A great transition period problem was that too many specialists tended to leave the country immediately after their education. Therefore, even when companies succeeded with or without the assistance from some public or private actors to attract some specialists they had often great difficulties in keeping them. Companies and assistance actors called for some legally binding measures that would make newly trained or re-skilled specialists stay in the Lithuanian market at least for some time, but no such regulations were in place during the study period.\(^\text{209}\)

Besides improper labour market measures such as sending jobseekers to the jobs they were unable to perform, another important explanation is the shadow economy in Lithuania with illegal jobs and salaries. Evidently, this was one, but probably an important cause to the inability of the employment agency to provide adequate assistance, i.e. to make the jobseekers to undertake the offered jobs.

It was common practice in many private companies, especially small and medium-sized, to pay part of wages illegally, that is in cash. As this part of wage was never declared officially (and not taxed) it was delivered in envelopes, from

\(^{207}\) Interview with city wood processing companies, (15c, 14c).
\(^{209}\) Interview with Petrašiunai Labour Market Training Centre.
which it received its name “the envelope system”. As a company owner confessed: “Especially in the countryside and outside the larger cities this is a large problem. There is hard competition among the companies to attract the scarce competent specialists and they pay really high amounts (in envelopes) for a good one.” Therefore, the companies that worked legally could sometimes have difficulties in matching the illegal salaries. Seemingly, there was a lack of systematic or adequate government policies to approach this issue. (Some exceptions could be mentioned, though).

These identified context factors pertain especially to the transition from the Soviet to the EU context. Especially extensive workforce emigration, lack of interest among jobless for either undertaking re-skilling or offered jobs, shadow economy, trust in the ability of assisting actors to assist, lack of possibilities to import work force or to prevent newly educated specialists from leaving the country had been of importance.

**Actors’ problem perception**

The policy problem for the actors referred to in this chapter was related to training and matching available workforce with the offered jobs. As demand for some specialists was considerably greater than the supply, the task for the local assistance actors was as well to re-train the available unemployed, but also low qualified employees.

Although companies tended to identify the challenge on their own, without contacts with any public actors, in general, all interviewed assistance actors had good information about the lack of specialists in the studied manufacturing activities and were well aware of the consequences of job emigration. Even though finding and attracting relevant staff to the SMEs in manufacturing industry (especially after 2003) became a common challenge for both SMEs and the addressed assistance actors, their perception of the problem (or its cause) did not always correspond.

The state Labour Exchange Agency and its local offices were more concerned with reducing unemployment, especially the first years of the study period, than adequately addressing the SME needs as it frequently sent jobseekers incapable or unwilling to undertake the offered jobs. Vocational training schools tended to, in the first hand, act in their own or their students’ interest and therefore gave modern larger companies preferential treatment. In addition, actor and SME explanations for the shortage of the highly demanded specialists differed. While companies could accept that some specialities had lost attraction due to the monotonous or heavy manual jobs with sometimes outdated equipment, actors had often blamed employers for low wages and lack of attentiveness to workers’ needs. Both, however, agreed on the major impact the relatively new access to the EU labour market made in losing (especially skilled) specialists.

The different approaches somewhat affected on actors’ assistance policy intentions and measures.

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210 Interview with a district furniture manufacturer (12d).
**Assistance in identifying and organising solutions**

In general, SMEs have attempted two major alternative solutions to the lack of work force: i) searching for available skilled experienced workforce or ii) retraining of available employees or jobseekers, the first one—much more popular. The approached actors frequently assisted with identifying both of these alternatives, and often suggested retraining as an alternative solution, but even this of little interest or help. Besides identifying solution alternatives, the addressed mandated actors did also attempt to organise both internal resources and government assistance measures. Therefore, companies in contacts with more actors could have obtained more assistance.

As was concluded, however, the formal re-skilling measures and resources have very seldom been of sufficient help. What were the major reasons for that? Could the lack of success in assistance delivery be blamed, then, on the lack of interactions between assisting actors?

In fact, often the interactions in the assistance structures worked well and often were a precondition for organising assistance. In our examples of successful assistance delivery, cooperation between mandated actors—vocational training school and the state Labour Exchange Agency has been pivotal. The school has identified a solution alternative and the agency mediated the government assistance resources. Even in less successful cases of assistance LEA frequently relied on contacts on VTS or LMTC.

In short, although the approached actors could offer several solution alternatives and some interaction (structuration) with other assistance actors has been established, all too often their assistance attempts resulted in failure. Could we find some explanation by analysing the adequacy of the suggested assistance alternatives or resources?

**Adequacy of alternatives and sufficiency of resources**

The lack of positive solutions (among the cases studied) regardless of actor interactions and abilities to suggest several or at least some assistance alternatives might indicate two things: actors’ failure in identifying relevant solution alternatives or an inadequacy of organised resources to realise them.

In matching the available specialists or jobseekers with employer’s needs or offering re-training opportunities, actors in the identified assistance structures used both internal and external (government, occasionally EU) resources. A very infrequent use of the resources/measures offered for either of the alternatives and their rare positive impact in satisfying manufacturing companies’ workforce needs indicates their irrelevance to the particular SME needs or situation. For example, government measures to attract the retired or disabled specialists were irrelevant for assisting the studied SMEs (but frequently also the population of manufacturing companies). None of them had either made use of labour market fairs organised by LEA. Only one had been assisted by labour mobility measures and the government support for establishing new jobs or employing for long time unemployed had been relevant in the situation where there were no suitable specialists to enrol in the first hand.

In re-skilling of employees, the LEA offered preventive government labour market programmes that worked with some success, but were less relevant for
small companies with urgent specialist needs. Assistance mediated by the other mandated actors in re-training of adult specialists were sometimes relevant for some companies of the population, but less so for the small and medium businesses in urgent or unplanned demand of specialists. In addition, some formal labour market measures were simply irrelevant—as when jobseekers were sent to jobs they could not undertake due to lack of skills, capacity or willingness. In sum, there was little fit between the assistance measures and SME needs. While companies were in great demand of qualified specialists, they were quite unsatisfied with the skills of those trained by the mandated actors.

Besides, for some of the specialties in greatest demand there were also very few or no training courses arranged during certain periods. Assistance actors provided low salaries as a major reason for the lack of interest among jobseekers for the specialties in demand. However, in inter-company competition specialists were sometimes won over through very high salary bids. On the other hand, sometimes the central office of the state Labour Exchange Agency in Vilnius demonstrated lack of flexibility in organising courses on a short notice and more frequently. Territorial state Labour Exchange offices were dependent on the decisions from their central counterpart to arrange new courses and the planning was not always flexible enough. The Central office used to announce public procurement for training courses only once a year thus making many companies wait long periods for re-trained specialists. Some periods there was no training organised at all. This was especially true of dressmakers and saw framer machinists in great demand among wood processing companies. The major reasons for that included the lack of interest among the unemployed or lack of pressure from the affected companies. The fact that training organisations often failed in collecting full groups of the demanded specialities might have also depended on the educators’ (and the SMEs’) failure to market the opportunities available after the education.

Yet additional reason for lack of assistance success and thus remaining workforce shortages was that, whenever companies found better specialists, it was difficult to make them stay. Trainees were not obliged to stay in Lithuania or were not necessarily linked to the companies in need as they frequently left the country, which was mainly a transition caused phenomenon.

In general, companies and actors provided three major reasons for the lack of success in organising assistance—the frequency of re-skilling courses, training quality and lack of interested among the unemployed in the specialities in demand and their capabilities to perform their job tasks. In addition, actors’ ability to provide adequate solutions in matching supply of specialists with companies needs was affected by the important transition context variables: labour force migration, illegal wage system and competitively lower salaries in small Lithuanian companies. Although some of the public assistance was quite well structured and patterned, actors perceptions, lack of relevant resources (formal regulation) and the context variables obstructed or prevented adequate assistance.

On the other hand, creative, proactive and adjusted to the SME needs assistance occasionally paved a way to at least some success in solving the workforce needs. Especially vocational training schools acted creatively by adjusting the time of their work practice to fit companies, sending students for assistance with large orders, adjusting times of courses to the needs of employed participants, or pro-

211 Interview with the local state Labour Exchange Agency.
actively in searching contacts with companies. Attempting new types of courses for specialties in least demand or actively searching for measures that would fit their and employer’s needs was also a creative action on part of the schools. This demonstrated actors’ good knowledge of companies’ needs and their flexibility, which resulted in more adequate measures and resources. However, frequent lack of assistance success (or sufficient positive impact) had a negative side effect in that companies were less inspired to seek additional or repeated assistance with the same actors.

Assistance with workforce needs, the way it was organised in the studied transition context demonstrates actors’ somewhat greater ability to performance as compared to conformance of assistance organised with land issues, and certain learning from less well-fit measures. However, study evidence suggests that in the Lithuanian context it still remained a rather centralised state assistance policy area with centrally defined type of measures and resources and quite limited discretion of the local assistance actors. Besides, insufficient follow-up of the assistance outcomes prevented actors from de-learning why assistance continuously lacked adequacy.

Companies’ role

Last, but not least, actions by the companies themselves sometimes prevented them from attracting or keeping the specialists. Lack of contacts with training organisations, (especially vocational training schools), possibly lack of endorsement of the newly educated specialists have also been crucial. An old master and disciple system practiced in most industries both during the Soviet times and earlier had been abandoned and that might have also discouraged young specialists from applying to tough specialities. Companies’ inability to pay adequate salaries, pay salaries on time or financially reward practitioners212 frightened off potential employees. Besides, in the opinion of some actors, employers did not market their needs and staff development possibilities enough.213 On the other hand, lack of planning for the future needs or inability to engage in training programmes created even greater disadvantages for smaller companies to attract the needed skills. However, these facts evidently strengthened the need for assistance.

When the public formal assistance measures would not fit, SMEs, as was mentioned, frequently attempted to organise solutions via private networks, mass media or other companies in the same industry. Even though this alternative private assistance structure was crucial, it also resulted in insufficient success.

Conclusions

In the solution of this challenge, SMEs at least equally often succeeded on their own or with the help of non-mandated actors. Actor assistance to SMEs with filing

212 However, interviewees reported of some legal difficulties involved in rewarding trainees during the practice period. See interviews with the Training Centre for Construction Workers and Vocational Training School for Construction Workers.

213 Interview with a representative from the Training Centre for Construction Workers, section for wood processing and construction.
their job vacancies seldom made a positive impact on the challenge solution due to the following reasons identified by the study. Firstly, success in filling job vacancies depended to some extent on contacts and roles of the addressed actors. The more contacts, the greater were the possibilities for success. Actors’ activeness in identifying possible alternative solutions was another crucial factor for success. An even more important point is that the two preconditions above did not make a positive impact on solution organising unless actors also actively involved in realisation of those alternatives. In the revealed practices, both internal and external (government or EU programmes) resources were organised.

Secondly, it did not suffice, though, to have access to the suggested solution alternatives and organise resources for them, but they had to be both relevant and sufficient for the assistance to have a positive impact. Not many of the government programmes or internal resources suggested bore relevance or could assist specifically to small and medium businesses in processing industries. Flexible and creative solutions of some assistance intermediaries, when adjusted to SME needs, increased their positive contribution.

Next, cooperation between SMEs and actors and their contribution was important both for identifying solutions and organising them to make them last. However, many of the interviewed SMEs did not trust the institutionalised solutions as they had often experienced them as irrelevant. Sometimes negative earlier experiences prevented them from addressing other mandated actors. Whenever public actor could help it was taken as a positive surprise.

Lastly, some context factors, important for the social and economic transition, often had negative influence on successfully filling job vacancies in SMEs of the studied manufacturing industries.

In sum, the major reason for lack of assistance success and thus lack of adequate and sufficient (as in re-training) assistance policies that was lack of relevance of identified assistance alternatives and/or resources for the given challenge situation. However, challenge solution could be seen as a twofold process. Successfully filling in existing job vacancies in the manufacturing SMEs required not only finding suitable specialists but succeeding in attracting them to the interested companies and retaining them which also required active engagement from the employers.

As a response to hypothesis 3 (see section 4.6) it should be mentioned, that the empirical analysis of assistance organised with lack of workforce indicates that successful public assistance required local actors linking identified solutions with the resource organising phase. Organising formal measures and resources could be performed by other actors than those who have identified them assistance as long as there was continuity. Besides, the organising actors have frequently identified additional own assistance alternatives. However, it is important to note that the precondition postulated in hypothesis 3 was not sufficient for policy success and adequacy. It was the contents of the resources offered, and the participating local actors’ abilities to influence those contents concerning the specific needs, that were equally important for assistance success.

Therefore, regarding hypothesis 4, the study has made the following observation. Local intermediary actors have been important in the successful assistance cases, and especially their ability to adjust resources to the specific SME needs. However, in this type of public assistance action, the study found too few
indications of local actors’ abilities to increase the success of the formal resources and act as successful assistance intermediaries.

In organising public assistance to SMEs, however, the importance of some transition context variables on the solution success and assistance adequacy should not be neglected. Both extensive workforce emigration and broadly spread illegal jobs and wages clearly bear a character of a transition phenomenon. The solution to these problems (involving perhaps tax measures) requires a broader perspective than this dissertation allows.

Even though some of the identified context or behavioural/structural variables are very challenge-specific, some of them might show to be of importance and of more general value for the development of the policy implementation theory adjusted to the transition contexts. Characteristic to the Lithuanian transition context was not only lack of relevant regulations and resources, but also significant inability of the available policy structures to exert a positive impact on the workforce related policy problem solution.

In this assistance policy area, especially the mentioned context variables contributed to increasing the challenge to organising adequate policies and urged even more for adequate formal macro level resources to enable local actor contributions. Therefore, during the studied transition period the policy challenge was about how to organise adequate policies when transition context factors negatively affect assistance success and adequacy.
11 Overcoming Financial Problems via Banks

This chapter deals with another important challenge identified by our sample SMEs, but also a major one for business development through times and different contexts—lack of financial means. There were several ways SMEs in Lithuania attempted to attract the needed financial means during the study period: via banks, national, local or EU financial assistance measures. The two major ways to organise financial assistance involving formal institutions or mandated actors (banks, EU fund administrators) were rather complex and, therefore, deserve to be analysed in a separate chapter each. Although banks were private actors, they were the major financial actors at the time in Lithuania and frequently addressed by the SMEs. This chapter analyses whether and in what ways SMEs succeeded in obtaining financial assistance from banks and the structure of assistance that evolved. It aims to assess whether the provided bank assistance was adequate for solving lack of financial means and identifying factors affecting it. A major issue at hand in this chapter besides is whether there was a need of some public assistance policies that increased SMEs access to the financial assistance and whether such policies were in place.

The next chapter explores assistance organisation via EU funds. A special subchapter of it is devoted to solution organising via private networks and other assistance actors. At the end of chapter 12, the general results of different analysed ways of organising assistance to solve financial problems of sample companies are presented.

11.1 Short Background

It is not news that financial means are essential for business development and their shortage is recognised as one of the major problems critical for growth of small and medium-sized companies. The Lithuanian government made SME competitiveness and the related financial assistance one of its priorities (an issue we will return to in chapter 14). To assist companies in financial matters by the start of the study period around 2000 a number of private and public financial business support organisations have been established in Lithuania: 10 commercial (Lithuanian) banks, state credit insurance company (INVEGA) and others. Of the international actors, the EU financial assistance to business development has been mostly visible to the sample SMEs. The EU among other measures offered some pre-accession financial instruments and, after the membership in 2004, support from the Structural Funds.

Both banks and EU fund administrating organisations have shown to be the major public sphere actors the studied manufacturing companies have turned or considered for assistance with financial shortages. The two forthcoming chapters will demonstrate how differently assistance to the SMEs financial impediments was organised via those two major actor groups. Firstly, we will identify whether banks have been of assistance and analyse how the assistance delivery was
structured. At issue here is whether banks were able to help companies to overcome their financial difficulties on their own or were there some other actors involved and how? Besides, did companies need some additional support from other actors to receive financial assistance from banks as during the transition period assets and mortgage could be problematic?

11.2 The Challenge

Shortage of financial means was recognised as a major development impediment among the sample manufacturing SMEs of which 22 (of 31) have attempted to overcome these problems prior to the interview occasion. Some of them have made repeated attempts to organise solution (in the recent past) several times, which have resulted in 25 attempted solution organising cases. Both Kaunas city companies (11 companies and 12 cases of attempts) and those from Kaunas district (11 companies and 13 cases) had perceived financial problems of equal importance and have been quite similarly affected.214

The observant reader might object that money is treated as a challenge while it, indeed, provides means for other company development goals that should be regarded as the real challenges. True, but in the sample cases often difficulties in obtaining the needed financial means turned it into an equal challenge, sometimes overshadowing the importance of the related major challenge like non-stop production, technical reorganisation or more offensive marketing. This was especially true of abruptly occurring shortage of financial means.

Various reasons could cause the lack of sample SME financial means, but situations where it was a result of other actors’ actions was not uncommon in the transition context. Importers had sometimes refused to pay for orders, or sometimes small businesses have been charged large fines for undermining some formal regulations. Food-processing and furniture manufacturing SMEs frequently experienced financial problems with sellers of their production. Large trade centres (LTC) often delayed payments for the sold goods causing lack of turnover money in the supplying small and medium producers. During the period 2000-2006 a special situation occurred in the Lithuanian food industry escalating the need of financial means. Food manufacturing and processing companies were exposed to strict EU and, consequently, national Lithuanian safe production regulations which demanded considerable adjustments of production premises and facilities. In making those large and costly adjustments, the companies were pressed for time and resources.

Another type of situations causing lack of money could be referred to as the internal development needs of the SMEs. Free money was needed for acquisition of premises, larger reconstructions, product development or a search for new markets problems more common for SMEs in mature market economies. In other words, money was often instrumental for solving various development goals or sometimes, survival of the companies.

214 Following were the 11 district companies (1d, 2d, 3d, 4d, 5d, 6d, 8dAB, 10d, 12d, 13d, 15d) and 11 city companies (3c, 4c, 5c, 8c, 9cAB, 10c, 11c, 12cAB, 14c, 15c, 16c) or 13 cases that have dealt with lack of money as an important challenging issue.
In short, the character of the bulk part of the financial difficulties experienced by the studied companies signifies economic transition period. The specific character of the financial needs urged even more for the assistance in addressing them. Did the way banks (and other involved actors) assisted SMEs signify of adequate assistance and thus policy and institutional success in adapting to the transition. The following chapters present how the most characteristic solutions to the financial needs of the sample companies had been organised.

11.3 Different Ways to Solve the Challenge—
Actors Addressed

Sample SMEs attempted organising solutions to the financial difficulties in 25 cases. Often the same companies have attempted several of the solution alternatives—as advised or on their own—that could be grouped into following four types, depending on the major actors:

- a) via banks (in 20 of the cases),
- b) via EU fund administrators (sometimes involving banks – in 13 cases),
- c) via other actors (3 cases),
- d) via private networks or individual solutions or (via various private non-mandated actors, often acquaintances or relatives – in 8 cases).

For example, a company could have attempted to organise solution via several banks, EU funds and via private acquaintances. Any of those four types of actors could be addressed in the initial phase of assistance search, not for identifying problems, but rather for helping with solution alternatives or resources (F2 or F3). However, some initially approached actors—especially public consultants or municipal economic development departments—did not possess financial resources to assist, and could, at best, inform companies on solution alternatives or actors knowledgeable of resources. Such informing actors were often consulted first on the right actors to address further in the search for public—especially national and EU—assistance.

In their search for assistance in addressing financial shortages, our sample SMEs most frequently addressed banks of our identified actors although this was not always their preferred first choice. Sometimes SMEs chose to organise solutions via private networks (via relatives or acquaintances) or by internal reorganisation or savings in companies, especially when the other major solution alternatives would not help or were not trusted. Companies have also quite frequently have considered possibilities to apply for the EU assistance. These were the three major considered solution alternatives. Occasionally, the interviewed companies attempted to look for solution other ways, by addressing on their own such actors as Lithuanian Business Support Agency, Lithuanian Business Advisory Service Programme financed by the Nordic Council of Ministers, Kaunas city and district municipality.

In total, the study has identified at least 22 key actors who sample companies had approached in request for financial assistance. For analytical purposes, these actors have been grouped into 6 groups: a) banks, b) public authorities, c) public consultants; d) private consultants, e) EU financial assistance administrators and f)
credit insurance agency (INVEGA). Interviews have been conducted with 16 of the key actors encompassing each group: representatives from 3 banks in Lithuania, public consultants from 5 organisations, informative actors as municipal economic development departments in both studied municipalities, 3 EU financial assistance administrators and managers from a state agency and a ministry, private business consultants from 2 companies, and a representative of state credit insurance company (for the list of the interviewees see Appendix 2). In addition, three other types of actors not directly associated with financial assistance, but specialising in issues relevant for providing financial assistance, were drawn into the process of financial assistance organisation. Those actors dealt, for example, with real property issues important as collaterals for bank loans (see section 11.5).

Companies had often *themselves identified* solution organising alternatives through addressing banks, EU fund administrators or private networks. In the sample cases, the three financial assistance alternatives were often organised independently of each other: assistance provided by banks had little or no connections to solutions organised via EU fund administrators or, even less, via other public actors. This chapter deals with financial assistance organised by banks in the process of which, as we will see, a number of other actors have been involved.

11.4 Banks Addressed and their Preconditions for Assistance

Banks are private actors with commercial interests. They earn their profit on, among other things, lending money to private and public physical and juridical persons. The study concern here is mainly with the ways banks in Lithuania could provide financial assistance to small and medium manufacturing businesses using their own or organising external resources and reasons for why this assistance succeeded or failed.

In their attempts to overcome financial problems, sample SMEs most frequently (in 20 out of 25 reported cases) turned to banks for loan or other type of financial assistance making it the most attractive solution alternative. As there were several banks to approach in each case, the number of revealed solution attempts was therefore larger than the number of cases where banks were addressed.

The 10 commercial Lithuanian banks operating in the country during the study period 2000-2006 were: Vilniaus, Šiaulių, Žemės ūkio/DnB Nord, Medicinos, Ūkio, Sampo, Snoro, Lietuvos/Hansa and Parex banks. The interviewed SMEs had approached for financial assistance nearly all of them.

From the relatively small sample of companies and cases of financial assistance no clear tendencies as to what banks had been of more help could be discerned. Among the recorded cases one bank—Vilnius—stood out as a more frequently

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215 Some banks have shifted their names and ownership during the studied period. The study refers to the banks as they were identified or recalled by the SMEs.
216 During the study period there occurred some changes: Lietuvos Taupomasis Bankas has been integrated into Hanza bank, and a new bank was introduced in 2002—AB VB brūsto kreditų ir obligacijų bankas. Besides, there were from 2 to 4 branches of foreign banks operating in Lithuania, but not mentioned in the interviews.
contacted than others did. One possible explanation to that could be the fact that Vilnius bank was among the largest and oldest banks in Lithuania and the older companies have had established early customer contacts with this bank. However, some interviewed company representatives were more positive about the smaller banks (e.g. Šiaulių, DnB Nord, Medicinos, Snoro) that marketed themselves as SME friendly.

Among the studied companies, wood processing and furniture manufacturing SMEs addressed the banks more often than food processors or the sewing industry, representatives of which mentioned very little contacts with banks. This could partly be explained by the fact that around 2003-2004 many food-processing companies had gone bankrupt, and the future of many sewing and textile industry was too insecure to risk with bank loans.

Due to the limited recourses and time, and also difficulties of access it was not possible to interview all banks operating in Lithuania. Instead, three banks (Medicinos, Šiaulių and DnB Nord) have been approached for interviews on their strategies and practices with provision of loans and other financial instruments to SMEs during the past few years. The choice of the banks has been determined by two factors—the frequency of reported cases and their specialisation on small companies as an important client group. In addition, out of a larger range of small and medium sized Lithuanian banks with somewhat more favourable SME policies, these three banks have won the right granted by the Lithuanian government to provide micro-crediting to SMEs in 2006. Although this happened very late in the studied period, it still can be an important indicator of their focus on SMEs.

It should be mentioned that attempts to engage banks in organising financial assistance, especially during the period 2000-2004, meant a challenge for most SMEs. According to sample companies, especially large banks, such as Vilnius or Hansa, had been rather difficult to obtain loans from. Companies defined their financial needs themselves, but banks presented certain assistance preconditions and often also identified ways to meet them. Success in solution organising via banks depended on, in principle, how solution to bank preconditions for assistance (like loan interest rates, collaterals, business plans) was organised.

In organising solutions frequently other non-financial assistance actors had to be drawn into the assistance structuring process. Sometimes, as we will see in section 11.5, to acquire assistance via banks, companies were reliant on a number of other assistance structures or ad hoc assistance. However, as late as 2003 SMEs reported of significant impediments on their way to fulfil bank financial assistance requirements. The following sections will briefly account for how and with whom SMEs organised to meet the assistance preconditions set up by the banks.

217 Interview with a representative of DnB Nord bank.
218 It should be mentioned, however, that initially several more banks have been approached for interviews. However, it was difficult to get approval from banks to interview their personnel even on general SME assistance issues. The smaller banks were more apt to be interviewed than the larger ones, but even of the interviewed ones, only one was sufficiently open in its dialogue with the researcher.
11.5 Organising Assistance with Bank Requirements

Companies resolved to apply for bank loans, regardless of the situation with bank interest rates, often saw mortgage requirement from banks as a great impediment since frequently they lacked or were unwilling to entrust their private property. Banks would indicate that its solution was an essential precondition for providing their financial assistance and suggest alternative ways to arrange it, but would abstain from participating in its solution organising. Companies themselves had to undertake organising acceptable collateral.

Banks used to suggest the following alternatives: i) mortgaging possessed company property or obtaining property to mortgage; ii) mortgaging personal property, iii) other, individual solutions, and iv) using state credit insurance company (INVEGA) guarantees and later, at the end of 2006, v) micro credits.219 Company managers or owners had attempted several solutions to the lack of collateral, but in most of the cases arranging for it turned to be problematic.

Profitable companies that were long time clients at banks had better chances at receiving financial assistance. Besides, even the type of manufacturing activity mattered—sewing companies were in general deemed an un-prospective industry and had great difficulties even in receiving other type of short-term financial assistance such as factoring, while wood processing and furniture manufacturing as growing businesses were in an opposite situation.220

Assistance with premises for mortgage

Most popular and sought after collateral was real property, especially manufacturing premises with the belonging land or alternatively free land (preferably of industrial purpose of use). Whenever companies had this type of collateral, it was easiest to arrange assistance from banks.

However, many companies did not possess the occupied manufacturing buildings, but rented them, due to the shortages of suitable premises on the market or extremely high prices of the newly constructed ones. Sometimes the possessed premises would not suffice as a mortgage and to increase their value, banks would require mortgaging premises with the belonging land which companies sometimes lacked rights to (see chapter 8).

Companies that decided to look for premises to mortgage for loans either addressed: a) private real estate agents, b) build new premises or expand their present (the owned ones), or c) looked for older, far away premises their own. Therefore, the only mandated actors that have been involved in identifying and organising resources (identifying or supplying premises available) were the municipal real estate department in Kaunas. Other addressed actors were the private non-mandated ones such as the private estate agents or property owners.

Sample companies attempted all the four type of solutions, but were most successful in either expanding the premises or obtaining some older and cheaper
Overcoming Financial Problems via Banks

In order to expand the premises, SMEs were dependent on mandated actors in the detailed planning processes and sometimes also for establishing their rights to the land. As was discussed previously, (chapters 8-9) both processes were rather lengthy, costly and complex, and so the loans had to wait.

In the mentioned solution alternatives company owners acted as an important linkage in organising this somewhat free-standing assistance structuring. Besides, companies often organised solutions on their own or without the help of mandated actors. When premises were recognised suitable as collateral, financial assistance organising via banks could proceed.

The only identified mandated actor in municipality—the municipal real estate department in Kaunas city responsible for premises in municipal property—had informed of a great lack of buildings suitable for manufacturing purposes and was of no help for the interviewed SMEs. We will address the success or failure of premise issue organisation in section 11.7.

Assistance with land for mortgage

Land was another and attractive collateral for banks, either as a sufficient mortgage per se or, especially, for increasing the value of mortgages premises and increasing chances for a larger loan amount. Companies of our sample had attempted two types of solutions: a) mortgaging land under manufacturing buildings, or b) mortgaging free land plots. Especially when the possessed manufacturing premises or other assets were insufficient as a mortgage, their value could be considerably increased if also the belonging land (under those buildings) could be used as collateral.

Establishing rights to the land was of major importance in cases when companies intended to rise new or expand the possessed manufacturing premises and then mortgage them for loan. However, both establishing ownership rights (or hiring) to the land under the possessed buildings and purchasing free land plots (suitable for manufacturing activities) turned to be a complex issue with protracted and far from always positive solutions (see chapter 7).

Land-related SME development impediments and the assistance organised to solve them (presented in chapters 7 and 8) therefore could be a constitutive part of the solution and assistance process to their financial development impediment. Depending on whether the company was registered in a city or district municipality, different mandated actors were involved in organising solution to land rental or purchase—land use specialists, urban planners, surveyors and members of Standing Construction Commission and more. These specialists came from several institutions: the County Governor’s Administration, departments at municipal government, land use offices accountable to the Ministry and public or private surveyor offices. Attempts to organise solutions to the land issues in such cases combined into a separate (independent) assistance structure that was a part of a larger structuring in organising solutions to the financial issues, especially via banks.

Several of the sample companies had attempted to arrange land property or usage (rental) documents for safeguarding or increasing bank loans (for results see chapter 12). In a few cases where land documents were arranged, these were both complicated and time demanding processes.

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Whatever the case, it was not banks, but SMEs themselves that contacted relevant actors (civil servants) in organising solutions to land related issues. As was noted, often assistance to land issues was organised in a mixed mandated and non-mandated public and private actor constellation. It was inter-organisational, and the role of both SME managers or owners themselves or the consultants they hired was essential in increasing assistance success and adequacy. After the land issue was resolved, SMEs could renew their dialogue with banks. However, the number of actors with influence in land related assistance processes often affected negatively on the solutions. I will soon (in section 11.6) return to the assistance impact with collateral solutions.

**Individual bank assistance**

Interviews indicated that local bank offices, especially at the end of the study period, occasionally showed some flexibility in their assistance to individual SMEs. In an ever-harder bank competition towards 2005-2006, such behaviour served to increase banks’ reputation and helped them attract new business clients. Local bank representatives had an important if not a major role in achieving such occasional flexibility by their discretion in selecting which of the interested companies and how to assist.

On the other hand, banks’ ability to assist sometimes depended also on the duration and records of the customer contacts with particular SMEs and a specific bank situation. Often long and trustworthy relations positively influenced the organised financial assistance. The mutual trust allowed bank officials to deal with mortgage or similar issues somewhat differently in individual cases.221

However, not all companies had advantages in organising financial support via the banks they have been (sometimes long-time) clients at. Sometimes, especially at the start of the study period, banks could suggest company owners to apply for loans as physical persons instead of their companies or mortgage their private property where company was short of assets.222 Especially one type of companies—personal companies (“individualios įmonės”)—has been offered this alternative. Naturally, such offers considerably increased risks for SMEs and endangered their survival.

Sometimes smaller banks had been more prone to take higher risks also with less known companies. Some banks evidently regarded their strategies towards small and medium businesses unique and more pro-active in the local or Lithuanian context. To illustrate, Medicinos bank has since around 2002 started applying bill of exchange (“vekselis”) that was a repayment guarantee by the company’s stockholders for short term (up to 6 months) credits. Among our studied companies, however, very few had experienced this individual type of assistance.223 but towards the end of the study period, companies’ possibilities to obtain assistance from banks increased, especially due to the lower interest rates and the increased bank competition.

221 Interview with bank 1 representative.
222 Interview with a city food-processing company (8c).
223 A case with 2 district wood-processing companies: 9d (obtained some assistance), 8d (was rejected assistance).
Assistance via INVEGA

In general, interviewed bank representatives have confessed that banks seldom were willing to deal with young, small companies with no collaterals and short operation records. Therefore, banks sometimes used to suggest yet another assistance alternative to SMEs—by enrolling the state credit insurance company, INVEGA, in the common assistance structure. INVEGA was established in 2001 with the assistance from the EU. Let us a look at ways INVEGA could assist SMEs in their attempts to get financial assistance from banks.

INVEGA started offering its assistance from 2002. Its activities consisted of issuing loan repayment guarantees to the credit organisations (most often banks) for loans to private SMEs with up to 100 employees. INVEGA specialised in three kinds of bank loan guarantees – guarantees for first time loan instalment for financing investments, projects supported from the EU Structural Funds and for working capital loans. The first type of loan guarantees was prioritised by both the Lithuanian government and INVEGA and so provided insurance to 80% of the first loan amount, while for the other two – only 50%.

For its services, INVEGA charged a certain fee. For the issuance of the guarantee, a one-time fee of 3% from the guarantee amount was charged. As the state “reimbursed 2/3 of the INVEGA guarantee fee, the fee due from a small or medium-sized enterprise to INVEGA accounted for only 1% of the guarantee amount.” The credit insurance fees to INVEGA varied depending on companies’ age, size and the purpose of credit. For example, companies 3 or more years old with up to 100 employees had to pay INVEGA a 1.5% from the insured credit sum. Younger companies paid 1% fee. If the purpose of the credit was related to assistance from the EU Structural Funds, the fee was 3%.

INVEGA’s services were aimed at assisting SMEs in financial negotiations with banks. All of the banks approached for assistance had at some point during the study period cooperated with INVEGA. One of the banks—the interviewed Medicinos bank—was rather late to engage in cooperation with the credit guarantee agency. Even though companies used to sometimes initially address INVEGA themselves, it was the banks that had to undertake contacts with INVEGA in organising financial assistance to SMEs. If this was done, banks acted as the overall financial assistance organisers. I will return to whether and how banks succeeded in organising solutions via INVEGA in 11.9.

Organising assistance with business plans

In order to provide financial assistance banks also required business plans from companies. This seemingly simple task was rather demanding for most sample SMEs as transition to a market economy, the approaching EU membership and global market influences made it difficult to predict and plan even the nearest future. In the words of one company owner: ‘In Lithuania business is chaotic. For many of us it is rather impossible to write any realistic business plan since you

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224 INVEGA did not issue guarantees to SMEs intending to use property acquired for loan to fund activities not eligible to support according to the list approved by the Government of Lithuania. None of the manufacturing activities studied is included in that list.

cannot guess for the future.\textsuperscript{226} This external insecurity added up to the lack of knowledge of how to work with business planning in general. The unpredictability of the future was also affected by the fact that, as some company owners confessed, sometimes the major competitors would attempt—with the help of bribed tax or other officials—hitting a hard financial blow on them.\textsuperscript{227}

Often companies had to address private consultancy firms for working out an acceptable business plan, but it did often diverge from the factual activities of the company. However, some companies indicated that business plans were not always that important for acquiring loans as long as the mortgage issue has been arranged. Some banks, like Medicinos or Šiaulių banks, accepted a shorter, less detailed version of a business plan that companies could write on their own.

**Micro credits: an unused assistance alternative**

Besides the assistance examples, there were several other alternative ways to arrange solutions, but these were either unused or used to a very small extent by our studied SMEs: national and local SME assistance funds, micro credits and more. Some of these measures will be described in chapter 12: Organising Financial Assistance via EU and Other Actors.

One of such SME favourable financial assistance measures were initiated by the Lithuanian government (via the Ministry of Economy) in 2002. Three of the Lithuanian banks—Šiaulių, Medicinos and DnB Nord—had been provided with a total amount of LTL 28.8 million (accordingly 15 million, 8.3 million and 5.5 million) for micro crediting of small and medium size enterprises, with up to 100 employees. Micro credits were loans amounting up to LTL 86,320 (EUR 25,000 or its equivalent in another currency) granted to micro, small or medium-sized enterprises (SME). The three banks undertook to grant to micro enterprises\textsuperscript{228} as much as 85% of all micro credits and until the middle of 2007 this promise was kept.\textsuperscript{229} Each of the banks suggested different conditions for micro crediting, and Šiaulių bank received the largest sum from the programme due to the most favourable conditions to SMEs.\textsuperscript{230} This measure was a decision of the Lithuanian government on recommendation of the Ministry of Economy to use the remaining and unused non-repayable assistance money from an earlier EU PHARE programme that was initially intended to financially assist SMEs. However, due to its late introduction, this assistance was unavailable to the SMEs of the sample during the interview period and thus we restrain from its further analysis.

\textsuperscript{226} Interview with a city food-processing company (10c).

\textsuperscript{227} See for example interview with a district food-processing company (4d).

\textsuperscript{228} Micro enterprises were business operating and registered in the territory of Lithuania with up to 10 employees, annual income not exceeding LTL 7 million, book value of assets not exceeding LTL 5 million and satisfying the independence criterion as established in the Law on Small and Medium-sized Business, LR SVV įstatymas (2002).


\textsuperscript{230} Official website of Šiaulių bank, retrieved www.sb.lt 2007 09 07.
11.6 The Structure of the Assistance Organised via Banks

The preconditions for assistance banks presented at the same time indicated issues in need of solutions and of possible assistance structures. As was indicated, to receive financial bank assistance, SMEs needed to fulfil several of the preconditions: sufficient collateral, a trustworthy business plan, established relations with bank and/or a positive development record of a company. Collaterals and business plans were common for most cases and were the issues SMEs attempted primarily to attend. As we could see, to fulfil the major bank preconditions companies drew in other actors. Financial assistance depended in large on how successful SMEs themselves and their addressed actors were in organising solutions to the mentioned bank requirements.

Assistance organised (or at least attempted) with either collaterals (premises and land) or business plans resulted in separate assistance structures subsumed here under the larger financial assistance structure. These separate assistance structures can also in this context be regarded as a chain process caused by the financial needs. In general, four types of such separate assistance structures evolved in sample cases: 1) assistance with premises to mortgage, 2) assistance with land as a collateral; 3) assistance with business plans, and occasionally 4) assistance via INVEGA. Diverse assistance actors or structures were involved in different assistance organising phases (F1-F3).

Banks acted primarily as resource organisers (F3) in the overall financial assistance structure, but they also defined the issues to be solved (i.e. new challenges for SMEs—F1) and occasionally identified some solution alternatives (F2) to fulfil these preconditions (especially with collaterals). Banks could suggest INVEGA as one solution alternative in shortage of collaterals, and then using INVEGA’s support organise financial resources to the companies. However, only one of our sample SMEs has used this solution alternative. Except for cooperation with INVEGA (more intense by some banks) banks did not have contacts with any other actors neither in assisting to identify solution alternatives nor in mobilizing resources.

SMEs frequently had to identify possible solution alternatives on their own, and to actively look for and draw in the needed assistance actors primarily with organising (F3) of particular resources (collateral, business plans or loan guarantees). In addition, when the contacted actors were unable to provide adequate assistance to fulfil bank preconditions, SMEs would sometimes solve them on their own or in direct cooperation with banks. This active engagement of SMEs in organising the solution processes provide indicates self-organising which established the linkage between the banks and other involved assistance actors/structures. Assistance and solutions to, for example, land or premise issues could proceed independently of SME relations with banks, but were essential for organising the needed financial assistance.

The boundary of the overall assistance structure was determined by what and how many actors were involved by SMEs (or banks) in assisting companies on issues important for receiving financial assistance from banks. It could be said that

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231 Interview with a district food-processing company (5d).
depending on the alternatives companies had chosen to fulfil banks’ conditions of support there could be several combinations/variance of same AS:

1) Banks + INVEGA;
2) Banks + SME + Real Estate Agency (premises);
3) Banks + SME + Land specialists from several organisations (+ private consultants);
4) Banks + SME;
5) All the above variations + business plan consultants.

It is important to notice here that the resources organised by various actors (including banks) in the overall assistance structure have been affected by both some external EU assistance measures (directed to banks or Lithuanian government) and also the Lithuanian government strategies and formal regulations. These so-called macro-factors are further discussed in section 11.9.

Before an impact analysis of each actor’s contribution to solution organising in our sample is conducted, no assessment can be provided as to the adequacy of both the overall assistance structure and the independent assistance structures it subsumed.

### 11.7 Impact of the Assistance

This section analyses the impact of individual disaggregated actors or assistance structures and also the impact and manner of the overall assistance organised to help SMEs in their contacts with banks when coping with their financial shortages.

**Impact of assistance with premises**

The three ways to find suitable for mortgaging premises attempted by our sample companies did not always result in success. Contacted private real estate agencies (alternative a) seldom were able to suggest premises that SMEs could afford. An extreme lack of used, but still suitable manufacturing premises inflated their prices, and the newly built were very expensive. While access to old Soviet time premises was somewhat easier often they had great drawbacks due to their age and shape. For example, food companies were pressed by the new production safety regulations and was even more limited in their use of old premises. Even though it was easier for wood processing or furniture manufacturing industries to adjust the available older premises to their needs, sometimes the belonging land issue was a hinder.

In the few cases companies succeeded with mortgaging premises,232 it was the buildings companies raised themselves (alternative b), sometimes as annex to their private property (especially relevant for family firms). However, expanding buildings was limited to those SMEs that firstly, possessed their manufacturing premises, and secondly had both space and construction permits. Small or young companies could seldom afford building new premises due to high construction costs and most often they were to look for the available ones.

232 For example, companies 4c, 9c, 8d, 11d.
In lack of better solutions, companies did most often look for premises by their own (alternative c), through advertisements or acquaintances, but their shortage was great and the unfinished land reform only inflated land and thus construction prices. As the building prizes kept inflating at a high speed, SMEs were often forced to look for the cheapest premises in the suburbs or outside the city. Still, a few of the companies succeeded in finding premises on their own. However, there was an important drawback with cheaper manufacturing premises as often banks showed little interest in too old buildings and were unwilling to accept them as collaterals.

In addition, when premises were found companies complained that banks often significantly diminished their value as compared to their real (market) value. For example, up to 5 year old buildings were offered up to 80% of their market value and the land—up to 70%. Therefore, purchasing manufacturing premises would not necessarily guarantee that they would be acceptable to banks as collateral, especially for sufficient loan amount. In fact, in some cases when companies found and intended to purchase manufacturing premises banks refused to accept those premises as collaterals for loans even though their value estimated higher than applied loan sum. As a result, companies in those cases could not acquire sufficient (or any) loan amount needed.

**Impact of assistance with land issues**

Sometimes companies found themselves in a peculiar situation due to the ongoing restitution of property rights (and rights to land), namely that their possessed or hired buildings have not been ascribed land plots. Therefore, they had no de facto land to mortgage until land documents were arranged. The matter was complicated even further by the fact that in July 2001 a new Civil Code was adopted in Lithuania changing the government real property policy. Those for many SMEs and land use specialists unexpected amendments made it impossible to use manufacturing premises as a mortgage for a bank loan without the belonging land.

The analysis in chapter 8 revealed that proceedings in establishing company’s right to the land via local municipality and other involved organisations have been protracted. Often companies had to hire private consultancy firms with contacts and knowledge to assist them in the process. Besides, frequently detailed planning processes (see chapter 9) had to be initiated. For which companies were in need of assistance. Some companies complained of pressure from involved civil servants’ for undue favours.

Even if hiring land could be seen as a less complicated process, it was still much time and resource demanding. Companies had to present a document from the County Governor’s Administration proving that they are allowed to hire the land under their manufacturing premises. This had not always been done smoothly.

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231 Companies 9c, 10c, 8d.  
234 Ibid.  
235 Chapter 8 informed that premises were sometimes possessed without the belonging land.  
236 For example, in the case with a city sewing company (5c).
“The law department at municipality has signed the permission for premise construction, but municipal officials delayed in handing it to us since they were waiting for bribes. We had to as well go and arrange land rental for bank loan and we didn’t get it until a private person has assisted us in fixing it but it cost us a bag of money. So this is the ‘assistance’ we have experienced.”

As has been noted earlier (chapters 7 and 8), it was even more difficult for companies to acquire free land plots for construction of new manufacturing premises to be used as a mortgage. In principle, such plots where manufacturing activities would be allowed were a deficit and the only available plots were often ascribed agricultural purpose. The ongoing and unfinished land reform has caused many difficulties for Lithuanian companies as the property or temporary usage rights to the land were complicated to arrange. A company owner complained in 2005:

“For four years now the lack of money had been an important issue for us. I am a client at Hansa bank, but I’ve heard they do not deal with bank loans for small companies. I will possibly go to them, but it became evident for me that without having solved land ownership question we have no chance of getting a larger loan. This (land ownership) problem has cost us much nerves.”

In short, actors responsible for assistance with land issues were often slow and sometimes unwilling to help SMEs. Sometimes companies could not wait until the land issue was solved and therefore were forced to reject the idea of land as an alternative collateral or the whole idea of bank loans. As was concluded previously, the assistance with companies rights to the used land or free land plots was at large inadequate.

**Impact of individual bank solutions**

Individual bank solutions were very context dependent—banks’ relations and local knowledge of companies, baldness and innovativeness or willingness to assist. Especially young companies complained of the difficulties to receive financial assistance from banks. Indeed, one of the interviewed bank representatives confessed that the number of young firms among their clients was extremely small. Such companies did not have long activity records and it was difficult to check their credibility. Therefore, “in those cases it was the matter of the human factor that counted in”, as a bank representative put it, and here the solution organising results depended on the willingness and flexibility of local bank representatives in looking for solution acceptable for both parts. Here the strategies of banks differed.

Some banks dared taking bolder decisions and applying more flexible strategies than others. Only one of the interviewed bank representatives was more open on their individual strategies.

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237 Interview with a city food-processing company (4c).
238 Interview with a district wood-processing company (7d).
239 Interview with a representative of Medicinos bank.
“Until you meet representatives of a company, you cannot actually understand so much of whether to trust it or how it might be going with it. When you visit the company, meet the people and talk to them only then your decision can be more informed.”

Human factor was important and according to the interviewed bank officer, good local knowledge of the companies, their managers allowed her to defend her sometimes bald and flexible decisions when confronted by the bank managers. “I can guarantee for the company by my person.”

Possessing good knowledge of certain local companies and entrepreneurs, local bank representatives could base their judgment not so much on formal bank requirements for assistance as on the trust in their previous or present endeavours. “If we would follow the strict rules of the Lithuanian central bank or our bank directors we would have perhaps only 40% of our clients. Now we have to be flexible and creative in this tough bank market situation.” And this strategy has paid off. “We do not complain about the lack of clients as some other small or medium-sized Lithuanian banks do.” Other banks were not so positive about individual solutions and were more formalistic in their requirements: “Naturally the human factor is evident in our work, but the formal requirements are very important and we normally do not make risky decisions.”

Flexibility and willingness to look for commonly acceptable solutions while potentially risky for a bank, in the case of that particular bank, it did lead to a good result in attracting more SMEs. Too few (3) of our companies have though been offered such positive individual bank assistance to conclude on its more systematic impact. Possibly this flexible attitude was spreading in the bank only gradually and was highly dependent on the attitude of the individual bank officials and the support (or its lack) from the bank managers.

In addition, banks’ suggestions to mortgage company owners’ private property, especially in case of personal companies, were not attractive for the interviewed SMEs. Sample companies frequently recalled other companies that made this mistake and finally lost private property (apartments, land) to banks due to bankruptcies. This was especially true of the early independence period and around 2000-2002. Mortgaging private property was often the last step company owners would make to rescue business. In fact, the majority of the interviewees, having learned from the mistakes of the bankrupt companies, avoided that at any price.

In short, only occasionally the interviewed SMEs have received a positive bank assistance based on flexible and uncommon (informal) solutions.

**Impact of INVEGA’s assistance**

Some banks have referred to their cooperation with INVEGA. To be able to give a more fair account of INVEGA’s assistance, I will present some general statistics of INVEGA’s services in Lithuania and then consider how it affected the studied companies’ abilities to obtain assistance from banks.
In general, until 2007 INVEGA had issued 1047 loan guarantees (including those for micro credits) to 852 companies \(^{245}\) (see table 11.1). Interestingly, according to the data from INVEGA, companies of Kaunas region have been most active in Lithuania in using INVEGA guarantees and stood for 23% (or 195 companies of 852) of all loans via INVEGA until the end of 2006. As around 20% of the Lithuanian SMEs were concentrated in Kaunas region.

Table 11.1 INVEGA’s guarantees issued to SMEs

<table>
<thead>
<tr>
<th>Year</th>
<th>Nr of SMEs having received INVEGA’s guarantees</th>
<th>Nr of guarantees issued</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>92 comp.</td>
<td>102</td>
</tr>
<tr>
<td>2003</td>
<td>172</td>
<td>179</td>
</tr>
<tr>
<td>2004</td>
<td>164</td>
<td>175</td>
</tr>
<tr>
<td>2005</td>
<td>190</td>
<td>223</td>
</tr>
<tr>
<td>2006</td>
<td>234 (even micro crediting)</td>
<td>368</td>
</tr>
<tr>
<td>Total</td>
<td>852 comp.</td>
<td>1047 guarantees</td>
</tr>
</tbody>
</table>

Source: Documents provided by INVEGA

During 2000-2006 they amounted to ca 11 285 companies (Garuckas & Jatulevičienė, 2007), making those 195 SMEs stand for only 1.7% of the regions total SMEs. There is no data available as to number of SMEs from individual municipalities that used INVEGA’s services.

In fact, companies from the studied manufacturing activities were among the most frequent clients with INVEGA, especially for loan guarantees: wood manufacturing companies (19% of all companies), food industry (14%), furniture manufacturing (11%), light industry (10%), etc. \(^{246}\) In general, manufacturing companies represented the largest bank loan takers and comprised 52% of bank clients using INVEGA services.

The next table (11.2) indicates that INVEGA has been serving its purpose to support primarily small companies. Although the slight majority of the clients were small companies with up to 50 employees even micro companies with up to 10 employees were an important group of loan insurance receivers. \(^{247}\) Due to the

Table 11.2 Distribution of INVEGA’s guarantees during the period 2002-2006

<table>
<thead>
<tr>
<th>Nr of employees</th>
<th>Nr of companies</th>
<th>% of companies</th>
<th>Average loan amount in LTL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 10</td>
<td>446</td>
<td>42.60</td>
<td>299,470</td>
</tr>
<tr>
<td>10-49</td>
<td>543</td>
<td>51.86</td>
<td>387,383</td>
</tr>
<tr>
<td>50-100</td>
<td>56</td>
<td>5.54</td>
<td>685,010</td>
</tr>
<tr>
<td>Total</td>
<td>1045</td>
<td>100</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Documents provided by INVEGA

\(^{245}\) Statistics from INVEGA received at the interview occasion. However, micro credits as a new practice of financial assistance by banks was introduced too late in our study period (mid 2006) to be of any assistance for the sample companies at the time of the interviews (in 2004 and 2005)

\(^{246}\) The data from INVEGA refers to the period until the end of 2006.

\(^{247}\) INVEGA’s participation in the administration of micro credit programme based on PHARE fond money since the second half of 2006 has considerably increased the share of small enterprises among INVEGA’s clients in 2006.
more favourable conditions for loan guarantees, but as well due to natural SME
technical reorganisation and other needs it was more popular to ask for INVEGA’s
guarantees for investment loans (76%) than turnover money (23%).

However, how often did the interviewed SMEs use the assistance from
INVEGA and with what impact for arranging financial assistance from banks? The
interviewed SMEs, however, revealed little knowledge or interest in INVEGA’s
services, partly because they had found out about the services rather late and partly,
for those that were informed on time, because their services were too expensive
according to the SMEs.

“You can use this credit insurance programme in case you will apply for
bank loans. But at the time the interest rates for loans were 10% and you
had to add those extra percent for the services of the credit insurance. In
total, the interest rate became ca 13% and this was much above the limits for
what a small family company could manage, especially having in mind the
situation on the market with competitors pressing down the prices.”

Too large service fee of INVEGA was indicated even in other sources among
the major reasons for not using INVEGA (Smulkaus ir vidutinio verslo vystymo
Kauno regione programa, 2005). A programme for development of small and
medium sized businesses in Kaunas region suggested reducing INVEGA’s fee to
0.5% regarding non-EU related SME credits.

Regardless of INVEGA’s existence for some 4 years, the majority of the
interviewed companies approaching banks did not know about it. Those that found
out about it did it most often via contacts with banks, which presupposed a private
contact with a bank official. Others claimed being too busy to notice all the
changes in state business financing policies: “We could not update us on everything
concerning SME support, so we’ve missed the earlier information on INVEGA and
now we are no longer eligible to apply for it”, said a wood producer with 10 years
of experience in the industry and above 100 employees. Another company owner
wondered as late as in 2005: “I went to the bank to find out what conditions there
are for getting a bank loan, since our production is standing still this summer
season. I have been told there that there are some companies that can compensate
part of a bank interest for a certain fee. But where do I find about them?” This is
a sign of the lack of information from the banks.

The bank strategies were another reason for the lack of INVEGA’s popularity
among our SME. Only at the end of the studied period had INVEGA’s services
started to be more widely accepted among the banks. The number of banks that has
established contacts with INVEGA had increased from 6 banks in 2002 to all 10
Lithuanian commercial banks in 2006. Also banks cooperation with INVEGA
strategies differed. Medicinos bank has, for example, issued least loans via
INVEGA (only 1.34 % of all INVEGA guaranteed loans), while the other 2 banks
with SME orientation—Šiaulių and DnB Nord—stood for 36% and 19%
accordingly. Interview with the representative of Medicinos bank indicated that
some of the regional bank personnel were rather willing to look for individual

248 Ibid.
249 Interview with a district food-processing company (3d).
250 Interview with a district company (10d).
251 Interview with a company manager of a wood processing company (7d).
252 Statistical Information received from INVEGA, Guarantees issued by INVEGA until 2006 12 31.
solutions to SME loans and other financial instruments. There were surely other reasons that bank was unwilling to disclose for this late and less intensive cooperation with INVEGA.

Indeed, yet another important explanation for infrequent usage of INVEGA’s services could be similarities with the Lithuanian Export and Import Insurance which loan insurance scheme had had limited impact in 2000-2001 mainly due to the highly risk adverse prudential requirements governing the operation of insurance companies under Lithuanian law. This company blamed the situation on, for example, the shortage of creditworthy SME projects (OECD, 2001).

In sum, although INVEGA’s establishment and services had had some impact on solving financial problems of manufacturing SMEs in general, the interviews revealed a restricted use of its services. Its relatively short existence and inability to reach companies, but also the involved costs were the major reasons for lack of its popularity among the sample SMEs. Some companies intended yet to use it, but only one actually did.

During the first years of the study period, it was still too costly for many companies to turn to banks with the help INVEGA due to its fees (even though subsidised) above the already high bank interest rates. Too few companies knew of the state subsidies of INVEGA fees. Some companies did not simply understand how the system with credit repayment guarantees works. In addition, sometimes due to lack of information at banks and insufficient attention to the individual company’s needs there was little chance for sample SMEs to choose this alternative. The sometimes unsatisfactory communication between banks and companies, of course, had an effect of how SMEs prioritised their financial solution alternatives.

It remains to remark that the obtained INVEG statistics indicates that towards 2006 situation with INVEGA’s services had changed to the better after the banks had started issuing micro credits which increased contacts between companies and INVEGA. However, still a very small percentage of SMEs in Kaunas region had used INVEGA’s services by the end of 2006.

To increase SMEs’ access to INVEGA services, certain changes in both government and INVEGA strategies were needed information spread and lowering SME costs. Local offices of banks as well would need to offer more professional information on credit insurances.

**Impact of assistance with business plans**

Business plan was an important, but often not the sole or major precondition for bank assistance. As long as the collaterals were secured, it was a simpler task to arrange a business plan. However, for some SMEs the future was uneasy to predict even for the nearest months as the situation on the market was very dynamic.

The contacted private consultancy actors had been most often able to present a business plan acceptable for banks. Frequently, though, such plans were less helpful to SMEs themselves because they lacked less accuracy on the actual activities and plans of the company.
The overall impact of bank assistance

While at the start of the study high bank interest rates was a major hinder to obtain bank loans, around 2003-2004 decrease in the interest rates made bank financial assistance more attractive to the SMEs. Regardless of the insufficient assistance from the other involved actors sample companies SMEs indicated positive contribution from banks in 12 cases banks were addressed. In 9 of the occasions the financial assistance provided by banks has been sufficient as a solution of company’s financial problems (impact A, table 11.3) and in three others it only meant a partial contribution (impact B) as the loans were too small. Sometimes, however, SMEs assessed the whole process of obtaining bank financial assistance as burdensome and costly, thus not so adequate to their needs.

However, quite frequently (8 cases) companies have been unable to receive the needed financial assistance (impact C, table 11.3). Especially small and younger companies seldom had enough savings or real property of value for banks and this lack of collaterals constituted a great hinder in applying for loans. Some company representatives depicted situation around 2002-2003 as follows: “You cannot get any loan if you have no premises to mortgage.” Banks did not trust especially young companies with no collaterals and short financial records for assistance. For example, a young wood processing company in Kaunas city could not start production activities before 2003 since it was repeatedly refused bank loans from several banks, both larger and smaller (such as Ūkio, Sampo, Snoro), due to the lack of collaterals or own co-financing. The owner has recalled: “When the bank has listed up all their demands we had understood there’s no chance for us and they are not a bit interested in lending the money.” Until the company had large enough own savings it could not start its production activities.

Table 11.3 Assessment of the overall impact of assistance organised via banks

<table>
<thead>
<tr>
<th>Actor types</th>
<th>Assistance impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assistance via BANKS</td>
<td></td>
</tr>
<tr>
<td>(mostly mixed actor structure)</td>
<td>A (9 cases)</td>
</tr>
<tr>
<td></td>
<td>B (3 cases)</td>
</tr>
<tr>
<td></td>
<td>C (8 cases)</td>
</tr>
</tbody>
</table>

Explanations: The impact of the combination of actors in the overall AS via banks: A-positive and sufficient; B-positive insufficient; C-no positive impact

SMEs lacking mortgage have experienced difficulties to borrow even small amounts of money (for purchasing parts of equipment) also from banks that market themselves as SME friendly (e.g. Šiaulių bank). This made small company owners wonder: “Why an employee with a minimum salary (LTL 500 at the time) is eligible for smaller household loans while small companies are not?” Not only loans, but as well other types of financial assistance, for example, factoring or overdraft, have been important for solving SME financial difficulties. A few of the companies that had eventually received that kind of assistance complained how difficult it was: “We had to fight for that extremely hard, but

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253 Interview with a city company (8c).
254 Interview with a city wood processing company (12c).
255 Interview with a city food processing company (10c).
finally we got it. We were one of the first companies in Kaunas County to get it.” 256
Indeed, as bank support was conditional and context dependent, not all the SMEs were delivered it.

In addition, many interviewed companies, actually, simply rejected considering this alternative due to especially high interest rates or lack of collaterals or the lack of trust and the risks commitments to banks entailed. Interestingly, lack of trust is illustrated by the fact, that even when companies possessed some attractive property suitable as collateral, many of them refused mortgaging it to banks as they felt that banks interested in keeping their property could easily force them to bankruptcy. In the words of a company owner: “These loans are a suicide for small companies like us to take. It would mean that the bank would as well set a low value for the buildings we own. So you are afraid of that.” 257

11.8 Conclusions: Assistance Impact and Indications of Adequate Policies?

Having analysed the assistance organised via banks, what can be concluded on its success and adequacy? Obtaining bank assistance was preconditioned on several factors, such as operation records of SMEs, interest rates, trust, but collaterals (and loan safety guarantees) was the key issue on which most often bank assistance rested. Therefore, in assessing the overall assistance impact we have to also individually assess the assistance (structures or ad hoc action) on which SME were reliant to receive financial bank assistance.

The analysis generally reveals that assistance organised to sample SMEs with collaterals (especially land and premises) very seldom was successful in terms of bringing a timely and positive impact on bank decisions. In general, premises were somewhat easier to obtain and mortgage than land. Companies could look for premises via private real property agents, but more frequently they succeeded on their own. In some cases, besides, companies’ ability to use their premises for manufacturing and to mortgage them at the real market value was obstructed by the problems with land use. When the use for manufacturing activities was restricted a long process in attempts to change the land use purpose and planning for the intended usage was awaiting companies (see chapter 9).

The analysis of assistance structures for issues conditional for bank support—collaterals and credit guarantees—indicated defective support with only occasional success. Assistance to land related issues was also dependent on the relevance of legal regulations and the role of mandated actors. Besides, assistance with establishing rights to the used land or acquiring free land to be used as collateral was often inadequate to SME needs as it entailed complex, protracted and sometimes corrupt procedures (see chapter 8). In fact, even when the impact was positive, the provided assistance could not be treated as smooth and satisfactory in terms of time and resources required.

In addition, very few companies knew of the state credit insurance institution or used INVEGA’s assistance. Lack of successful assistance with collaterals and credit guarantees significantly diminished companies’ chances for financial

256 Interview with a district food manufacturing (5d) and a city sewing company (4c).
257 Interview with a city wood-processing company (13c).
assistance from banks. Only one type of assistance, that with business plans, showed to be most successful from the SME point of view and is the closest example of an adequate assistance structuring.

In structuring this overall assistance structure via banks, most of the time companies acted as a linkage between different assistance structures that were organised to fulfil bank preconditions for financial assistance. Companies often self-organised search for individual solutions (constructing new or expanding premises, searching for suitable premises or land) and actors (F2). In each of the sub-assistance structures companies had to use the services of non-mandated private actors, also for issues where the mandated actors were involved and formally delegated responsibilities to assist. In general, the actions of private consultancy firms hired by SMEs to assist them with business plans or land related procedures were the most adequate and an important factor for overall assistance success.

It is important to notice, that two factors—private non-mandated actor assistance and SMEs abilities to actively undertake the search for solution alternatives and resources (self-organising)—considerably increased assistance (and the challenge solution) success and adequacy. Private consultancy firms, where affordable, could fill the gap of knowledge required or, sometimes, willingness missing among the mandated civil servants in dealing with real estate and especially land issues. It was also private non-mandated actors whom companies mostly entrusted assisting with business plans.

Yet, in almost half of the cases (11 times of 20) our studied small and medium manufacturers have succeeded to arrange for bank preconditions so that banks were able to provide some or sufficient financial assistance. Banks’ abilities to assist in a number of cases make them an important and quite successful financial assistance actor. In fact, assistance organised via banks was among the most successful assistance cases among the SME needs studied.

This success was mostly due to contributions of other actors and, especially, self-organisation of SMEs themselves, i.e. their ability to identify and organise solutions to issues important for banks. In this type of assistance it is important to have in mind that while banks were the major assistance actors their actions were depended on SME and other actors’ abilities to assist SMEs.

The conclusion here is that in satisfying the mentioned bank demands the sub-assistance structures or individual actors involved (especially with collaterals and credit guarantees) could not provide sufficiently positive or timely impact on solving the financial challenge. The assistance local actors provided to meet bank preconditions was occasional and seldom sufficient (except of that with business plans). Frequently its manner lacked adequacy.

Actually, while the overall bank assistance manifested some structure and repeated pattern—same types of requirements with similar groups of actors (such as INVEGA or business consultants) involved in the sub-assistance structures—it also allowed some flexibility. On the other hand, assistance organised SME with bank preconditions demonstrated a more ad hoc structuring. Characteristic to such assistance was lack of a similar assistance pattern and the structural differences as well as lack of adequacy to particular SME needs or challenge situations. Even though organised with substantial success (almost half of the cases) neither banks themselves nor some public actors had a policy, i.e. systematic organising from an
idea to action via repeated pattern of structure (institutional arrangements), adequate to increase sample SME chances of receiving financial assistance.

Regarding financial assistance banks could be said to offer strategies for supporting SMEs, but not policies in the meaning employed here as they would not necessarily (perhaps with exception of Medicinos bank) organise measures to provide financial assistance to SMEs and would seldom assist SMEs in finding ways to fulfil their formally set preconditions. If the employed bottom-up policy concept is to be applied in this type of assistance organising then the structuring that evolved around different issue areas (bank assistance preconditions) was primarily glued by the SMEs themselves into a more coherent whole, making up the analysed assistance structure. No mandated actor (except for INVEGA which was seldom addressed) undertook the role of identifying the necessary resources or actors, and only occasionally partook and with positive impact in organising some of them. So, in practice, because of INVEGAS insufficiency, there was a lack of adequate public policy to assist SMEs with bank loans. As the bank assistance was not always sufficient for solving financial problems or not always provided SMEs had to look for other assistance alternatives.

11.9 Factors Affecting Assistance Success

Although banks in Lithuania have been mentioned as the most popular external financial assistance actors, particularly in the period 2000-2004, many companies have been rather unwilling or unsuccessful in applying for their assistance. The previous presentation of solutions to insufficient financial resources organised via banks require a closer examination of some of the major factors to their success or failure revealed with the help of the bottom-up methodology. Can and how actors’ roles, interactions, resources engaged and the particular context factors serve to explain the particular assistance success and adequacy?

SME Reluctance to Address Banks

It is worthwhile mentioning that not in all cases SMEs saw bank assistance as an acceptable alternative to consider in the first hand. Even though banks offered loans and some other financial instruments, especially in the period around 2000-2003 the situation for SMEs was still rather insecure. At that time bank interest rates were very high (around 11-12 %), above the EU average, and most SMEs, especially smallest and youngest ones or family businesses, could not afford them. Frequently, the interviewed company managers provided following explanation: “We didn’t dare to take bank loans since many of the companies we know of had been forced to bankruptcy due to the high interest rates.”

Even other requirements from banks counted in. A small furniture company depicted the situation with bank loans similarly: “Even if we needed the modern equipment badly we did not want to lay on us the burden of a bank loan. We were interested at first, but when we sat and counted out what is demanded—the
mortgage, business plans, plus the level of interest rates—we decided it is too risky for us."\(^{259}\)

In fact, many SMEs could not afford looking for solutions via banks even due to the lack of mortgage or trust in mutual agreements. Too many were unwilling to risk their companies’ future or private assets and lacked trust in banks. Even banks were considerably less (if at all) interested in providing loans or other financial facilities to young, little known companies with short records and missing assets. The only public credit insurance agency available for manufacturing SMEs was seldom addressed for help. Forced to look for other solution alternatives smaller or younger companies frequently turned to private networks or internal solutions.

Gradually, however, the situation with interest rates and, in general, bank strategies for their small and medium business clients started changing. Even though in the early study period around 2000-2004, banks did not offer young or small companies lower interest rates, the growing competition between banks in Lithuania had lead to a change in bank policies making them compete for new clients. Around 2004-2006 banks started offering more favourable financial assistance strategies in general, and to SMEs in particular. Some banks, for example, started offering small loan discounts for newly established SMEs, more flexible loan policies, such as postponed loan repayments, etc.\(^{260}\) Bank loan interest rates have been fluctuating during the whole study period, and around 2005-2006 have decreased to some 5.5-6.5% basically due to external market influences. This change was felt by SMEs as well: "The banks are now after the companies with different proposals. But when we needed it most, at the start of our activities, they could not be of much help."\(^{261}\)

Those more SME favourable bank strategies have been influenced by both external market changes, but as well a co-operation between some Lithuanian banks and the financial EU organisations and banks, such as European Investment Fund (EIF) or German KfW Bankengruppe. Especially popular and positive measure introduced at a very late phase of the study period was micro credits. This was achieved because of the cooperation between European Commission and the Lithuanian Government.

In fact, at the end of the study period, it was not so much loan interest rates, but SME abilities to fulfil bank preconditions for assistance that were at issue. Even though bank loans were an instrument of bank profit, uncertainty about market development during the transition period had affected bank behaviour and assistance requirements especially in their relations with young and smaller companies.

**Local actors’ and SME roles**

The assistance structure that evolved via banks was special in that assistance dependency on other actors and resources presented SMEs new challenges. Most SMEs of our sample had difficulties in fulfilling these preconditions on their own and were frequently dependent on other actors. Therefore to make banks engaged
in their own resource organising SMEs had to find actors capable of organising assistance with the bank posed preconditions.

Sometimes banks themselves not only defined preconditions to be fulfilled but also assisted companies in identifying some possible solution ways. Only in two types of situations would banks engage in both identifying alternatives and mobilising resources: i) cooperation with INVEGA or ii) in arranging their own flexible solutions to particular SMEs. Therefore, in organising of resources banks interacted with no other actors than those of state credit insurance company (INVEGA), and this was extremely seldom in the sample cases.

It was then SMEs that had to act as the linkage in identifying relevant solution alternatives, assistance actors and resources with each particular bank requirement. SME contacted actors have only been engaged in the resource organising and with only occasional success, best examples being private consultants, and occasionally, civil servants in land and premise usage or acquisition.

However, not only SME were offered little assistance with premise or land issues, but the related mandated actors and assistance organisation processes were seldom adequate, and that is why SMEs perceived them as impediment to solutions. Often actors addressed for assistance could not organise adequate resources. I have already indicated (chapters 8-9) assistance actors’ lack of assessment and related policy learning regarding land issues. Private intermediaries in resource organising (land issue or business plan consultants) filled an important function increasing chances to success, but access to them was limited. In addition, strategies of individual banks or, rather, individual bank officers for attracting new clients among SMEs could, at least partly, explain success of some assistance occasions.

It is important to note, though, that in the studied cases no other actor, not even mandated state credit insurance company, participated in several assistance processes, i.e. identifying needs, solution/resource alternatives and organising them. Therefore, without self-organising efforts many more SMEs would have been excluded from bank financial assistance. Thus, regarding hypothesis 3 (section 4.6), the conclusion is that while the linkage between policy (assistance organising) processes has been important, it was mostly represented by the SMEs themselves. When these companies’ efforts due to time, financial or trust factors were missing, they risked being neglected financial assistance from banks.

In cases where SMEs succeeded in receiving bank assistance, actors’ ability to adjust to the needs of SMEs either formally regulated or more often via discretionary flexibility, should be taken in consideration as an important explanatory variable for assistance success. For example, some banks have been more successful in adjusting to the new competitive situation on the market than others by suggesting special SME friendly instruments. Study evidence witness of success of the less tight and more risk inclined strategies of some banks in assisting SMEs and attracting more of them as clients. In those special cases banks dared to trust their clients and vice versa. Here, what led to successful solutions was the adaptability of suggested measures to particular SME challenges and a positive approach making bank services more accessible. It could, therefore, be said that in some positive solution cases banks have acted both as identifiers of solution alternatives and their organisers. Nevertheless, such bold SME support strategies of local bank representatives were not always appreciated by the banks’ central offices.
For solving land ownership or rental issues, SMEs relied completely on the responsible mandated specialists and the formal procedures (success and failure factors presented in chapters 8 and 9). To repeat, lack of success with these issues depended partly on the shortage of more simple, smoother and shorter procedures and adequate legal guidance or protection in conflict situations. Complexity of reform legislation and the lack of willingness by land use specialists to make the process more transparent prevented companies from open access to the process. Assistance process was characterised by legal complexities, the lack of correspondence between the formal regulations, chaos on land market caused by government land reform strategies and mandated actors’ inclination for corruption. Complex procedures requiring much effort from companies with arranging archive documentation and a lack of fair relations with land use specialists caused lack of acceptance to such assistance. Private consultancy firms, where affordable, filled in this vacuum of contacts and understanding by intermediation between the parts, submitting the documentation and easing the complexity, but it cost for SMEs to make these procedures surmountable. So, the assistance built less on trust than on a financial deal.

Adequacy of local and macro resources

Not all of the offered resources have been adequate or available to the interested SMEs. In the beginning of study period, the very bank resources (including loans and factorings) were too expensive. In addition, there was a great shortage of other resources—free land and affordable manufacturing premises—to fulfil bank assistance requirements. In this situation, what external assistance by the Lithuanian government and EU institutions has been available to ease the solution organising via banks?

While the establishment of INVEGA with financial support from the EU has been instrumental for achieving more successful financial assistance to SMEs, the study indicated important shortages of its use related to expenses and inadequate information. Besides, INVEGA appeared as a new formal resource (and institution) in the context where lack of trust in government assistance was already firmly rooted. Besides, for SMEs to get information on this actor cost more time and efforts and banks seemed not always to be at their best service. Access to INVEGA services required additional resources from the companies and that was not appreciated, especially by the weaker SMEs. Indeed, private consultancy firms or INVEGA services were available mainly to the better of companies.

In situations when public resources were scarce SMEs were used to rely on themselves (internal solutions) or the more trusted private networks. At least no scrutinising of company’s financial situation from their side was experienced in lending money. It was often thanks to those private networks that positive solutions to financial problems were found. More often companies succeeded to receive bank support after some time on the market when their operations relied on resources saved elsewhere or borrowed privately.
Interaction between actors

Although decisions of bank officials often were dependent on the solutions of other actors—land use department or specialists at the County Governor’s Administration (sometimes the Governor itself), real property or estate agencies, INVEGA or consultants—there was an evident lack of contacts and interactions between them in arranging financial solution to the particular companies. Bank representatives claimed they had no influence on this situation and sometimes the delays in the process at land use departments forced companies to either look for other types of assets to mortgage or simply resulted in no or insufficient financial assistance. Neither banks nor INVEGA could push (or cooperate with) municipal and county administration specialists for premises and land issues in prompting a solution. An oral promise about the ongoing land property issue solution would often not suffice for the banks and the solutions to land issues were protracted. And so was the bank land issue.

Except for INVEGA and occasionally hired private consultants there were no actors (especially not public or mandated) that would undertake a role of an intermediary in contacts between SMEs and banks on preconditions for assistance. Assistance actors in general have been specialised in narrow issues (land, premises, business plans) and they had no contacts with each other. As interaction between the assisting actors was scarce, private consultancy intermediaries found a niche to exploit, but were not affordable to many SMEs. INVEGA was such an intermediary actor that our studied population could rely upon where affordable, but none of our companies did.

To conclude, assistance via the studied assistance structure could be organised with the help of different actor constellations in each case, which is a sign of a flexible organisational non institutionalised character of assistance structure. This lack of institutionalisation had its drawbacks as well manifesting itself in lack of smooth land issue procedures, lack of smooth channels for introducing companies to INVEGA’s services and similar. Besides, the linkage between different assistance efforts and banks has been upheld in our sample by SMEs themselves. The self-organising by SMEs when facing new situations and their success in solving issues, with or without involvement of other actors, of importance for banks was a crucial “glue” on which often a successful bank assistance was conditioned.

With regard to hypothesis 4 (section 4.6), evidence from the assistance structured via banks allows to affirm the importance of local actors, and here, lack of their successful assistance or mediation between national regulations and local (land, premise, credit guarantee) resources is a strong blow for overall assistance success. However, it should be noted that success in local actor intermediation is also dependent on the adequacy of resources and mutual trust between actors and SMEs as well as SMEs and major resource providers—banks.

Lack of mutual trust

Another important factor in successful financial assistance was mutual trust between SMEs and actors. However, in early 2000s smaller and younger companies often lacked trust in banks, for the risk of being forced into bankruptcy. Not infrequently, mutual trust between SMEs and the assisting public servants was
also a deficit. On the other hand, banks did not dear to trust young, small less experienced companies or their non clients due to the lack of previous knowledge of their records. In addition, banks did not always act professionally in advising companies on best solutions or in informing companies on INVEGA’s assistance. Sometimes bank representatives misused their discretion by advising owners of private individual firms, to mortgage their private property. This, however, implied risking not only the company’s future but also the welfare of company owners’ families. Many interviewees reported abundance of similar situations among their relatives and friends often resulting in bankruptcies and losses of private property. This lack of trust and professional dialogue obstructed the search for successful solutions, but the situation has gradually changed to the better towards 2006.

**Contextual factors**

It is insufficient, though, to explain assistance success of banks and other actors only by organisational variables. In our attempts to explain success or its lack in the ways bank assistance to SMEs was *de facto* organised we should recall that assistance we analyse was organised in a transition context. Here I will make some modest attempts to identify some more outstanding transition context factors affecting on assistance manner and success.

National legislation on land issues and EU strategies of support to Lithuanian banks (for attracting more SMEs) have been important context variables. For example, the complex and protracted handling of land issues depended both on the local civil servants as well as on the inadequacy of the national legislation and reform strategies. Companies were forbidden to mortgage buildings without land, while smooth and clear procedures to establish their rights to that land were missing. The obtained land frequently was ascribed agricultural purpose of usage that did not allow manufacturing activities. Converting it to land for manufacturing purposes required additional and long procedures with no clear outputs (see chapter 9). We had already concluded previously that land property rights were an issue in lack of policies adequate to SME needs.

Additional macro level factors had affected banks’ flexibility towards SMEs: changes on the Lithuanian financial market, financial assistance form and obligations to the European Commission programmes, EU banks and European Investment Fund; establishment of INVEGA and else. However, it took too long time for banks to start applying a more flexible and risky approach towards SMEs.262

In addition, as late as in 2001, or 10 years after the transition from Soviet to market oriented economy and democracy was formally initiated in Lithuania, there was still a lack of financial instruments accessible and acceptable to SMEs. INVEGA was the only mentioned, however, unused and partly inadequate credit insurance possibility. Due to the lack of adequate financial assistance instruments, banks had acquired a power position on the financial market which they used by

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262 The fact that banks in Lithuania were not active enough in attracting young and smaller companies was supported by the conclusions of The Central Bank of Lithuania. It announced that especially in 2000, 2001, 2002 and 2003 “most banks remained conservative in their operations, which is proved by their compliance with the prudential requirements with a sizeable reserve. See report: Lietuvos Centrinis Bankas (2003) *Operations of Credit Institutions in 2001, 2002, 2003 (audited results).*
introducing very high loan interest rates at initially and at the start of the study period. Banks could sometimes, especially in the early years of the study period, offer companies illegal or, at least, untrustworthy assistance solutions endangering companies’ survival. For example, banks could “suggest lending part of the money illegally with an even higher interest rate”, advise company managers to mortgage their private property for loans or charge companies higher than initially agreed interest rates. The crude reality of the free market in lack of strong legal state that gave rise to illegal actions on both sides (banks and companies) created a situation of mutual mistrust. Sometimes this lack of trust was enough to reject a certain type of offered assistance.

And finally, lack of adequate assistance from other involved actors, especially due to the complex land reform and lack of suitable premises, resulted in lack of adequate assistance structure. As was noted in chapters 7-9, there was a significant chaos on the land market and lack of manufacturing land and premises to fulfil demanding bank assistance requirements was characteristic for the transition period in Lithuania. In this context the national government and the formal institutions demonstrated inability (and unwillingness) to provide adequate policies to assist SMEs (and the citizens) with those issues.

Conclusions

In general, solutions and bank assistance organised to the financial SME difficulties demonstrates complexity of SME needs and embeddedness of the assistance processes. When assistance to one type of SME needs (land) is positive, it provides a positive impact for assistance organised with a different issue—lack of financial resources, and vice versa, inadequate assistance with a particular need complicates further solution of some related other.

In sum, banks have been reported to be a major external actor in assisting SMEs with their financial development hindrances. Evidence from the 20 analysed solution organising cases suggests that success in obtaining financial assistance from banks depended in much on following factors i) lower loan interest rates; ii) SME access to collaterals or credit guarantees, iii) company’s credibility (especially relevant for young companies), iv) a trustworthy business plan and v) banks’ inclination to attract SMEs as their clients. When all or several of the mentioned preconditions were in place bank assistance tented to result in a positive impact for SMEs. However, insecurity about the future and fear for company’s ability to repay the loan was an important reason for rejecting the overall idea of borrowing from banks and expanding activities.

Several organisational factors have been demonstrated here to have an effect on assistance adequacy. Assistance organisation structure via banks often included other actors to assist with collaterals. Interactions between actors in identifying and organising resources had been scarce and self-organising by SMEs often was crucial for linking different assistance actors in to an assistance structure. Adequate resources that could ease assistance delivery from banks have been scarce and access to them limited. Even macro level factors, such as national regulation regarding resources to be used as collaterals and EU support strategies, had an impact on assistance organisation. While EU provided financial resources

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225 Interview with a district furniture manufacturing company (12d).
had a somewhat positive effect on banks (directly or via INVEGA) abilities to assist SMEs, still they were insufficient. Inadequate and sometimes insufficient were also national and local resources formal in real estate issues (premises and land) or in adequate business consulting.

Banks could best provide positive contribution either when there were positive contributions by other actors and SMEs themselves or sometimes by flexible and more daring individual solution alternatives. While towards the end of the study period banks have adopted a more positive attitude to assisting SMEs, the other local mandated actors did not yet (could not) adjust to the needs of SMEs, thus making it an impediment or insufficient assistance in addressing banks.

In sum, the study results indicate an evident lack of adequate public policies to allow SMEs a better access to financial assistance especially from banks. The major revealed influencing factors were lack of trust between companies and financial actors (banks, INVEGA), lack of cooperation among the involved assistance actors, but especially lack of adequate resources and legislation. These factors alone but often in combination prevented organising of adequate public policies to help SMEs to attract the needed financial assistance. Characteristic for this policy area during the study period was lack of financial assistance actors’ (such as INVEGA’s) assessment of the relevance and impact of their services for small and medium sized businesses. This lack of follow up impeded actors abilities to learn from their mistakes or more successful cases and improve their services to reach such a level of positive impact and assistance manner as to lead to adequate (financial) assistance policies. The lack of adequate public SME assistance policies to improve company possibilities to address their needs of financing (from banks), that showed to be characteristic to the studied period, indicates insufficient adaptation of formal politico-administrative institutions and public policies to the transition period needs. This is a sign of an insufficient transition success in the sphere of public policies to increase (or achieve) policy adequacy.
12 Organising Financial Assistance via EU Structural Funds and Other Actors

The present chapter continues examining alternative ways to overcome financial SME difficulties introduced in the previous chapter 11. Besides banks, financial shortages during the studied period have been attempted by sample SMEs to be overcome via assistance from the available EU funds. When failing in that our SMEs had attempted even to address other type of actors and resources. This chapter will analyse both the possibilities Lithuanian manufacturing SMEs had and the ways companies actually attempted to obtain direct financial assistance from the EU and other types of actors (besides banks), and the factors influencing on assistance success.

While the bulk part of this chapter is devoted EU financed assistance, in its last section also other types of attempted assistance and solution organising ways will be addressed. Lastly, it will also present the summarising conclusions on all the types of assistance employed by our sample companies in attempts to solve financial difficulties.

12.1 Short Background to the Available EU Assistance

The task for public policies analysed in this chapter is finding adequate ways to use pooled EU and Lithuanian government resources in addressing the financial needs of SMEs, also manufacturing and processing companies, such as those of our sample. The adopted bottom-up policy analysis is concerned therefore with whether there were adequate EU and government resources and measures (actors, institutions, procedures) that could assist our studied companies with their financial needs hindering survival or further development.

Regarding types of direct EU support available to Lithuanian manufacturing SMEs the studied period 2000-2006 could be subdivided into two shorter ones. Firstly, after Lithuania has been invited in 1999 to start EU membership negotiations, it became eligible to pre-accession support instruments— ISSPA, SAPARD and PHARE.264 These instruments offered financial assistance for development of social and economic sectors in the negotiating countries. ISSPA was a financial instrument directed mostly at environmental protection and transport sectors; SAPARD—for development of rural and agricultural sector; and PHARE—for social and economic development. Only in the last instrument, PHARE, some measures were directed to SME support and especially so-called “institution building” intended to prepare the public administrations for managing of the future financial EU Structural Funds assistance. These three financial support instruments were operating in Lithuania during 2000-2005. The early membership period in 2004-2006 has opened even greater opportunities for

Lithuanian public sector actors, but also private companies to apply for the financial EU assistance, especially from the Structural Funds.

Support during the second period, 2004-2006 was directed to a larger range of sectors than during the pre-accession, and therefore its instruments gained greater relevance also for the manufacturing SMEs. The way the financial pre-accession assistance has been organised significantly affected both designing and administering the Structural Fund support in Lithuania. Numerous lessons from the pre-accession period were to be learned and officially recognised mistakes corrected before the Structural Funds support was set in action. The very first SME experiences (own or via mass media) with administration and access to the EU financial support was decisive in how they perceived of and expectations they had of the availability and usefulness of the later support during 2004-2006.

In principle, the Structural Funds support to the development of the producing sector and promotion of business development in Lithuania was very formalised and guided by the Single Programming Document of Lithuania (SPD) for 2004-2006. The SPD has become the most important reference document for EU assistance delivery in Lithuania during 2004-2006. In this and other major strategies of Lithuanian government, development of the producing sector and small and medium businesses was set out as one of the top development priorities of the Lithuanian economy.

The SPD has, among other things, stated that development of Lithuanian producing industry shortly before EU membership in 2004 was insufficient with low level of entrepreneurship and insufficient growth of enterprises. As a major shortage with Lithuanian producing industry was recognised dominance of “capital and labour intensive industries using relatively low technologies.” The fact that much of the Lithuanian industrial production was destined for export markets was perceived as a problem for its competitiveness aboard and therefore measures to increase it were planned in the SPD.

The SPD proposed a general strategy for combined EU and Lithuanian government support to 4 major objectives one of which was “direct support to industrial and business competitiveness” (measure 3.1). In addition, specific measures to support producing sector and business development were indicated in the SPD and its annexes. Direct business support was aimed at increasing the low productivity and competitiveness of Lithuanian manufacturing companies by for example, technological renewal. Therefore, the major focus of assistance was directed at such company projects that would, for example: i) improve production quality or introduce new management systems; ii) introduce new technologies and innovations; iii) modernize production equipment; iv) improve production and service processes; v) focus on R&D for industry; vi) implement standards and special certification systems; vii) focus on internationalisation of companies and increased access to foreign markets, viii) implementation of cost reduction measures; and similar.

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265 Ibid., p. 9 and on.
266 Ibid.
267 Ibid., p. 37 an on.
269 These measures were classified either under direct business support or promotion of a favourable business environment, measures 3.1 and 3.2 in the SPD.
Eligible applicants for this support were SMEs and large enterprises that had intentions corresponding with the support focus. Of special importance for assistance administrators were companies’ intentions and abilities to create high added value products, that were deemed to best increase their competitiveness and internationalisation (Kazakevičius, 2005). The intended support for small and medium businesses was based on up to 65% co-financing from the pooled EU and Lithuanian government resources. The part of the EU and Lithuanian government assistance was based on ca 75% support from EU and 25% support from the Lithuanian government.

The Community support for SPD priority 3.1 “Direct Business Support” in Lithuania for 2004-2006 amounted to 397 LTL mln or euro 77.33 mln. The measure of direct business support was further subdivided into 7 even more specific support areas, such as: i) company modernisation and innovations (3.1.1), ii) introduction of quality management systems and new quality improvement methods (3.1.2); promotion of internationalization and marketing of production image (3.1.3); promotion of clusters and cooperation (3.1.4), introduction of environment protection measures (3.1.5), development of tourism infrastructure (3.1.6) and promotion of R&D in companies (3.1.7). In short, the donors together with the Lithuanian assistance administrators grounded the assistance on the specified rules rather than the specified company needs.

For administering the pooled EU Structural Funds and Lithuanian government assistance for the direct business support (measure 3.1) the Ministry of Finance was ascribed role of the major managing authority, the Ministry of Economy—intermediary (in practice, most important assistance managing authority) and the Lithuanian Business Support Agency—the implementing role (Single Programming Document of Lithuania 2004-2006, 2004, p. 296 and on). The Ministry of Economy has also been an active actor in the formation of direct business support strategy under SPD measure 3.1 although in the planning it had to adjust to the EU posed assistance criteria, possibly making them rather stricter than looser. The forthcoming analysis explores whether this type of support fits the needs of our studied companies, how easily it was accessible and whether it improved their financial situation and abilities to cope with their major challenges.

12.2 The Financial Challenge and Actors Addressed for Assistance via EU Funds

Manufacturing SMEs of our sample and the population were primarily interested in financial assistance from EU funds to increase their possibilities to overcome diverse challenges for which they lacked own resources. Purposes for which companies searched for this assistance varied, but often it was their need to

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270 Interview with a representative from the Ministry of Economy, Department for Structural Funds Support.
272 Interview with a representative from the Ministry of Economy, Department for Structural Funds Support.
273 Here, references to the population SMEs are made based on the experiences of the interviewed assistance actors.
13. Assistance with Reorganising and Modernising of Manufacturing

modernise technical equipment, production processes or to adjust manufacturing premises. Besides these, other SME financial needs were related to purchasing or expansion of premises—especially related to EU food production safety requirements—obtaining free money for non-stop production, creation of jobs or even development of new products or services. Here, I will address ways the studied SMEs used to come into contact with the offered EU assistance resources.

Some of the interviewed companies had at some stage of their development considered applying for assistance from at the time available EU funds and programmes especially prompted by the political marketing of this type of support in the mass media. In total, 13 cases (from as many companies) of attempts at support organisation from the EU funds among the interviewed SMEs have been reported. Among the sample companies, EU support was somewhat more frequently considered by SMEs of food-processing companies (7), especially those that felt pressed for changes in production processes and adjustment of premises due the introduced EU standards (see more on this challenge in chapter 13). In the district municipality also companies of other manufacturing industries experiencing financial shortages had shown some interest in this support—wood processing (4) and sewing industry (2).

Searching assistance from the EU was a complicated issue both due to the range of the programmes and requirements, shifts in the deadlines and the organisations involved in its administration. Companies used to come into contact with the EU programmes in several ways. What actors companies addressed depended on their general knowledge of the offered EU assistance and their trust in it. Much information on the administration of the EU pre-accession (including SAPARD) assistance was presented in the Lithuanian mass media, but companies also used to share their experiences with each other or acquaintances.

On the one hand, there were companies that had been specifically considering EU support as an alternative to their inadequate financial resources in tackling various development challenges. Such companies often already had some kind of information about types or areas of EU support and so in their contacts with actors had shown particular concern for the EU financing. Another group of companies were still in the searching phase for any type of financial assistance alternatives and had no or little information on the EU assistance beforehand. In general, since the formal EU support requirements were complex and difficult for SMEs to understand, they needed local intermediary actors capable of explaining and applying the assistance requirements to their particular situations.

The first type of companies was more focused and selective in their choice of actors to address. In particular, they either turned to local advisory actors who were expected to have information about EU financial assistance programmes and their demands in general, or addressed national level actors mandated support coordination and project evaluation roles, e.g. the Ministry of Economy, Lithuanian Business Support Agency, LBSA (both the central office in Vilnius and the regional headquarters in Kaunas). Sometimes their first contact with EU support was via private business consultants specialising in EU support applications. During the study period, there were many private consultancy firms both in Kaunas and nationwide that were specialising in providing consultancy on application to the EU funds procedures. Some consultants have also been active themselves in searching clients among the interviewed SMEs for advising on the availability of EU funds for specific needs.
The second group of companies searched for more general information by addressing a broader spectrum (but not necessarily more) of informative actors. Among these were not only the above mentioned, but as well other public actors such as municipal economic development departments, business information centre (BIC) in Kaunas Business People House (BPH), Kaunas Chamber of Commerce, Industry and Crafts (KCCIC), Lithuanian Innovation Centre (LIC), Chamber of Agriculture in Kaunas or similar. In practice, this type of actors redirected SMEs further to relevant public and especially private consultants.

Besides, many companies used to seek for initial information with other companies, often those of their friends, whose experiences and impressions had affected them. Mass media including Internet sites was another important source of both more neutral, informative type of information, but also an arena for escalation of corruption and support maladministration scandals that have influenced on companies’ attitudes and behaviour towards assistance offered.

Other important forums where information on the support from EU funds (pre-accession instruments and later the Structural Funds) could be obtained and that some of the interviewed SMEs used were seminars organised by Kaunas Chamber of Commerce, Industry and Crafts; Business Information Centres and even the national support administering organisation—Lithuanian Business Support Agency. These seminars were more informative than preparatory for applying for assistance from EU programmes. Therefore, most often companies lacked complementary consulting to figure out not only what type of support was available, but also whether they and their needs were eligible for support and what type of support they had greater chances to receive. Occasions when more specific information could be obtained specifically on application procedures to the EU funds and the related issues were the so-called “targeted seminars” organised by the public business information organisation, such as BIC. These seminars engaged various private consultants charging relatively high fees and so were affordable to only much smaller numbers of SMEs. Participation rates in those seminars varied greatly; the much cheaper (free of charge for the members of Kaunas SME association) general seminars were attended by several hundred companies while those more focused on details in the EU assistance application procedures were expensive and could draw only some 10-15 participants at a time.

To sum, in our studied cases, assistance has been attempted via following actor groups: i) private consultants (7), ii) municipal specialists (3), iii) other (mandated) public consultants (2), iv) national (mandated) support coordinators (2): Lithuanian Business Support Agency and the Ministry of Economy. Numbers in brackets indicate frequency of those actors addressed for initial information by sample SMEs.

The snowballing method identified following most important actors addressed in the process of EU assistance organisation to manufacturing SMEs that have been interviewed for the study: business information centre in Kaunas Business People House (BPH), Kaunas Chamber of Commerce, Industry and Crafts (KCCIC); Business Incubator, National Innovation Development Centre, Department for Innovation.

274 A public business information centre in Kaunas called Business People House (“Verslininkų Namai”) provided some free of charge information and consultations for business start-ups and other business development related issues. However, they also offered assistance with individual project applications to the EU Structural Funds for which they charged some fees.
Strategic Development at Kaunas city municipality, Department of Economic Development at Kaunas district municipality, private consultancy firms, Lithuanian Business Support Agency (administering some EU structural support programmes) and relevant departments at the Lithuanian Ministry of Economy.

The further contribution of the referred actors in the solution organising process varied. Therefore, the task of the next section will be to identify what roles they had undertaken and what resources they could organise to assist SMEs.

12.3 In Search for the Assistance Structure

In fact, the interviews have revealed that very few of sample SMEs eventually applied for the offered EU support both before and after 2004, or were firmly determined to do so in the near future. The rest of this chapter will therefore explore whether and how the ways assistance has been organised affected its lack of popularity. What other reasons and preconditions were conducive to its success or failure?

Identifying solution alternatives and resources

Technical reorganisation or modernisation of equipment was a predominant applicant SME need in considering application for the EU support. In general, addressed public informing actors with a broader and less specified mandate—such as municipal economic development departments—assisted SMEs at best only by identifying some other relevant actors to be addressed, most often private consultancy firms specialising in the EU support applications. When companies addressed other public consultants (like KCCIC, BPH or other BICs and LIC), their specialists together with companies engaged in analysing their needs and assisted companies in with identifying the available resources.

In resource-identifying phase either SMEs themselves or their addressed consultants had to figure out whether the available EU support could be adequate to the specific companies’ needs. The EU assistance was based on certain requirements mediated via the Lithuanian assistance administering organisations—National Payment Agency (previous to 2004), and Lithuanian Business Support Agency (LBSA) together with the Ministry of Economy (during 2004-2006). The latter was a major decision-maker in a special Project Selection Committee, which selected applications and decided on support delivery.

How did the contacted actors behave in addressing company needs and offering assistance? The consulting actors provided companies with the initial information about the preconditions for receiving the EU support (from the specific support measures according to SPD aimed at manufacturing SMEs) and the requirements to be met. Interviews indicate some variation in the roles undertaken by public and private EU assistance consultants. Some consultants were more focused on assisting those companies whose needs they saw best fit to the available assistance, while some others also attempted at altering the SMEs focus from one type of needs (ineligible for support) to perhaps less acute, but eligible for support ones. The reputation of consultants among SMEs often built on the percentage of applications approved for assistance and thus some of them were very careful in their selection of companies to assist.
The first type of consultants put more focus on the rules and requirements of the assistance administrators and programmes. Their focus was primarily on whether the company needs fit the support requirements and not *vice versa* and they confessed on their reluctance to take upon certain type of projects: “especially, when the entrepreneur has some stubborn idea, that is difficult to fit into some frames for eligible assistance, it is difficult to apply for financing.” Even though, for example, technical reorganisation needs were, in general, eligible for support, there were many specific other criteria to be fulfilled. Some consultants focused on the needs that had the greatest chance for support: “We have not so much interest in companies that are interested only in changing their old equipment, but we work basically with innovative projects which also have greater chances for support. If the chance for support is low we simply do not advise them to start the application procedure.”

Other, more creative consultants and company owners could settle for identifying alternative SME needs more eligible for support or other way to attract finances for the particular needs. “In cases where a particular type of idea or activity is not eligible to support we try to put it into some other clothes. We could be treated as a forge of ideas.” However, some SME needs or development ideas would not fit for any of the EU assistance requirements thereby eliminating this alternative. In any case, in contacts with private and public consultants, the financial assistance from the EU was at least considered as an alternative.

Now, how did the support organising process proceed and how did the available support fit the needs of our sample and other manufacturing SMEs? The following analysis is grounded on the interviews conducted both with sample SMEs and their contacted actors.

Assistance from the EU Structural Funds according to the measures indicated in the SPD was based on important financial and other preconditions. One of these was the principle of “additionally” which implied that if a company decided to apply for the EU support it had to set aside considerable own resources or find co-finances to the planned development project. For that purpose, SMEs could use either their own resources or address banks for assistance.

Some sample SMEs and consultants had, however, realised that in cases when bank loans were necessary for receiving EU support, it was more worthwhile to apply for the whole needed sum at banks than to get engaged in the costly and prolonged EU support application procedures with unclear output. A consultancy company confessed:

“We suggest companies therefore to count very carefully whether it would be worth for them to apply for the EU support. Instead, we advise companies to start gradually, check whether the project is really worth of their efforts and would bring the desired result. A bank loan might be much better solution in such cases.”

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275 Interview with a consultancy company 1; similar experiences were also shared by the BIC.
276 Interview with a consultancy company 2.
277 Interviews with a consultancy company 1 and similar perspective by the Kaunas Chamber of Commerce, Industry and Crafts (KCCIC).
278 Interviews with the consultancy companies 1, 2 and BIC.
279 Interview with a consultancy company 1.
Besides the financial preconditions, numerous other demands were to be satisfied for receiving the available EU support (see section 12.5). Innovativeness in technological processes was one of them. However, some consultants claimed that: “we do not develop high technologies in Lithuania, but mainly adapt them.”\(^{280}\) Therefore, consultants often viewed the offered EU support only as one alternative type of financial assistance. Frequently companies were advised to reject it as “…sometimes the EU money could be more expensive for companies to apply for than taking bank loans.”\(^{281}\) Indeed, the EU support applications entailed heavy costs for the applicant SMEs and it will soon be explained why.

Consultants often told companies that applications to the EU funds without professional assistance had very little chance of being approved. Therefore, a further assistance required preparing a professional application to the Lithuanian authorities administering direct EU support to business development—Lithuanian Business Support Agency and the Ministry of Economy.\(^{282}\) In general, this was a job companies entrusted private consultancy firms.

In practice, private consultancy firms—“Business People House” and other BICs, KCCIC and, in special cases, LIC—assisted SMEs from the initial stage of discussing, identifying or redefining the current needs of the companies (F1) to searching ways to realise them through the EU funds or else (F2). All of the mentioned actors, besides KCCIC, could even be hired for consultations or preparing (drafting) of application (F3).

In sum, in this need identifying phase only some of the contacted public actors (especially, BPH, KCCIC, LIC and similar) were interested and capable of assisting SMEs in identifying their EU assistance needs and possibilities. Municipal economic development specialists did not possess the relevant information on the access to EU support. Some private consultants were more interested than others in familiarising themselves with the individual SME situation. Some others only offered assistance with particular needs prioritised in EU assistance measures.

Below we will consider how the addressed actors organised help to SMEs in overcoming difficulties related to applications for EU assistance: in particular what resources were attempted to be drawn in, by whom and how.

Resource organising phase

When the SMEs had obtained the initial information indicating eventual eligibility of their particular needs and activities for support and given the support preconditions were acceptable for the companies, the next step was preparing a project and applying for support. In general, whether SMEs continued this procedure depended much on their resources. SMEs could prepare applications by their own or with the help of consultants. Companies, if they were to apply on their own, had to devote much time and resources in figuring out the rules of the game, that is, – where the detailed information was to be obtained, which pieces of it were

\(^{280}\) Ibid.

\(^{281}\) Interview with a representative from KCCIC.

\(^{282}\) Previous to 2004 National Payment Agency and Ministry of Finance were responsible for administration of EU assistance instrument SAPARD. Here only the direct support to business development measure 3.1 in SPD is considered.
the most relevant for their specific needs, how these needs were to fit in the list of supported measures, how the project should be presented and the application forms filled in to fit in the rules of the assistance providers. Therefore, whenever companies decided to carry on with the application preparations they most often addressed the identified or advised private consultancy firms or sometimes public consultants for assistance.

Was there a need of external intermediary actors between a company and assistance administrators to secure more successful application outcomes? All the interviewed actors admitted that companies could possibly use their own staff for preparing the applications for EU support. However, as these processes were very time, knowledge and resource-demanding, only larger companies could practically afford that. For example, the lack of online registration and possibilities to save and share electronically same documents among the involved agencies had been a great burden for the applicants. “There are heaps of papers to be manually collected and delivered in numerous copies to several assistance coordinating institutions (read organisations).” 283 Often this was a job for private consultants.

The financial assistance to manufacturing companies (not only SMEs), that the EU with co-financing form the Lithuanian government offered during 2004-2006 under the SPD measure 3.1: Direct support to business development, was primarily intended for increasing companies’ productivity and competitiveness on the EU market. The best chances for support had the projects intending to introduce new, innovative technologies and products or modernising production equipment. Previous to 2004, only SAPARD assistance instrument was of relevance and mainly for companies in food-processing industry also analysed in this study.

Interviews indicate, however, that initially the interest for applying for EU support has been much greater than after the contacts and information from diverse actors and mass media. Among our sample SMEs very few, 2 of 13 initially interested companies, had actually continued their search for assistance by preparing applications. One of the companies (food-processing) attempted to apply for the SAPARD support and the other (furniture manufacturing) for direct business support from Structural Funds (SPD measure 3.1) intended for the manufacturing industries. In both cases, applications were prepared with the help of private consultancy firms and the SMEs knew very little details of the support measures they applied to.

We will turn to analysis of application results and the impact of this type of assistance organising both for the sample companies and the population of manufacturing SMEs in the region in general. First, I will map out the assistance organisation structure as it was identified from the interviews with both sample companies and the major addressed actors.

**Assistance structure**

The analysis of the EU financial assistance organising and its adequacy builds on diverse actors’ ability to organise the pooled EU and Lithuanian government resources in such a way as to assist the sample manufacturing SMEs with the shortage of financial resources. The assistance structure was identified from the analysis of actors and resources involved in the 13 sample cases of assistance

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283 Interviews with consultancy company 1 and the BIC.
attempts. The identified assistance structure refers to the assistance attempted by different actors in making use of the available EU financial support primarily from the Regional Development Fund, one of the Structural Funds) funds applied in both sample cases, but also a broader population in 2004-2006.

The search for an adequate assistance structure was initiated by the SMEs concerned by how severely their financial shortages impeded their further development. The range of actors contacted for identifying resources or consulting was quite broad and so were the boundaries of the assistance structure. As was mentioned (see section 12.2), to simplify the assistance structure that evolved I have grouped the contacted actors into several groups. These actors could be further subdivided into informative or consulting actors depending on their role in identifying the possibilities to attract the EU resources.

SMEs used to identify their need of EU assistance (F1-F2) either via information available in mass media, other companies, consultants or contacts with what is here called “informative actors”. Informative I call actors that could only provide general information (as municipal specialists, other SMEs, some other public actors) on other actors or resources available and that would primarily redirect companies to others, especially private consultancy firms. The private consulting actors have been also active themselves in contacting SMEs. Among the public mandated actors an exception was Kaunas business information centre “Business People House” (BPH), which could undertake both the role of informative actor and the advisor for searching assistance or in writing applications.

Thus, it was both the mandated and non-mandated consulting actors who assisted SMEs with identifying available EU resources. Further, only a part of the mandated actors, such as, Business People House, that together with the non-mandated private consultants were able to further assist SMEs by organising their own consultancy resources in prepare applications and contacts with the support administrators.

Both in identifying the available resources and organising assistance to reach them (i.e. preparing applications) consultants interacted with EU support administering authorities: the Ministry of Economy, and the Lithuanian Business Support Agency. Actors meant these interactions were of information extracting kind (including on how to fill in applications, factors affecting on the selection and presentation of project ideas and eligible costs). In fact, the quality of these contacts was rather crucial for the success of the delivered applications.

Both private and public consultants (such as KCCIC, LIC, BIC, etc.) did a major job in informing SMEs on the eligibility criteria and sometimes even suggesting project ideas (F2). What needs actors could help to identify depended in much on the focus of the available EU assistance programmes (and the national SPD). Certainly, some SMEs and support consultants were interested in identifying such needs that would be eligible for the offered Structural Funds assistance instead of the vice versa.

284 In fact, the interviewed actors described the assistance organised in a broader range of SME cases, including the manufacturing SMEs population in Kaunas region. Several of the interviewed consultants had worked with companies also from other places in Lithuania why their depicted tendencies could be applied to an even broader population of Lithuanian manufacturing companies.
As noted, in the resource identifying phase (F2), the absolute majority of the sample companies (11 of 13) have rejected proceeding with applications to the EU support, i.e. neglected this assistance organising alternative (F3). Those few (2) of our sample companies that did prepare applications hired private consultants. Only one of the two had submitted the application. In general, resource organising was restricted to few eligible and interested companies (not only SMEs) that had sufficient finances (!) for hiring consultant assistance. Numerous other (population) applicant companies had undertaken expensive consultancy and project preparation costs without receiving any assistance from the EU funds.285

Interestingly, 12 of 13 analysed cases ended up in the resource identifying phase. Even though we have two cases where applications for support have been prepared, only one of them has been actually submitted thereby engaging LBSA as the assistance manager.

In sum, the specific knowledge requirements on the application proceedings and later, project administration meant that smaller and even medium businesses seldom could conduct the procedures relying entirely on companies’ internal resources. Thus, SMEs that could afford services of private consultants or the semi-private Business People House in Kaunas (or other BIC) could often increase their chances of attracting the financial EU assistance. This was extremely rare with sample SMEs and the attempted assistance to sample SMEs did not succeed in organising the offered EU resources! Even though the mandated resource administrators were occasionally consulted, this did not significantly increase either sample or population SMEs chances to access them. Attempts to organise assistance from EU funds to sample manufacturing companies had mostly stopped after having identified the preconditions (or eligibility) for the resource access, i.e. at resource identifying phase. According to the bottom-up model of policy organising, the organising phase was missing in nearly all analysed cases of EU assistance attempts.

Interviews with the assistance actors nevertheless revealed a rather solid assistance structure based on the participation of non-mandated consultancy actors. In sum, the study evidence confirms the assertions presented in hypothesis 1 (section 4.6). The revealed assistance structuring also indicated the significant involvement of non-mandated actors (by SMEs), also asserted in hypothesis 2, that was an important but not necessarily a sufficient precondition for assistance success in this type of policy problem solution. I will soon return to the discussion of their role in more detail.

12.4 Impact of the Assistance Organised

At the beginning of the second EU financial assistance period (in 2004) there were many doubts among assistance administrators and consultants whether the available support money will be used up. Gradually, though, the interest for direct business support measures under SPD measure 3.1 started growing, especially for technical reorganisation (sub-measure 3.1.1) and later for research and development (sub-measure 3.1.7) and the assistance resources were gradually outsourced to companies from different parts in Lithuania. Nevertheless, results of

285 Interviews with consultancy companies 1, 2, BIC and KCCIC.
the analysed EU assistance delivery for sample SMEs have been disappointingly negative.

**Impact of the overall assistance**

In none of the 13 reported cases had SMEs—not even when assisted by intermediating consulting actors—succeeded in organising support from the EU funds, neither via SAPARD nor the Structural Funds. Most of the companies that had shown some interest in EU assistance had been gradually discouraged. Some companies have been more interested in and determined to obtain EU support than others, but besides that, the assistance organisation process in the majority of cases had ended without even attempting to leave in a support application. Only two companies had actually prepared an application (one for SAPARD and one for Structural Funds, SPD measure 3.1.1) with the help of consultants, but one company was ineligible to apply and the other was neglected support.

Table 12.1 Impact of the overall financial assistance organised via the EU funds

<table>
<thead>
<tr>
<th>Actor types</th>
<th>Assistance impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mixed actors (consultants and LBSA)</td>
<td>C (13 cases)</td>
</tr>
</tbody>
</table>

Explanation: Impact: A-positive and sufficient; B-positive insufficient; C-no positive impact.

We have to conclude that in none of our 13 cases assistance organisation was successful. Not even occasional or *ad hoc* assistance success from, at least, some cases have been reported. EU assistance resources have remained unused by sample companies.

**Assistance impact by actor type**

Lack of success in attracting the referred EU resources implies no positive (or insufficient) overall impact of the assistance structure organised. However, individual assistance actors or actor groups might have made some positive impact, but that was overshadowed by other negative factors (such as assistance preconditions, requirements or trust) in assistance organising. The bottom-up model suggests, where relevant, assessing the impact of various actors and factors in the separate phases of assistance organisation.

Actors’ ability to assist SMEs to identify their actual assistance needs and the needs eligible for support was a major factor in determining the further flow of the assistance process. Not all of the companies had experienced, though, that the contacted consultants, especially private ones, showed satisfactory interest in their *actual* needs or advised them on how to organise solutions. Besides, the contacted actors were not always informative enough and private consultants were only addressed for initial information but not further used by most SMEs.

In a few cases when our SMEs hired consultants for consultation and assistance with application their impact was assessed somewhat positively. However, most
companies were sceptical about using the help of private consultants and assessed their behaviour rather negatively or had negative prejudices regarding their assistance and chances for success in the application processes. In short, regardless of the nearly exclusive SME dependence on the private consultancy actors, they were frequently regarded as both expensive and untrustworthy, a discussion I will soon return to.

Did any of the actors admit they assessed their abilities to assist SMEs or looked at what impact their assistance had (could have) in terms of solving a given SME challenge? In fact, attempts have been made by Lithuanian government to draw some lessons from the experiences with pre-membership assistance administration (especially from SAPARD instrument) (Single Programming Document of Lithuania 2004-2006, 2004, p. 10 and on). For example, already before the introduction of the direct business support measure (3.1) from the Structural Funds, it was noticed that the sum earmarked for certain priority areas had to be adjusted to match the actual interest of applicants. Support administering actors had also observed that many applicants experienced great shortages of own co-finances which prevented them from delivering projects for EU support.

Representative of the major organisation mandated EU assistance implementation in Lithuania—Lithuanian Business Support Agency—in the interview was quite self-critical about certain aspects of agency activities, especially assistance information and administration: for example, negative effect of changes in its strategies and deadlines, time factor, complex and time demanding procedures to name a few. Besides, it noted that the lack of inexpensive public consultancy services had a negative impact on project quality and, in general, SMEs access to the EU funds. Regardless of this self-criticism, a major change that LBSA introduced was the establishment of a local office for Kaunas and the neighbouring Mariampolė region (where the applicants have been more active). The major duty of this office though was to monitor the provided project assistance rather than assist in the application phase.

In fact, there was little evidence of assistance administering actors’ concern with assistance to the specific and individual SME needs, but rather how predefined types of assistance could better reach SMEs. This characterises the top-down approach to implementation of assistance policies. Some private EU support consultancy actors showed little concern with SME actual needs, as they saw their mission and job opportunities in at best preparing suitable applications, i.e. identifying needs eligible to support. The public BIC, Business People House in Kaunas, or Kaunas Chamber of Commerce, Industry and Crafts showed more concern with SME actual needs and alternative solutions, as they did not in particular specialize in the EU support. These conclusions should be taken to support the assertion of hypothesis 5. Insufficient self-assessment or assistance evaluations with regard to company needs rather than formal assistance goals provided little if any policy learning (see also supporting arguments in section 12.5).

Because of the competition on the consultancy market, but also lack of companies’ interest, many consultants, especially private ones, had to readjust, i.e. lower their fees in their attempts to attract more potential applicants.

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236 Interview with the director of Lithuanian Business Support Agency (LBSA).
Conclusions: results and indications of adequate policies?

Often solution and assistance organisation ended with identifying resources (F2). Just a few companies got further with the help of private or public consultants into application drafting phase, which was a necessary link between resource identification to resource organisation. Even though assisting actors occasionally organised their resources to draft an application this did not lead to EU resource organising.

To conclude, in our sample cases not a single actor has made a sufficient positive impact in organising support from the EU funds to solve companies’ lack of financial means. In the two cases where the SMEs were ready to apply for support under the valid preconditions they still were neglected it. In most cases, however, sample SMEs had refused to use private consultants’ assistance and so decreased their chances for positive assistance impact.

The fact that the financial assistance via EU funds to the sample SME financial needs have not reached resource organising phase is an indication of both lack of policies and lack of the attempted assistance adequacy. The study results show no tendencies of the adequacy of the available assistance structure neither regarding its impact, nor the assistance manner why it cannot be an indicator of adequate policies to financially assist manufacturing SMEs of our sample (and to large extent even the population) especially with technical reorganising.

Although SMEs often positively assessed public consultants’ assistance, it did not make a sufficiently positive impact on the financial challenge solution (impact B). Services offered by private consultants, on the other hand, were less positively assessed (impact C, occasionally B). Therefore, in this particular assistance organising some actor types can be treated as inadequate to sample SME needs due to the lack of sufficiently positive impact, but also, as we shall soon see, due to lack of access or acceptance. According to the adopted methodological approach, not only the actors, but also their offered resources—especially the offered EU resources—deserve scrutinising, in search for explanations to the lack policy adequacy (see section 12.5).

The lack of an adequate assistance structure greatly diminished the company managers’ inclination to apply for the EU support. However, a couple of sample companies have indicated their interest in applying for EU support sometime in the future, when they could save more money for the required co-financing.

Such striking lack of success makes the analysis of the major conducive factors even more imperative. The analysis has so far repeatedly hinted at factors that could be helpful in explaining reasons to why so many attempts to organise solutions via EU assistance had stalled at an early stage. The next section addresses some major and repeatedly occurring ones—such as roles of actors and their interactions, SMEs and resources—that prevented involved actors from organising more successful and adequate assistance policies in addressing the specific manufacturing SMEs needs.

287 We have to keep in mind that interviews with companies took place in 2004-2005 (with exception of some additional interviews) before the second EU Structural Funds support period was over. However, interviews conducted in 2007 with the actors SMEs were in contact with regarding EU support information or assistance were used to complement the information on the assistance structuring.
12.5 Factors Explaining Assistance Failure and Lack of Adequate Assistance Structures

The identified assistance organising to financially support SMEs from the EU Structural Funds during 2004-2006 did not succeed in establishing an adequate policy structure to address the needs of the studied, but also many of the population SMEs. The adopted methodology allowed identifying several factors significant for the analysed assistance outcomes. Indeed, as the lack of an adequate assistance organising structure is the major factor for the lack of positive outcomes, the factors identified should primarily be used to explain why the resource organising phase was never reached and thus the policy structure was incomplete.

In those cases where sample SMEs did prepare applications, they were not successful. More importantly, even when companies could formally qualify for support to the particular type of needs often this assistance still looked unattractive. Our task here will be to analyse the major factors for that among behavioural, structural and context variables identified.

Formal rules and the roles of actors

How relevant were the actors and their undertaken roles in informing on, administering and delivering EU assistance to reach out to the manufacturing companies suffering from shortages of financial means?

Top political decision-makers were important actors in this type of assistance delivery as they defined the rules: access to the offered EU resources, application deadlines, procedures and similar. Already at this level, several misleading strategies have affected the trust among SMEs in the assistance system and their willingness to apply. Firstly, interviewed consultants referred to several abrupt changes in the strategy of assistance administering actors like closing application before deadlines, sometimes announcing extremely short periods for project applications or avoidance to inform potential applicants on which type of activities or companies will be eligible for support before shortly. Sometimes, certain industries were excluded from assistance in the last step of applications without sufficient explanation.288

Consultants also criticised the lack of stability and predictability of the EU assistance administration system:

“Business is dynamic. All those bureaucratic restrictions and inconsequence on the part of politicians such as, for example, playing with deadline strategies... It is like setting a muzzle on business. I would rather think that it is not companies that should adjust to politicians but rather the other way around.”289

Secondly, state administration and top-politicians had spread a lot of misleading information among the potential applicants “as if the EU money is easily accessible”290 while it was not. For the companies to reach out to the EU assistance resources offered they needed to get in contact with actors both possessing...

288 This is especially true for the SAPARD support in Lithuania.
289 Interview with a public business information centre.
290 Interview with the Kaunas Chamber of Commerce, Industry and Crafts.
information and capable as well as interested of helping them with the applications. Frequently, contacted informative actors had no relevant information and redirected SMEs to private consultancy firms. Some of the public actors mandated consulting tasks were of assistance in identifying resources available, mostly by attempting matching SME needs with the support priorities. However, those actors (with few exceptions such as BPH in Kaunas) could not assist companies in application procedures, i.e. initial resource organising.

The EU support consultants—mainly private, but also such semi-public Business People House in Kaunas—played a pivotal role in assistance organising as they bridged the gap between the informers and the resource managers. This type of actors was engaged in all assistance organisation phases (more than any other SME contacted actors) thus acting as true intermediaries. However, their services were limited to a few sample and population SMEs due to the trust and costs factors. In fact, even though private consultants were such important and active actors in this context it was their behaviour that very often halted SME attempts to apply for the offered EU support. Some of the companies reacted strongly against the complexity of the project application system that, indeed, left no other choice for the applicants than to hire private consultants to assist with assistance demands and application procedures. Some company managers reacted heavily against such praxis: “This is not really a normal thing. Shouldn’t it be the other way around that the company should be able to make the application by itself having all the knowledge of its activities and needs?”

In short, while engagement of intermediating consultants in organising EU assistance was one of the major factors increasing chances to assistance success, SME unwillingness to hire them significantly diminished these chances. Besides the roles of the formal and approached actors, it was the adequacy and access to the available EU assistance resources that were essential for success in assistance organisation. However, as we shall soon discover, both relevance and access to these resources was unsatisfactory for the needs of both sample and many population SMEs. The next section explores for what studied manufacturing SME needs the resources were available and how easily accessible they were.

Access to resources

Access to available resources is a vital precondition for support to succeed. Yet, what characterised the formal rules regulating the EU assistance was that they excluded many SMEs as ineligible for support on the grounds that were decided centrally or on the EU level. How easily available were the referred Structural Fund resources to the interested SMEs?

The combined resources European Commission and Lithuanian Government set aside for development of the Lithuanian productive sector in 2004-2006 and previous SAPARD resources were intended to increase the sector competitiveness in markets abroad—especially the common market—which was a broad objective (Single Programming Document of Lithuania for 2004-2006, 2004). However, to reach this objective support was specifically directed to a rather narrow category of SME needs. In practice, support according to the SPD direct business support measures in 2004-2006 was primarily focused to those companies (or projects) that

291 Interview with a city wood-processing company (15c).
could develop new products or implement new technologies and innovations and thereby significantly increase the added value in their production. Such a narrow focus though, excluded many SMEs from the traditional manufacturing sector (including those we studied) in need of financial assistance from this EU Regional fund support.

Our analysis of multiple sample SME attempts to reach out to the referred EU assistance reveals following. Firstly, the promised support was not always available at the time SMEs were interested in it. Company owners were frustrated by the situation where there was no clarity as to when the calls for support applications would be announced or if the needed support will be made available to them at all:

“When we had addressed a consultancy company for EU support, for advising us on what in our activities could be done easier with the help of EU funds, the answer was: wait and see. At present no support is offered for your type of industry. But in business time is limited for waiting.”

Secondly, regardless the narrow focus of support and difficulties to get access to it, representatives of the Lithuanian Government and its agencies often spread misleading information on the easy access to the support. This has meet protests not only among SMEs but also among support assisting and consulting actors. Support had been frequently rejected due to technical mistakes in application forms. This fact has been identified and criticised by the independent Ombudsmen office of Lithuanian Seimas (Parliament).

A third observation from sample analysis is that expenses related with project application were almost unanimously ranked as a major hinder for applying for support. Especially related consultancy costs were viewed very sceptically. Together with the consultancy costs the related project administration and time costs were treated by the majority of the interviewed SMEs as nearly exceeding the support sum: “Of all the support money you will have to give back nearly everything you have received to diverse consultants and administrators. It is only a waste of time.” An absolute majority of the interviewed companies viewed the behaviour of private EU support consultants and fees they charged very negatively, which was a major factor for the lack of interest in the EU support. Common to many interviewed companies was that they described their situation of access to the offered EU support metaphorically as “hitting against the wall” when referring to their dependency on the expensive and untrustworthy private consultants and very high demands for the assistance to be delivered. In the words of a company owner: “Now it is not even worth of trying. Not only because it would cost us much money, but especially because we will hit against this wall of the so-called EU experts and all it costs you to have them do your job.”

292 Additional assistance for SMEs from the SPD measure 3.1 was directed towards implementation of IT technologies and electronic business as well as promoting investment in tourism and conference facilities; see the Single Programming Document for 2004-2006 (2004).
293 Interview with a district food-processing company (5d).
294 Interview with a representative from the LBSA.
296 Interview with a city food-processing company (9c).
297 Interview with a city wood-processing industry (12c).
Fourthly, application for support implied significant other costs. A company should prepare a project proposal for the specific challenge (eligible for support) where nearly half of the costs were to be covered by the company. However, as the support was restrictive (repaid after the investments were made), the company had to initially find resources to cover the costs of the whole project. The lowest sum of assistance amounted from 100,000 to LTL 32,1 mln in the studied geographic areas. Some too financially strong companies or too large projects were non-eligible for EU support. However, from their practice, consultants recalled that the average project sum for support was around 1 million LTL. Managers of small and some medium-sized companies were disappointed at such type of assistance to financial difficulties: “You really have to have large amounts of money to get this support.”298 Paradoxically, to get assistance to financial needs as a small or medium sized company, you had to have enough of finances to ask for it from the available EU Structural Funds assistance.

SMEs that experienced shortages of money had to prove to assistance administrators that they would be capable of finding additional finances for the whole project (as the assistance was retrospective and compensated ca 65-50% of the eligible costs). Companies could either turn to banks that would provide conditional assistance based on the approval of projects or where available, freeze in considerably large own resources. Many companies were, however, short of free money or assets to co-finance the project and far from all interested SMEs could afford bank loans for their part of co-financing.

Next, many interviewed SMEs confessed that their contacts with other companies revealed that without bribing administrators there was simply no chance for assistance applications (even well prepared) to be approved.299 Finally, companies sometimes simply did not know about their possibilities to apply for assistance and did not know whom to address while they were busy with their daily operations.

To sum, a major reason to the lack of assistance success was that too many SMEs were simply ineligible for support. Besides difficulties to qualify for the direct business support, many SMEs had difficulties to find co-financing resources required to receive support to the projects in need of finances. Besides, wrong timing or shortage of time for preparing applications and the related costs together with rather untrustworthy (at least initially) consultancy system prevented even more companies from this financial assistance alternative.

Resource adequacy

Besides the access, the relevancy of EU and local actor resources was essential for the support to succeed. In the following I will briefly comment on the resource relevance aspect in this policy area.

Firstly, support amount were badly adjusted to the needs of both small but also some medium-sized companies. Those SMEs in need of smaller support amount were simply disqualified or the preconditions for support were such that applications for sums under LTL 500 000 did not pay off, and in practice were

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298 Interview with a city food-processing company (9c).
299 Interviews with companies (4c, 12c, 13c).
extremely few.300 Even though banks could be addressed for support in co-financing the EU support projects, according to the consultants, cases where SMEs used support from both sources (EU and banks) were rather rare due to the involved costs (for support consultants, project administration and bank interest rates) especially for smaller sums of financial assistance.301 For the companies with, for example, larger turnover that did not have much spare money it was hardly worth applying for the offered EU support. In general, the financial preconditions of support were not favourable to many manufacturing SMEs.

Secondly, although the purpose with the assistance was to finance the development needs SMEs had not otherwise been capable of solving, the identified assistance practice sometimes diverged from these goals. EU assistance was sometimes organised for those SME projects that would have been able to find other type of finances. In those cases, the offered assistance simply implied access to additional funds for realising some important business idea. In the words of a consultant: “When a company intends to realise the planned project or part of it regardless of the success in applying for EU assistance, it is a good sign that the need is real and that the project would probably be approved for financing.”302 This consultancy practice witness of some of the unintended assistance consequences.

Thirdly, even though in the criteria for direct business support several priority areas were enlisted they did not have an equal weight. Innovation and high value product development were prioritised against the more modest modernisation and technical renovation needs. For example, projects where companies were applying for support for investing in new but not sufficiently modern equipment were treated suspiciously at support administering agencies. Unless this equipment required very highly qualified specialists and safeguarded high added value production there were very little chances for acquiring financial assistance from the EU funds. Because of this strategy, very few traditional manufacturing companies, especially smaller ones, could possibly qualify for EU support (problem related to access to the resources). Small and medium businesses studied were interested in somewhat used, but still modern equipment or a piece of new, but perhaps not the most modern one they could afford. “These Structural Funds are not adjusted to the needs of such small companies as ours”, complained a company manager of a furniture producing company with 23 employees exporting production to the EU. In fact, the analysed support from the EU meant that the costs for the company only increased as they were forced to invest in new sometimes “terribly expensive”, according to SMEs, equipment. In general, frequently formal assistance objectives mismatched the real SME needs.

Paradoxically, while the EU support delivery to SMEs during 2004-2006 relied much on a concept of innovativeness, this concept was new for many support-consulting actors and SMEs, and during the study its contents still remained under debate. Being an important precondition for support, innovativeness lacked agreement in Lithuania on its assessment criteria.303 Indeed, companies, sometimes

300 Interview with a Lithuanian Business Support Agency (LBSA) representative.
301 Interviews with BIC representative and private consultancy firms 1 and 2.
302 Interview with the director of the Lithuanian Centre of Innovations.
highly innovative ones, hardly perceived their activities as innovative and thus eligible for support. In addition, at that period, there was still lack of consultants (public and private) that would be familiar with innovativeness and assist companies in presenting that type of projects for EU support.304

Fourthly, the expenses that projects qualified for support were required to undertake caused even greater financial burden for the applicant companies than the existent one. The project costs partly covered by the EU resources were strictly regulated by the assistance requirements and were badly adjusted to the particular SME needs. For example, reimbursable were only costs for purchasing of new and modern equipment that would allow production of new type of products or otherwise enable innovative activities either in Lithuanian or in the EU market. Half of the costs for the new equipment were to be covered by the applicant company.305 In addition to that, companies could not be compensated for the value added tax (VAT) costs amounting to 18% of the equipment costs for acquiring this new modern equipment. This added to the already considerable project application costs. Strict regulations steered also what project activities were to be subcontracted even when company had competence in the area itself.

Next, the offered EU support was also based on other specific criteria. Besides the financial factors, projects were assessed also for their management capacity, their role for regional economy and adequacy to certain enlisted specific criteria enlisted in the assistance (the so-called project preparation) guidelines.306 For example, EU support was based on SME abilities to undertake complex, strict and resource demanding project-auditing procedures. Each approved project had to have responsible persons, most often in the company’s administration, for administering the support, dealing with public access to information on the project and auditing it.

Finally, yet another support precondition was time factor — certain sequence of project steps and the given time limits. Time limits were difficult, especially for smaller or family companies, to comply with as they were scared of financial obligations to the project financers and unexpected hindrances to the development. Some company managers maintained: “When it comes to support via such large projects, our company wants to develop at its own tempo, gradually and not so fast or in the direction required from the supporters.”307

In other cases, the reverse was true, as delays from the assistance administrators was a major development hinder for the companies. Consultants recall that assistance delays or the time it normally took to administer it occasionally could result in population SMEs rejecting the already approved EU support. During the time it took to process the application the competitive situation on the market changed thus making the planned project activities inadequate, but according to the support preconditions companies would have been forced to proceed with the planned activities. In short, long application processing procedures at national

304 Ibid.
305 Ibid. Also interviews with the BIC and the Lithuanian Business Support Agency.
306 Guidelines for applicants (Gairės Pareiškėjams. Verslumo, verslo ir investicijų plėtros skatinimas siekti gauti Europos Sąjungos Struktūrinių Fonduų financinę paramą pagal Lietuvos 2004-2006m. Bendrijų Programavimo Dokumentą) received at the interview with the LBSA representative. Different parts and adjustments of those guidelines have been adopted by decrees of the Lithuanian Minister of Finance and the Minister of Economy.
307 Interview with a district food-processing company (3d).
level and lack of flexibility by resource allocators in adjusting to new project cost calculations due to time losses significantly decreased SME interest in the support offered.

The burdensome and costly job with complex project application procedures had evoked quite a strong opposition to the whole EU assistance system: “We do not wait for anything from any funds, we have to think how to survive ourselves.” Application for EU support was frequently treated as too expensive an endeavour among SMEs. A company manager had put it this way: “I would say like this, that nobody in our business working on such a scale as we (read small) risk to apply for EU support.” Under these preconditions, the interest among sample SMEs, and according to the consulting actors smaller manufacturing companies in region in general in applying for EU support was very low.

A representative of business information centre in Kaunas confessed that in general, it were only larger companies that had been interested in the EU support. Part of the explanation in the lack of interest for the available EU funds according to him lies in the fact that, as the interviewee puts it: “We invent so many barriers, rules and documents that it becomes very difficult for SMEs to manage the projects and account for them. On the part of the assistance administrating institutions (read organisations) there is no flexibility at all.” Relatively strong financial situation of the companies was, therefore, an important precondition for support delivery. Many companies with lack of finances had to look for other solutions. Public actors often advised companies in need of smaller amounts of money (perhaps around 200,000 LTL/540,000 SEK) not to apply for support from EU funds but to go directly to banks. The consultants meant that such solutions paid better off for the SMEs.

All these identified factors of assistance access and adequacy for given SME needs provided important explanations to their lack of interest in the available support. As a result of the specific support preconditions a situation evolved when companies with better financial situation or prospects could easier qualify for support than those in need: “For the company that has money it is even easier go get more.” Besides, there was no guarantee that after having invested much money and time in project preparation and application procedures the project will be approved.

In sum, the interviewed companies did not find the support offered adjusted to their needs and capacities. In general, preconditions for receiving resources allocated for financially supporting manufacturing SMEs in their development badly fit small and medium manufacturing industries in Kaunas region. These companies did not necessarily see solutions to the transition period challenges they faced in creating high added value products, high qualification jobs or innovation of Lithuanian scale. Moreover, high consultancy and project delivery and implementation costs had frightened off very many potential applicants as they would not view those costs and time factor worthwhile the support. Companies treated the strict requirements for the use of support money and lack of assistance

308 Interview with a city food-processing company (9c).
309 Interview with a city wood-processing company (13c).
310 Interview with a representative from Business Information Centre (BIC).
311 Ibid.
312 As in company cases (7c, 16c, etc).
313 Interview with a consultancy company 1.
managers’ flexibility in matching companies’ needs with support preconditions eventually more as a limit than a resource. Besides, lack of transparency and initially, especially until 2004, lack of accountability by the assistance administrators was another major hinder related with the whole EU assistance organisation process. In addition, interaction between actors and the role of companies had also affected the success of assistance organising.

**Interaction between actors and companies’ role**

Here we will look into what explanations to organised assistance manner and impact could be found among the ways actors chose to interact in organising assistance.

The major actors to interact in this context were SMEs, consultants and resource managers. SMEs had been the major link between most participating actors in the assistance organising process. Lack of clarity and simplicity in support assessment procedures bedded for the need of intermediaries to interpret them for companies. Companies engaged in the process actors that assisted them in identifying their needs and resources and, later, those capable to assist in attracting those resources.

The addressed private consultants or those at the public Business Information Centre (BIC) “Business People House” have themselves taken contacts in resource identification and organisation phase with support administrators without involvement from SMEs. However, the consultants were not very positive about the quality of the contacts with the resource administrators; they complained of the lack of clarity of information and sometimes lack of support managers’ willingness to communicate the information.

Sometimes, however, SMEs suspected that interactions between (private) consultants and support managers built on close sometimes illegal relations that influenced the fate of applications. These suspicions have been strengthened by the fact that certain consultancy firms were very confident about approval of their projects and by the large (illegal) so-called success fees charged by many private consultancy firms.

Lithuanian Government had mandated the Ministry of Economy and the LBSA to administer and deliver the available EU support to SMEs in manufacturing industries in accordance with the formal strategy in the SPD. Several previously established public business-consulting organisations took upon roles as guides in the offered resource “jungle”. This was necessary as numerous preconditions were to be fulfilled for getting access to those resources. As very few of the existent public actors did (or could) undertake assistance organisation to access the available resources, this gap was soon filed in by an evolving special group of actors—private EU assistance consultants. Because access to the available EU resources was so complicated, SMEs that organised assistance via consulting actors could deliver better applications and thus increase their chances for support. They could be engaged earlier or later in the assistance processes, sometimes by marketing themselves, other times addressed by more interested SMEs. Besides private consultants or public BIC as Kaunas Business People House no other actors undertook the intermediary roles in organising the available EU resources. The assistance managing authorities were just administering and monitoring the allocation of the available resources. These authorities were not interested in
assisting SMEs with other alternative resources and neither had they engaged other actors to assist SMEs.

Establishing a linkage between the different actors became a role for the SMEs in this way making self-organising an integral part of the financial assistance structuring, especially before they involved private consultants. In addition, when the SMEs considered other types of support there were no actors (besides possibly public BIC) that could undertake organising of other type of financial support to their client SMEs. Usually, sample SMEs went from one identified actor to another in attempts to organise some financial assistance. In general, though, the studied SMEs did not make so many attempts to search for new public sources of financial assistance, besides banks, and had often attempted to rely on the future revenues, or other internal or private network solutions. This might have impeded their development, but at the same time rescued them from the financial assistance expenses they could not always undertake.

**Trust and transparency**

Trust in assistance consultants and EU fund managing authorities could enable, but more frequently, lack of it tended to prevent companies from further assistance organising. The majority of interviews revealed a great mistrust among SMEs towards the consulting actors (especially private) and actors administering EU support. Private support consultants were sometimes treated as “going hand in hand with support managers” in the corrupted assistance administration and delivery. SMEs accused both private consultants and public support administrators of lack of transparency in the project application procedures and unacceptably high and frequently illegal consultation costs (“success fees”). The interviewed SMEs referred to both their own or other companies’ experiences and the information in the Lithuanian mass media as support for their arguments:

“There are such companies that deal with applications for funding from the EU. We would have applied for approximately LTL 800, 000; however, these consultants take firstly 2% fee for consultations on application plus ca 15% for the so-called ‘success fee’ in case the project will be financed. Where do we declare this money? The ‘success fees’ are indeed illegal project costs that we would have to compensate from our pocket.”314

Negative own or other companies’ experiences resulted in fear to trust their business ideas to public or private consultants or support administrators. Companies were afraid to discuss openly alternative ways to cope with their challenges for the idea not to be “stolen” and transmitted to other companies. Interviewed consultants recalled that frequently companies would only declare their need for financial support and interest in the EU funds, but were not always willing to reveal their actual needs. A frequent response from companies was: “Give us (or show us to) the money and we will know how to use it.”315 In such cases, contacted actors could only assist with the search for all types of available resources. In cases where companies shared their situation with the BIC, KCCIC or

314 Interview with a district manufacturer.
315 Interviews with consultants and civil servants at municipal office for strategic planning.
private consultants those specialists could help them even to redefine their needs and select more appropriate for their specific situation type of financial assistance.

However, sometimes even assistance consultants were doubtful about the fairness or clarity of project assessment criteria used by assistance managers. The involved consultants and SMEs complained of resource allocators’ unwillingness to explain application requirements. The lack of professionalism and transparency among private and public actors administrating or consulting on the EU funded assistance was widely escalated in the Lithuanian mass media.

In result, many companies felt a strong distrust in the whole EU assistance delivery system. Some companies distrusted especially private consultants, others support administrators, and some both. “Such support is not for those that have no acquaintances or relatives in the support administering agencies.” A company owner recalled:

> We have heard from several of our close friends’ companies (who attempted to apply for the EU assistance) of the so-called marked lists of those applicant companies that are willing to pay the bribes for the programme administrators etc. No one of our acquaintances’ companies that did not pay any bribes had been granted any support money.”

This lack of trust had prevented many SMEs from attempting to apply for EU support. In fact, Transparency International’s account of EU-funded support administration and monitoring in Lithuania raised many doubts about its transparency and fairness (Transparency International, 2005). Having in mind that Transparency International in a 2004 survey (Transparency International, 2004) revealed that Lithuanian residents had experienced most corruption of all the old and new EU Member States, lack of trust becomes an important variable when discussing chances of SME assistance policy success, especially concerning financial matters.

Conclusions

As was concluded, the common EU and Lithuanian Government resources intended to promote industrial and business development during 2004-2006 (as measure 3.1 in SPD) had been unavailable to many SMEs and their particular development needs short of finances. The bottom-up implementation assumptions of policy adequacy presented in hypothesis 3 and 4 point out the importance of resource organising phase. They refer to how different actors’ roles in structuring assistance affect its adequacy and their abilities to organise resources. However, the analysed EU assistance to sample SMEs did not even reach the resource organising phase. A number of variables—the roles of actors in the initial assistance phases, trust and resource adequacy and access—were found helpful in explaining this lack of assistance success and, naturally, adequacy. The interest of companies to apply for the EU support or apply for the offered resources was negatively affected by the lack of information, abrupt changes in assistance

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316 Interviews with consultancy company 1, 2 and BIC.
317 See, for example, Ekstra (2005), Valstybės kontrolė (2005).
318 Interview with a city food-processing company (9c).
319 Interview with a city wood-processing company (12c).
strategy, expensive consultancy costs, lack of transparency in selection criteria—all indicating lack of assistance adequacy.

Some identified factors—as self-organising of SMEs, enrolment of (mostly private, non-mandated) consultants, SME development level and needs (when these were eligible for support) were conducive in increasing chances for assistance success. Referring to hypothesis 4 it must be noted that local intermediary actors, such as consultants, played an important role in increasing SMEs access to the pooled EU and national financial assistance resources. Thus the assistance structuring with mixed type of actors was an important (ref. hypothesis 2) although—in this type of assistance—but not a sufficient precondition to the involvement of adequate policies.

Lack of adequacy and access of resources offered is considered here as two major decisive factors for the negative assistance impact. In fact, the preconditions for receiving assistance from the available authoritative resources were often unadjusted to situation and needs of many SMEs in the studied manufacturing industries. Selectivity of consultancy companies in their choice of applicants and strict assistance eligibility demands excluded many SMEs from this assistance. Increased costs and lack of guarantees for EU financing as well as time factor made it easier and less costly for SMEs to apply for the entire support sum with banks or perhaps other financial actors.

Access to resources was preconditioned on eligible needs and correct applications, which presupposed a good knowledge of the assistance preconditions. Available private consultants could offer those services, but both during the administration of SAPARD and, later, Structural Funds they were inaccessible or un-trusted by many SMEs and that greatly diminished companies’ access to the EU resources. Besides, the needs of the studied SMEs seldom fit assistance objectives. Innovativeness and high added value investments prioritised by the support measures were seldom intended or affordable to the studied SMEs. Most SMEs in challenge situations could not comply with the complex application requirements that implied burdensome costs and commitments.

Lack of successful interaction between assisting actors or actors and SMEs have also diminished chances to assistance success already in its initial (preparatory) phase. Lack of trust prevented SMEs from addressing this assistance alternative. When attempted, tough, assistance success depended especially on consulting actors’ knowledge of the posed assistance requirements why a working communication with resource managers was crucial. Such positive communication was not always easy to achieve. This factor, however, was less relevant for the studied companies as the assistance seldom reached the resource organising phase.

In general, regardless of the intensive marketing of direct EU assistance by the Lithuanian government, there has been considerable lack of interest and discontent among SMEs and some actors with how the support delivery was organised, administered and delivered. Neither the private assistance actors, nor public assistance managing organisations/agencies were sufficiently trusted by SMEs. Somewhat paradoxically, food processing companies that were forced to make technical reorganisations to due adjustments to EU food safety demands were unable to get to support from EU for that.

In sum, it could be concluded that the direct EU business support resources identified under measure 3.1 of SPD 2004-2006 were unavailable, inadequate and unacceptable/not trusted as financial assistance alternative to most sample
companies and many Lithuanian manufacturing SMEs in coping with modernisation and other transition challenges. The Lithuanian government had excluded from the available EU assistance numerous manufacturing SMEs that were among the most predominant actors in the Lithuanian economy.

Regardless negative EU support results or due to that the studied sample SMEs continued their search for financial assistance. A further concern of this study in the financial assistance policy area thus is whether there evolved some other adequate assistance to this group of SMEs. The last section of this chapter analyse therefore how companies of our sample succeed with support from actors—other than banks or EU fund administrators—or how they managed to organise solutions to the financial shortages themselves.

12.6 Financial Assistance by Other Actors

Sample SMEs’ attempts to seek financial assistance via other public actors have been sporadic and few actors have been contacted in individual cases. Only in 3 cases our sample SMEs had succeeded to receive some financial assistance via those other actors.

Local government

Some of the companies had attempted to address local government for financial assistance, especially via civil servants working with issues of economic development. Both municipalities had particular departments responsible for issues of local economic development. Some companies regarded municipal economic development departments as a proper staring point in their search for financial assistance or information on relevant other actors. In the district municipality also a public municipal fund for supporting SMEs was operating. However, only one sample wood processing company\(^{320}\) had been advised (via an acquaintance at municipality) to address it for some financial support. The company received some assistance which it experienced as very symbolic (due to the small amount of support), but still a positive contribution in solving a technical reorganisation challenge.

Others

Integration to the EU market forced many food-processing companies in Lithuania to adjust to the safe food production requirements posed by the new Lithuanian and EU regulations. None of our studied food companies have been, however, able to organise solutions to the related financial shortages via the available EU funds, but one\(^{321}\) of them had succeeded in obtaining assistance via other external fund—so-called Business Advisory Service Programme (BAS).\(^{322}\)

\(^{320}\) A case with a district wood-processing company (6d).

\(^{321}\) Interview with a city food-processing company (7c) and a district wood processing company (14d).

\(^{322}\) For more information on the Business Advisory Service Programme see its homepage at: http://www.basprog.com.mk/BAS%20History.htm, retrieved 20 03 2006.
This programme has been financed by the Nordic Council of Ministers and coordinated by EBRD to assist the development of small and medium sized enterprises. The assistance was based on covering part of (50%) consultancy costs for technical reorganisation of production processed by adjusting to the strengthened EU and national demands on food hygiene control system. The company came into contact with this programme via another private company (acquaintance). This provided support made a partial positive contribution to solving the technical reorganisation challenge.

One more interviewed company\(^{323}\) has received support from the Lithuanian SME Development Agency\(^{324}\) for covering half of the education costs on expanding it activities to other markets that was a major challenge for this company. This was also experienced as partial, but very positive support.

In a few other cases,\(^{325}\) contacted potential financial support managing authorities (National Paying Agency under the Ministry of Agriculture or National Regulating Agency for Agricultural and Food Production), were not able to deliver any assistance. On the contrary, representatives of these two administrative organs were ignorant of the particular SME needs, even though their task was to offer financial assistance to companies in similar situations. Some company owners experienced those organisations as malfunctioning and corrupted as they refused to support the companies on false grounds and behaved corruptibly. Interestingly, none of the interviewed companies mentioned any attempts to address other types of direct government support administered by the Ministry of Economy (or other actors) and mentioned by the interviewed civil servants at the Ministry (such as support for innovations or direct SME support). Instead, they expressed a great mistrust towards government actors and measures. Corruption among public administrators and malfunctioning of public institutions forced SMEs to address banks. However, due to the lack of information or limited access to it SMEs were often prevented from considering other financial support alternatives than banks.

### 12.7 Alternative Solution Organising Ways—Internal Solutions

Often companies—especially those operating on a smaller scale—simply did not expect any financial support (or privileges) from the government or some funds and simply did not know any other form of financial solution than banks. The majority of interviewed companies expressed that they would not even complain if no external support would be provided, but they rather wished not to be hindered in their development (by taxes, increasing minimum wages, especially frequent law changes, complications with land issues, unclear regulations, time pressure to make adjustments and similar). For example, interpreting constantly changing and multiple laws and regulations entailed significant costs for SMEs, as they needed to hire specialists for that.

Banks, and especially EU assistance, was not always an acceptable or available alternative to all SMEs. Some could not afford taking or increasing bank loans,

\(^{322}\) Interview with a district wood-processing company (14d).

\(^{323}\) This agency has been abolished in 2007.

\(^{324}\) Both cases with a city food-processing company (5c).
others were refused financial assistance from banks or other contacted actors. In such situations sometimes (8 sample cases) internal solutions helped companies to deal with their financial shortages and survive. By internal solutions here are meant solutions that were organised by the companies themselves both through introducing different structural or procedural changes in their activities or by seeking financial support from the private network (relatives or friends), or company stockholders. A popular solution among small companies and family firms was to borrow money from relatives and friends:

"At that time bank loans were very expensive and we had only some unattractive to banks premises of low value in our disposition. It would have cost us considerable money for insurance, inspection and value setting etc. for these premises. So we found other solutions—we contacted our relatives, friends and parents to borrow money and when we added that to our own savings we could buy the equipment."326

Sometimes financial problems have been overcome by reorganising company operations, such as: diminishing number of employees, selling out private property, expanding sales, searching for new markets or investing in new profiles or undertaking half illegal activities (illegal wage system). Small and medium businesses frequently saw solutions to their financial difficulties in developing slower with smaller amounts of money, investing in cheaper equipment or waiting for their profits to increase instead of taking risky and costly bank loans or applying for EU support. SMEs also practiced a combination of several alternatives (5 cases); especially popular was combining internal solutions with bank assistance. This combination not always was possible as often companies had simply too little assets and were too unfamiliar with credit insurance system (or could neither afford that) to get any loans or other external public financial assistance at all.

Although internal solutions had a positive impact they were, however, not always sufficient in solving financial shortages. In only three cases327 our SMEs succeeded in entirely solving the financial shortage by the internal means. Evidently, money problem became acute when it could not primarily be solved through private friend and relative networks. In such cases, assistance from actors with finding external financing was crucial. If none of the actors could organise financial support and no specific internal savings could be made, those SMEs that could afford it simply chose waiting until they had large enough savings to deal with the challenges. However, frequently companies unable to find assistance in solution organising simply turned to the rather transition specific solutions—avoiding to pay taxes by using double accountancy system, illegal or half-legal salaries or other.

326 Interview with a district wood-processing company (10d).
327 See interviews with companies (3d, 10d, and 15d).
12.8 Conclusions on the Overall Financial Assistance Organised

The problem for SME assistance policies discussed in chapters 11 and 12 was actors’ ability to organise adequate assistance policies to SMEs experiencing financial difficulties in overcoming their major development challenges. Here some conclusions are drawn on the success and adequacy of the ad hoc and more structured assistance organised.

The impact of the financial assistance by different actors or assistance structures is presented in table 12.2. There are no doubts that among the approached assistance organisations and actors the assistance structure via banks has been the most important and successful in financial assistance delivery in the studied cases. Next most important and frequently used assistance was occasional structuring offered by private actors from close friend and relative networks. The EU assistance administrating actors and structure stand out as not only least successful, but regarding the particular measures analysed, simply inadequate for our studied SMEs and their needs. Occasional impact of other assistance actors has been reported on a very small scale and thus only seen as ad hoc solutions.

<table>
<thead>
<tr>
<th>Assistance actors</th>
<th>Nr of cases with assistance attempts</th>
<th>Positive contribution</th>
<th>Partial contribution</th>
<th>No contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assistance via banks</td>
<td>20</td>
<td>9</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td>Assistance via EU</td>
<td>13</td>
<td></td>
<td>-</td>
<td>13</td>
</tr>
<tr>
<td>Other</td>
<td>3</td>
<td></td>
<td>3</td>
<td>(2)</td>
</tr>
<tr>
<td>Private networks, internal solutions</td>
<td>8 (at least)</td>
<td>3</td>
<td>5</td>
<td>-</td>
</tr>
</tbody>
</table>

What overall conclusions could be drawn from this assistance organisation impact about the ability of mandated and other actors to organise adequate policies to assist SMEs in smoothing their transition challenges? In fact, banks were the only actors (in this context) that applied a somewhat systematic way of organising assistance to SMEs, although it was preconditioned on the contribution by SMEs and other actors. Although more successful than other financial actors, banks could be said to employ not policies, but strategies for support. Lack of access and adequacy of the analysed EU support measures (direct business support) to our studied manufacturing SME needs allows to conclude on the lack of adequate especially formal assistance policies (on the part of EU, EU fund administrators and Lithuanian top political decision-makers).

In sum, no adequate assistance policies to cope with the studied companies’ financial development impediments have been identified in Lithuania, only some ad hoc assistance success by several external actors and banks.
12.9 Characteristic Financial Assistance Factors

Here, I will consider some factors of the financial assistance organised for our sample SMEs that could be deemed as characteristic to the studied transition context.

SMEs were sometimes confronted with peculiar behaviour by the assistance actors—such as, bank officials, EU assistance administrators and assistance consultants—that mostly negatively affected the adequacy of the assistance. One of these factors was related to the operation of the private consultancy firms specialising in EU assistance applications. The situation that occurred with EU assistance organisation bedded for an important role for private consultancy firms putting most SMEs interested in support in a dependency situation: no consultancy—little if any chances for support. Many of these consultancy companies, at least in the first years of the assistance period, abused the situation through the lack of public guidance and advice by charging SMEs extremely high consultancy fees both for the job with applications and later, for application success, so-called “success fees” that were not included in the formal assistance system. This could be somewhat paralleled to the situation with banks, whose near monopoly of financial assistance allowed them to initially charge extremely high interest rates and suggest sometimes illegal assistance deals (e.g. informal loans in cash).

Secondly, the lack of transparency, accountability and corruption—that are usually notable lack of rule of law features—in terms of assistance delivery—were characteristics of the assistance organised and created a system of great mistrust among SMEs. Indeed, some of those advisory actors and even EU assistance managing authorities have been engaged in corruption scandals in assistance delivery and non-transparent support management. The lack of assistance adequacy and lack of access to the EU, as well as to other public assistance resources, combined with the reluctance on the part of the Lithuanian government to provide adequate measures promptly in order to prevent such corruption in the near future, resulted in a strong and widespread SME mistrust in support organisation system (especially financial) in general. Company managers claimed that such factors had with all certainty made an impact on how they viewed their opportunities to apply for and make use of the available assistance or trust it.

Moreover, there was a pertinent lack of trust in SMEs on the part some public assistance actors. Interviews witnessed of general lack of understanding and trust in small and medium businesses by local politicians and civil servants in both Kaunas city and district municipalities. They either suspected many SMEs of illegal activities or defended interests of large businesses. Similarities could be found in

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328 In Lithuania there were several publicly disclosed affairs of inadequate allocation of the EU financial assistance from the Structural Funds, especially during the pre-accession period which was not a secret for the companies. Those broadly in Lithuanian mass media escalated affairs disclosed a number of cases where large and influential companies, sometimes involving high ranking Lithuanian politicians, have been allocated large amounts of assistance money on false grounds. In some cases allocations were made for fictive activities. In all those cases of misused support several well known private consultancy companies had been involved. See for example, Ekstra (2005).

329 Interviews with municipal civil servants, representatives from the SME Association for Kaunas region and BIC.
certain mutual mistrust between Lithuanian banks and SMEs during the study period.

The fact that it was easier to go around the formal institutions by avoiding to pay taxes or undertaking illegal or grey activities instead of using the available institutions and actors to obtain some financial support stands out as a third observation. Also lack of adequate policies to assist and maladjusted institutions is a sign of a socio-political system yet in transition. While the Lithuanian government searched for ways to tackle some of the most vital SME needs, the adequacy of its policies and the relevance of the formal institutions for his task was doubtful. These factors indicate insufficient institutional adjustment to specific societal transition needs and the failure to establish policy linkage the formal way. All this allow us to draw conclusions about lack of successful institutional and policy transition in this policy area.

And finally, another phenomenon characteristic of the studied transition context was the lack of functioning legality and rule of law which cased challenges or hindered their solutions. Sometimes companies were forced to address banks (major financial assistance actors) when they in fact had enough money, but it was circulating, for example, in hands of large trade centres or other buyers that avoided or were unable to repay for the provided produce on time. SMEs were in a dependency situation where they could not or would not undertake costly and often fruitless legal measures to induce repayment. Some other SMEs (3 cases) have been illegally cheated by importers on large order sums and no justice could be restored.

The indications above, in general, call for a more extensive analysis of the abilities of the Lithuanian government and other actors and institutions to deal with the negative transition phenomena, which in turn, affected policy success and adequacy. The role and abilities of formal actors and institutions to assist SMEs in solving their financial problems will be addressed in more detail in chapter 14; while the characteristic policy organising features in the studied transition context will be further discussed in chapter 15.
13 Assistance with Reorganising and Modernising of Manufacturing

This chapter introduces readers to how another major sample SME challenge that of technical reorganisation, has been perceived and dealt with by the companies during the study period. The chapter particularly focuses on comparing the two identified types of the assistance organising with the technical reorganisation challenge, their similarities and differences. We therefore will look for tendencies to how smoothly these assistance processes proceeded—how and what kind of assistance could the companies and approached actors organise and what impediments were encountered. The aims with this last empirical chapter exploring SME challenge solution processes is to look for signs of adequate assistance policy organising.

13.1 Introduction

The competitive situation in the Lithuanian market as well as steadily increasing access and exposure to the external markets, especially the EU, had put pressure on the Lithuanian manufacturing companies to readjust their operation, production processes and modernise their equipment to keep up with the open competition. In this study technical reorganisation denominates the overall category of different related challenges such as reorganisation or development of technological processes and products, and instalment of new or modernisation of existent equipment. This challenge has been perceived and manifested itself differently among the studied companies and even manufacturing activities. A specific type of this challenge shared exclusively by food processing companies related to the integration into the EU market and its concomitant regulations.

In general, the challenge that comes with restructuring manufacturing or modernising equipment has been encountered by many sample SMEs (21 of 31), and by some of them on a few occasions (therefore amounting to 24 cases). This challenge was classified into two basic types, depending on its causes:

a) Technical reorganisation due to endogenous developmental needs (13 companies and 16 cases),\(^{330}\) and

b) Technical reorganisation due to external (EU) requirements (8 companies and as many cases).\(^{331}\)

The first type (a) of technical reorganisation challenge was perceived in terms of endogenous, i.e. natural company modernisation needs, and was a major concern for sample companies from varying industries—food-processing, sewing, wood manufacturing as well as furniture production. In total, 11 companies faced this type of challenge, of which 5 were in the district and 6 in the city municipality.

\(^{330}\) The following district (d) and city (c) cases were encountered: 7d, 8d, 9dA,B, 10dA,B, 13d, 15dA,B (9 district SME cases) and 3c,10c, 11c, 12c, 13c,14c,16c (7 city SME cases) = 16 cases.

\(^{331}\) The 8 cases with food-processing SMEs in city (c) and district (d) municipalities of which 3 were in the city and 5 in the district municipality: 7c, 8c, 9c, and 1d, 2d, 3d, 4d, 5d.
The technical reorganisation challenge of the second type (b) was basically caused by external regulations, both from the Lithuanian government and the EU Commission, and that is why it can be referred to as an exogenous challenge. From our studied industries, especially companies in the food-processing sector had experienced this type of challenge. It was related to specific safety and hygiene regulations in food-processing processes that demanded reorganisation and adjustment of food-processing processes and manufacturing premises. Out of the 10 interviewed food companies, 8 (3 district and 5 city) have perceived the new safe food production demands as their major or one of the major challenges. Requirements have been presented in Lithuanian legal acts that incorporated the EC food safety legislation into the Lithuanian legislation shortly before Lithuania’s accession to the EU in May 2004. Several Lithuanian inspecting agencies monitored the adjustment of food sector companies to the posed requirements.

The interviews indicated that, in general, technical change needs have nearly equally affected both district and city companies (14 cases in district and 10 in city municipality), with slightly greater frequency among the district companies. There was no noticeable geographic difference either with internal or external technical reorganisation needs (9 district and 7 city and, respectively 4 district and 3 city). However, a certain sector difference was observed in both types of the challenge. Internal technical reorganisation needs were least frequently experienced (1 case) by sewing and apparel industry, dominant only in the city municipality. This is because nearly all of the interviewed sewing companies deemed their future as very insecure and survival threatened by lack of specialists and difficulties to compete with Chinese producers.

In sum, the technical reorganisation challenge affected mostly food, wood and furniture industries where it also had a rather prominent role among the other types of challenges. Challenge of type (a) was common to all the three sectors, but more frequent for wood and furniture industries, while the type (b) challenge affectedly food industry.

However, the search for solutions to technical reorganisation or modernisation challenge of both types was often a complex process. It required solutions to various related issues pinpointed by our interviewees that frequently evoked much effort-demanding processes. Several of these issues to be resolved for technical reorganisation—lack of financial means, land, premise or knowledge issues—have been common to other type of SME challenges and shared by more sample SMEs. Due to this complexity, analysis of solutions organised to the technical reorganisation challenge have to deal with the assistance organised for the individual related issues. Therefore, this chapter relies on the assistance organisation analysis presented in chapters 8, 9, 11 and 12.

The later part of this chapter is devoted to introduce the reader into the particular type of technical reorganisation challenge in relation to approaching EU membership that Lithuanian food-processing companies faced.

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13.2 Background to the Technical Reorganisation Challenge in the Food Sector

Assistance organised to the specific type of technical reorganisation related to the introduction of EU food safety and hygiene regulations in Lithuania deserves a special attention here as most interviewed food sector SMEs had perceived it as their major challenge. The Lithuanian food industry has in 2000-2004 been introduced stringent food safety and hygiene requirements and norms related to the adoption of EU legislation *Aquis Communauté* that highly affected development and survival of food-processing companies in Kaunas region and in Lithuania in general.

Lithuanian government had started incorporating the EU food safety requirements into the Lithuanian legislation approximately in 1999 when specific and demanding food safety regulations based on the principles of Hazard Analysis and Critical Control Point (HACCP) were introduced by the Hygiene Norm: 15 to be applied from 1999.\textsuperscript{333} During the EU membership preparations, the *Law on Food Quality* was passed in 2000 (LR Maisto Įstatymas, 2000). The law prescribed the application of special food quality and hygiene control (required by the Hygiene Norm of 1998) during the whole food-processing process. This and the subsequent legal instruments such as Hygiene Norm: 15 in 2001, 2002, 2003 and 2005 clearly reflected the national government’s willingness to adjust to the EU norms of safe food production.

The newly introduced requirements differed from those of the Soviet system in that they focused primarily on controlling the different phases of food-processing instead, as in the previous system, on very strict controls of the final product.\textsuperscript{334} To be able to meet the detailed and stringent food safety requirements many of the Lithuanian food-processing (and catering) companies had been forced to make major changes in their activities such as reorganising production processes, changing equipment and adjusting premises. Interviewed experts admitted that larger food companies exporting their production to the western markets had, in principle, followed those requirements, but many SMEs strongly protested against them and faced difficulties in complying with them, especially within the given time limits. Companies claimed they were unprepared and lacked necessary preconditions for adjusting their operations. Thereby, already from the introduction of the stricter requirements on good hygiene practice and HACCP this was a challenging issue primarily for small and medium food companies.

Because of the strong objections emanating from SMEs in the food sector, government mitigated somewhat the requirements in the following food hygiene regulation in 2001 by dividing companies into certain categories according to their size, and assigning somewhat different adjustment requirements for each.\textsuperscript{335} According to the new legislation in 2001, (Hygiene Norm:15) the more demanding methods of HACCP were required to be applied only by food companies with over 20 employees while the smaller ones were allowed to employ somewhat simplified

\textsuperscript{333} A major legal act Higienos Norma (HN):15, 1998 introduced the HACCP and good hygiene practice requirements.

\textsuperscript{334} Interview with a specialist at the State Food and Veterinary Service, the Kaunas district office.

\textsuperscript{335} For more details see interview with a national specialist at the State Food and Veterinary Service in Vilnius; see also Higienos Norma (HN):15, 2001.
methods of self-control for production safety. The HACCP principles had to be applied by the defined size of food-processing companies no later than in a year from the start of their operation. The HACCP system required systematic identification and monitoring of all food procession processes for all type of products and with detailed reports (Hygenos Norma:15, 1998). These regulations were valid between mid 2002 and the end of 2003, before a new legislation (Hygiene Norm: 15 in 2003) was introduced in 2004.

From the start of 2004, no more exceptions in the regulations have been made for smaller companies to adjust their production processes or apply less complex food safety control principles. Except for the newly established companies, others had to comply with the requirements to apply HACCP from the start of year 2004. The safe food production requirements differed somewhat for companies processing food of animal and non-animal origin. The first group was exposed to stricter requirements and was the first to start to comply with them. However, for this group certain adjustment periods have been negotiated by the Lithuanian government. However, Lithuanian inspecting agencies admitted, that no special adjustment periods have been negotiated with the EU for the food companies producing products of non-animal origin, the category to which the majority of interviewed food companies belonged. In general, the more stringent production safety and hygiene requirements to food companies have been introduced since around 2000.

As a result of the stricter regulations, food-processing SMEs were forced to look for solutions by adjusting their food safety monitoring, production processes and premises. A failure to do so would seriously endanger their survival and often meant a withdrawal of their food-processing licenses. However, affected sample food-processing companies perceived these requirements as a heavy burden the solution of which was very demanding.

Now, why would this specific type of challenge be of interest for this study? Firstly, this type of challenge facing food sector SMEs has been especially characteristic of the transition period. One type of Soviet food hygiene requirements were abandoned for the new pertaining to the EU market. In addition, these transition period changes had affected the food sector, one of the most dominant manufacturing sectors in Lithuania, but also in the Baltic States). The challenge required a prompt and knowledgeable adjustment. Thus, except for the other transition period challenges shared with the rest of sample industries, food-processing companies had faced explicit external manufacturing reorganisation and adjustment demands in connection to the approaching EU membership. This presents an interesting case for policy analysis. Our concern here is the following: while top political actors in Lithuania (and EU) put special demands on reorganisation of food sector how successful were they in assisting it to introduce the needed adjustments in practice? Did they have the willingness, instruments and knowledge needed to assist the affected companies? It should be kept in mind that not only the restructuring of manufacturing sector but also the development and support to SMEs in general were set among their top priorities.

The next section addresses what solutions and assistance to the challenge have been organised.
13.3 The Externally Evoked Challenge

Why was the situation with safe food-processing so challenging for our sample SMEs? The interview analysis revealed several of the issues at hand inflating the challenge.

Firstly, many sample SMEs indicated lack of relevant information. They were unsure of the formal requirements and the position of the inspecting agencies on how to implement those and in what order.

Secondly, characteristic to the transition was that many food processors were small companies often lacking suitable premises for their activities. Companies often hired old Soviet time premises originally intended for other types of activities and unfit for food-processing according to the new detailed requirements. Among other important requirements for food producers, a crucial one was the demand that the raw material and ready production ways should not cross. To enable that manufacturing premises had to be adjusted, for example, by installing proper air conditioning systems, equipment like freezers as well as adjusting location of hygiene and food-processing premises. These requirements were often very difficult to meet in old and bad quality buildings. When premises were hired, often no major adjustments were allowed. Even the manufacturing premises owned by the company did not always fit the requirements and needed reconstructions, often enlargements, which needed arrangement of land property rights and construction permits.

Thirdly, many companies were stressed due to the pressing timetable for implementing adjustments. Valid legislation required prompt or immediate adjustments while companies were unsure about the position of the inspecting agencies. Besides, introducing changes demanded large financial means to be obtained quickly. Demands had to face the harsh reality of shortages.

All those different issues (knowledge, money, premises and similar) required addressing different type of actors for solution organising. Assistance organised for solving some of the issues, such as lack of financial means, is analysed in more detail elsewhere in this study (e.g. chapters 11 and 12) and will only briefly be accounted for here.

Based on the experiences of the affected sample companies, the chapter will explore whether the public sphere actors (Lithuanian or EU) had prepared any instruments for smoothing this transition, and how did they manifest themselves in practice.

13.4 Solution Organising and a Search for Assistance Structures

This chapter describes how sample SMEs attempted to organise solution to the technical reorganisation challenge of both types a) and b). In particular, it will attempt to identify and compare solution organising ways and assistance processes

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336 See statistical data in: Main Indicators of Small, Medium and Large Enterprises 2000, B404, Statistics Lithuania, Vilnius 2001. Accordingly, of 722 food companies in Lithuania, 226 were micro companies, (1-9 employees), 293 were companies with 10-49 employees, and 164 with 50-149 employees.
in search for SME assistance policies. It will also assess the impact of the assistance organised in terms of its adequacy.

**Identifying the challenge**

As the name indicates, internal or external technical reorganisation challenge has been identified differently. While endogenous challenges (type a) stemmed from individual company development or modernisation needs, type b) challenges were presented to the companies by the legal acts and Lithuanian inspecting agencies. The external actors seldom were engaged or played a significant role in defining the challenge for type a) companies while their role was a major one for companies affected by the type b) challenge.

In the second case, to be able to face the challenge companies needed clear and consistent information on what was required from them and in what sequence, as all changes regarding the new food safety norms could hardly be introduced simultaneously. Actors whom companies frequently addressed or were addressed by regarding the adjustments required were mainly different inspecting agencies, especially State Food and Veterinary Service (SFVS). During these contacts, the demands and thus the challenge have been clarified.

Lithuanian legislation on hygiene norms and food production safety had incorporated parts of EU legislation already before Lithuanian membership in May 2004. After the mentioned food safety demands and risk monitoring procedures were introduced in Lithuanian legislation, various inspections started making frequent visits to food companies with adjustment claims. Therefore, in practice demands have been put on companies to adjust to the new and stricter norms of what was in the EU regarded as necessary for safe food production even before Lithuanian membership. It must be noticed that longer adjustment period (until 2006) have been negotiated for some companies processing food of animal origin.

However, by 2000 many sample SMEs still lacked relevant information on both the formal requirements and the position of inspecting agencies on how to implement these requirements and in what order. Companies needed advice on the most crucial changes and understanding of their situation, but experienced difficulties in attaining information. Indeed, many companies were surprised to hear that the changes awaiting them were so overarching. Their worries can be reflected in the words of a company manager:

> The paradox here lies in the fact that during the 7 years of our activity in the sector the manufacturing premises were accepted as suitable by different inspectors, but not anymore, after the EU demands have been actualised. Now, the same inspecting agencies that have approved the previous standards had objections to nearly everything.

The referred legal regulations challenged the ability of the small and medium businesses to reorganise food-processing processes, introduce new type of

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337 Interview with a specialist at the State Food and Veterinary Service (SFVS) in Kaunas district.
338 Interview with the Lithuanian attaché in Brussels and a national expert of safe food adjustment; interview with district food safety specialist at SFVS.
339 Interview with a district fish processing company (2d) owner.
equipment, routines and readjust manufacturing premises. However, as the companies had difficulties in interpreting and applying the regulations they needed professional advice. Now, did the major decision-makers and public sector actors, including inspecting agencies, assist companies in complying with the requirements and in what ways? How did they behave in terms of information dissemination, consultations, interpreting and adjusting requirements to the local contexts? Did they apply the flexibility permitted by the EU legislation in compliance with deadlines?

Lithuanian food production regulating agencies such as the Lithuanian Ministry of Health, SFVS and State Consumer Rights Protection Authority (Nacionaline vartotoju teisiu apsaugos taryba) as well as EU legal acts plaid a crucial role in defining the adjustment requirements perceived as a challenge (F1) by the food-processing companies. On the ground, SFVS was the major agency that companies were in contact with for the application of the requirements.

The challenge was individual for each SME depending on how much it diverged from the posed production safety requirements. It should be added, though, that in some cases reorganisation of manufacturing in line with, at least, some of the legislated requirements corresponded with company’s internal needs for modernisation viewed as a matter of company’s competitiveness and survival. However, companies would have intended to achieve the changes at their own pace and sequence rather than artificially adjusting to the imposed deadlines and costly measures.

Interviewed specialists indicated, that already by the time Lithuania had joined the EU in May 2004, the food safety regulations applied in the country were stricter than the EU legislation demanded, especially for companies with 20 employees or above. Lithuania had exemplary incorporated the EU legislation sometimes even overworking the demands. Moreover, since the legislation was stricter, so were the inspectors’ demands.

For the company group with internal technical reorganisation needs it was often SMEs themselves that perceived and defined the challenge. Further, it was company managers or owners themselves that took the next step in attempting to find relevant solutions.

Identifying solution alternatives

Although the two types of technical reorganisation challenge evolved differently their solution required addressing similar issues:

i) knowledge;
ii) search for suitable or adjustment of manufacturing premises;
iii) land issues (in some cases);
iv) financial means, and
v) time factor.

Time pressure was a specific type of issue especially common to food producing companies with regard to adjusting to EU food safety requirements. Ability to make the strict deadlines more flexible was one of the ways to partially assist SMEs in their adjustment (F3).

340 For example, in the case of a district company (1d and some others).
Adjustment to the EU safe food production requirements was partly subject to the attitude, interpretation and behaviour by the inspecting agencies. Interviewed companies recalled two types of situations. One, when they were fined by inspecting agencies for lacking adjustments without pre-warnings and another, when they were presented a strict time table for adjustments to be introduced, often in a one year period or shorter. Sometimes, both measures were applied. In any case, companies had no other choice than to make their best efforts to adjust to these as they were warned that failure to introduce required adjustments on time would imply seizure of their activities.

Timetables that inspectors presented or prepared together with affected companies influenced solution ways and organised assistance. Shortage of time forced companies to make quick decisions and prioritise different solution alternatives. Sample companies frequently complained, however, about the lack of understanding and willingness by the Lithuanian inspecting agencies to adjust the strict EU demands to the local conditions, and the companies wanted agencies be more helpful in advising what measures were to be prioritized and how to best adjust to the demands. SFVS representatives claimed they disseminated information on the changes required and ways to apply good hygiene practice rules in companies’ activities via seminars. Besides, inspectors claimed that some of the requirements were not new to the companies, but only stricter with the new legislation. However, seminar activities have been delayed until inspecting agencies realised that most of SMEs have difficulties in understanding and applying the rules. Besides, each company’s situation was individual and personal advice was needed.

In short, solution alternatives to the external technical reorganisation challenge depended on the priorities set by the inspecting agents, in their contacts with SMEs, often long lists, of what was to be done until their defined deadline. Companies then, similarly to those concerned with internal reorganisation or modernisation needs, had to seek for the individual solutions.

Sample companies had nearly always identified solution and assistance available on finance, premise, knowledge or land issues themselves. Even though SMEs were capable of identifying important issues to be solved when facing the challenges, they sometimes missed to identify the right actors. Thereby, in such cases, contacts for assistance were not established. For example, a company that realised the importance of right knowledge for technical reorganisation could have missed the relevant actors available. Occasional contacts taken with some actor to assist on the issue might have shown to be unfruitful and prevented company from further search.

In sum, a common feature of the entire group of sample companies affected by the challenge was that frequently most solution alternatives (both issues to address and how) were identified by the SMEs themselves. An exception was lack of financial means an alternative solution to which was sometimes identified with the help of consultancy actors or fellow companies. Besides, in addressing solution alternatives to challenge of type b) companies were dependent on what measures inspecting agencies would deem necessary.

341 For example, 3 cases with district and 2 with city SMEs (cases 5d, 6d, 7d, 8c, 12c).
Resource organising

This section explores how assistance to both types of technical reorganisation needs was organised and the eventual differences that evolved. Depending on the type of issues to be solved, companies contacted various types of intermediary actors. Therefore, an analysis of eventual actors’ involvement in organising solution to the challenge is based on their roles in solving those related issues.

The requirements posed to food SMEs in relation to the exogenous challenge in some of the cases studied implied such great restructuring and renovation projects that companies had to halt or severely diminish their food-processing activities for a longer time. For example, some SMEs needed to rebuild or considerably expand their premises and that could last for months. This, of course, required large investments and companies found themselves short of financial means and pressed for time. In general, for the solution of this challenge sample SMEs mentioned several major impediments—lack of knowledge or information, financial shortages, un-suitable premises, sometimes need of land for constructing new premises or construction permits and lack of time. In fact, even other sample SMEs faced similar issues in their search for solutions to internal technical reorganisation challenges. Therefore, success in technical reorganisation depended greatly on how successful SMEs were at coping with these issues, either on their own or with the help of assistance actors. Below follows a short account of assistance organised for each of those issues.

i) Knowledge

Companies facing externally identified reorganisation were in a particular need of adequate knowledge. Introduction of the new safe production and hygiene requirements implied acquiring new types of knowledge of risk monitoring procedures and needed technical adjustments. In their case, at the early challenge phase, there was a limited number of actors, where particularly SFVS, provided companies with the required knowledge. The new requirements implied much more work even for the food and veterinary inspectors as they had to be specifically trained, conduct more detailed analysis and even disseminate the new information.

Did and how SFVS or other actors assist companies with information and consultation on the needed adjustments? The interviewed SMEs had reported of a rather inflexible and unfriendly attitude by the inspecting agencies—lack of explanations and consultations, strict demands on adjustments and fines for lack of them—at least at the in the first years of the study period. However, the central SFVS agency gradually realised that especially small companies had difficulties in comprehending and applying the safe production requirements as presented in the legislation. They needed consultations and more good will in disseminating information and individual advice from the inspecting agencies. Some sample food companies witnessed of a shift in the inspector’s attitude towards them around 2004, several years after the introduction of the initial requirements. Inspectors, on the other hand, complained about some companies’ unwillingness to adjust to the new safe food production requirements by simply protesting against them.342 In

342 Interview with a representative from the Kaunas district SFVS.
addition, inspectors started giving general seminars on adjustments needed and examples from other successful companies.

EU legislation recognised the use of food safety self-control procedures called “guides for GHP”. These guides, according to the EU example, could be prepared for the entire food sectors producing similar products. To be accepted for use, they had to be firstly approved by the National Nutrition Centre (Respublikinis Mitybos Centras) at the Ministry of Health. Then, somewhat adjusted they had to be used by individual companies to steer and report their food hygiene activities. Such GHP guides were an important help especially for SMEs that lacked resources and knowledge to plan and apply individual HACCP monitoring procedures.

The adjustment process had generated establishment of private consultancy firms specialising in applying HACCP or Good Hygiene Practice (GHP) requirements in specific sectors of food processing. This private consultancy became an additional actor to address for know-how. However, to my knowledge, only one sample company has used consultations of such a private consultants on how to proceed with the technical and premise adjustments; others relied on the information from SFVS.

Regardless of the fact that the Lithuanian legislation after the 2004 EU accession accepted and required the use of GHP (instead of HACCP) for smaller companies such approved guides had only started to appear around 2004, prepared by private (sometimes foreign) consultancy firms. At the time of the interview with the inspectors, very few food-processing sectors had such guides available, so SMEs had to apply the more complex and resource demanding HACCP procedures. On the other hand, those food producers that sold their production via Large Trade Centres in Lithuania or exported it to the EU were required to apply HACCP monitoring anyway.

During 2000-2006 great changes had occurred in the EU legislation for the food sector. Numerous detailed regulations have been supplemented by several more general ones. These changes and approximation of the EU legislation allowed Lithuanian inspectors the discretion to interpret the regulations within certain limits, adjusting them to the local contexts that they were not used to earlier. For example, it was their responsibility to deem what food safety or hygiene measures would be necessary in a particular company. This discretion was something new for the inspectors, who were used to more concrete regulations during the Soviet time. This resulted in some inspectors making stricter demands than others which, naturally, was a nuisance to some companies.

How did SMEs go about in applying the new practices? Inspectors claimed that companies often used to purchase HACCP journals and later, GHP guides prepared by consultants for usage in particular larger companies or the entire sector. However, they were found poorly adjusted to the individual food companies’

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344 Interview with a consultant evolved in preparing one of the first guides for good hygiene practice in Lithuania, V V.
345 The first guide of Good Hygiene practice was prepared by a Dutch consultancy firm for flour and confectionary industry and approved for use in September 2004, Miltines ir kremines konditerijos įmonių geros higienos praktikos taisyklės, source: www.adinfinitum.lt, retrieved 2007 05 07.
346 Interview with the State Food and Veterinary Service (SFVS) inspectors.
situation. Risk monitoring activities were not always properly conducted due to the lack of knowledge and staff shortages.

In short, even though the information and knowledge issue was gradually solved by most sample SMEs, these companies pointed out how difficult it was to obtain it from the inspecting agencies in a friendly way. Services by the consultancy firms were either too expensive, or, at the start of the period, unknown to many food companies. In addition, hard demands without corresponding assistance with consultation and, at least, GHP guides witness of the inadequate or inaccessible assistance by SFVS, or consultancy firms.

Proper knowledge of technical reorganisation and modernisation was important even for the SMEs facing internal type of challenge (a). However, they were often not that pressed for time and addressed different type of consultancy actors. SMEs were in demand of straightforward, tailor-made knowledge since many company managers (or other key specialists) lacked proper managerial, financial or market education. Some SMEs did address several consultancy actors, mostly private firms, for courses or consultations. However, either services were too expensive or the level of education too high, too time demanding and not company-specific. SMEs were also sometimes doubtful whether the consultancy firms could be trusted not to reveal their business secrets for competitors.

However, the obtained information or knowledge was but a step forward in solving technical reorganisation challenge. In most studied cases, several additional issues (sometimes all of them) had to be addressed as well.

ii) Manufacturing Premises

For food companies affected by the new safe production demands the next issue to be solved was either adjustment of premises or acquiring of additional finances (sometimes occurring simultaneously). Adjustment of premises always built on the proper information to be acquired in advance. One must bear in mind, that processes of adjustment to the new EU requirements often were very demanding. Changes in a large number of areas had to be introduced, even including premises. Companies were forced to make renovations, re-constructions, premise enlargement where possible, or in the worse cases—when premises were not owned—search for new. When property rights to the manufacturing issues were established, some SMEs had space to expand on the possessed land. For them the next step was to obtain construction permits from municipal government administrations. Several companies found or attempted at solution this way.

Others did not possess more land or premises, or, perhaps had no space to expand. They had to look for new ones. The actors companies mentioned they addressed for assistance were mostly municipal or private Real Estate Agencies (REA). However, municipal agency was not able to assist and the private REAs were not of much help either. Problems with long lasting restoration to land rights and land reform created a great shortage of manufacturing land, thus available premises for manufacturing were very expensive, and the old ones required great reconstructions. On some occasions a sample company found an interesting building that previously belonged to a state company and addressed a Real Property Office of local municipality (Savivaldybes anstoliu kontora) that was to

347 Interviews with a specialist of the Kaunas regional agency of the SFVS.
348 2 district SME and 3 city SME cases (case cases 10dA, 15dB, 7c, 11c and 16c).
take such building in its possession. However, instead of helping the company owner, the municipal officers referred him to a private REA, which sold premises via an auction to our studied company. Even though our interviewed entrepreneur recognised that this was an illegal activity, he confessed that: “this was a raw corruption and we could have jumped out of the purchasing process entirely of ethical reasons, but we really needed these premises (for manufacturing) so we chose not to care about it.”349 This case illustrates how little help there was for our sample SMEs with municipally or state owned premises via public actors.

Those sample companies that needed new premises mostly found solutions via private persons by either purchasing private land and constructing their new premises or purchasing privatised older buildings directly from their owners. Similar solutions were organised by other SMEs even when technical reorganisation was evoked by company’s internal development needs.

From 2005 new requirements were introduced for companies to present premise property documents. That created some problems. Premises had to fit the activities allowed. When land property or land use issue was not readily solved that created further problems for the usage of the premises.

iii) Land related issues

Due to their complexity and prominence among the interviewed companies solutions to issues related to land acquisition (and/or re-establishment of property rights) as well as land usage for manufacturing purposes were presented in the separate empirical chapters 8 and 9. No differences whatsoever in addressed actors or assistance organisation regarding land related issues between two types of the challenge were observed. As was concluded in chapter 8 some sample companies have succeeded in purchasing land (4 cases) of which some purchased free land and some the land they used. By establishing rights to the land, some companies were secured the right to use it and buildings on it for manufacturing, while in the later cases long procedures with unsure outcomes of changing land use purpose to allow manufacturing was initiated. It was only when companies’ manufacturing activities on the land they used were recognised that they could make premise reconstructions and modernisation concerning the food safety demands. As often premises were to be expanded to meet those demands (or new premises build) companies could only apply for permissions to expand on the land where manufacturing was legally allowed (see chapter 9 for more details). Only 3 sample companies had succeeded in organising positive assistance in changing land use purpose.

iv) Financial means

One of the major issues to address in relation to the overall technical reorganisation challenge was lack of financial means, a major development impediment also dealt separately in chapters 11 and 12. In general, financial shortages had been experienced by SMEs also in relation to other challenges or development impediments (such as sales, premises, knowledge). There were several solution alternatives that companies had identified alone or occasionally with the help from external consultancy actors. The attempted assistance

349 Case with a district company (15d).
alternatives include: i) EU or ii) other external non-Lithuanian funds, iii) Lithuanian banks, or iv) privately borrowed money (for details see chapters 11 and 12).

It was the first two alternatives that SMEs more frequently identified with the assistance from public or private actors, (economic development specialists at municipal governments, business consultancy centres or private consultancy firms). Especially private consultants were active in establishing contacts with SMEs to inform of them of the EU funds and encourage them to apply. Having in mind the Lithuanian government and the EU aspirations to promote business modernisation and competitiveness of Lithuanian SMEs, it is surprising how little assistance sample companies, including the pressed for technical reorganisation food-processing industry, have received. The most popular solutions practiced by the interviewed SMEs were bank assistance and that from close private (relative and friend) networks combined with companies’ internal solutions.

A common conclusion here is that no particular differences in financial assistance organisation between challenges of type (a) or (b) could be observed. Food sector companies addressed the same type of financial assistance actors as the rest of the companies facing technical reorganisation challenge. SMEs frequently assumed the role of identifying financial support available and addressing relevant actors. No significant difference could be noticed as to the actors’ roles in organising financial resources for different types of the challenge.

Even though in many cases food companies had experienced acute financial problems to be solved in a limited time period, none of the financial actors took any special regard to that or offered any special financial instruments or pre-conditions for assistance. Food-processing companies short of a proper mortgage were equally unsure about their chances for loan as any other SMEs. Somewhat ironically, even though the external pressure for reorganisation was related to the EU membership and the common market regulations, none of those companies were able to make use of the available EU funds. Only one food company had received information (via a fellow food company) and used other types of external support available.

In short, banks presented similar preconditions for support and no specific EU or other Lithuanian government financial measures have been organised to assist the food sector SMEs with this special challenge of adjusting to safe production demands.

v) Time factor

The external reorganisation challenge affecting many food companies also implied tight time limits for adjustments. The initial adjustment deadlines by SFVS put those companies under pressure since they were hard to fulfil. The time factor was crucial for solving knowledge, financial and premise issues. What actors have been approached to assist with time pressure?

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350 In particular, Business Advisory Programme financed by the ERDB and administered by the Nordic Council of Ministers.
351 Document studies had revealed that in programmes some finances were to be devoted for readjustment of companies to the particular safe food production demands, both for acquiring knowledge of how to apply the new hygiene practice and food safety monitoring processes and for the pertaining technical reorganisation. None of the interviewed food companies had even mentioned this possibility.
Inspecting agencies complying with the tightened food safety requirements regularly visited food-processing companies and frequently found them improperly applying or unadjusted to the requirements. The first contact between sample companies and inspectors was seldom fruitful (with occasional exceptions); companies were often fined and presented long lists of needed changes and tight deadlines. Companies complained of unfriendly attitude by the inspectors and lack of explanations. Inspectors would explain to companies that all needed information could be obtained by visiting them. However, it was not always that smaller companies had time or will to pay visits for individual explanations, especially when they experienced the less friendly attitude and were afraid of more fines.

Some companies had experienced the stricter demands soon after 2000, others somewhat later. Lithuanian food companies producing animal origin production (dairy products, meat and fish), especially those exporting their production to the EU, have been forced to introduce the HACCP requirements even earlier and these food-processing processes entailed even more points of hygiene risks. For some of these companies a transition period of two years 2004-2006 has been finally negotiated with the EU.352

During the first years after the introduction of the HACCP and good food hygiene requirements, many SMEs used to simply purchase journals of HACCP monitoring from other companies or consultants and considered this as confirmation to the requirements. The inspecting agencies did not approve of this as compliance to the new rules.

Some interviewees confessed that sometimes a short-time solution was sought via the very inspecting agencies, usually by buying off some time for adjustments. This was normally done by offering “envelopes”, i.e. bribes. Others proceeded to the best of their ability with the solution organising due to lack of financial means.

However, around 2004, SMEs had made considerable progress which was recognised by inspecting agencies. A more fruitful contact then developed between SMEs and the agencies with more consulting, advice and flexibility towards the initially set deadlines. Besides, inspectors started to spread information via special seminars. Most of the concerned food companies negotiated with inspecting agencies to postpone the deadlines. Indeed, several of the sample companies later confirmed that adjustment deadlines had been postponed. When inspecting agencies realised that companies were making progress they started to apply increasingly a more flexible attitude towards the initial deadlines over needed changes. District inspectors had claimed that no company with the ambition to develop and adjust to food safety requirements has been deprived licences by the SFVS.

Lack of time was characteristic sometimes even to the SMEs that experienced the internal reorganisation challenge, but then it was an issue companies dealt with very individually.

**Identified assistance organising structures**

Technical changes frequently required solution of several or all of the related issues—time, information and knowledge, suitable premises, sometimes land for

352 Interview with the Lithuanian attaché in Brussels and a national expert on the adjustment to safe food regulations; EU Accession Treaty (2003).
premises or mortgage, and, especially, arranging for additional financing to cover the reorganisation costs (solution alternatives in table 13.1). As several of the major SME challenges and development impediments analysed in this study relate to the technical reorganisation challenge and are subsumed under the overall assistance structuring, I have chosen to illustrate this assistance complexity and mutual interdependence in table 13.1. The table shows some common traits in the assistance organised sample SMEs with either type of technical reorganisation challenge.

Table 13.1 Assistance structures (and ad hoc structuring) related to technical reorganisation challenge

<table>
<thead>
<tr>
<th>Technical reorganising</th>
<th>Solution alternatives</th>
<th>Involved assistance structures</th>
<th>Level of structuring</th>
</tr>
</thead>
<tbody>
<tr>
<td>External challenge</td>
<td>Time factor</td>
<td>Mandated actors (Inspecting agencies)</td>
<td>Policy structure?</td>
</tr>
<tr>
<td>External/Internal</td>
<td>Knowledge</td>
<td>Mandated actors (Inspecting agencies)</td>
<td>Policy structure?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Non-mandated actors (private consultants)</td>
<td>Ad hoc</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Non-mandated actors (sector companies)</td>
<td>Ad hoc</td>
</tr>
<tr>
<td>Premises</td>
<td></td>
<td>Non-mandated actors (Real Estate Agencies)</td>
<td>Ad hoc</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Non-mandated actors (private actors)</td>
<td>Ad hoc</td>
</tr>
<tr>
<td>Land</td>
<td></td>
<td>Mandated and mixed structures</td>
<td>Policy structure?</td>
</tr>
<tr>
<td>Additional finances</td>
<td>Mixed structures (Banks and related assistance actors)</td>
<td>Some structure</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Mixed structures (EU funds)</td>
<td>Policy</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Non-mandated actors (private networks)</td>
<td>Ad hoc</td>
<td></td>
</tr>
</tbody>
</table>

A major difference between the assistance with the two types of technical reorganising challenges lied in how the challenge was identified. For the food sector SMEs challenge (type b) was indirectly posed by the preparations to enter the common EU market and incorporation of Acquis communautaire (EC legislation) into the Lithuanian legislation. In practice, it was the Lithuanian inspecting agencies who defined the needed adjustments to be made thereby identifying the technical reorganisation challenge (F1) for those companies. Contrary, the internal challenge (of type a) evolved out of individual companies’ needs.

Specific issues pertaining to the external technical reorganisation challenge were those of knowledge and time. The time pressure was characteristic mainly for the external challenge and was commonly solved (by postponing of final adjustment deadlines) together with the inspecting agencies that had identified the challenge. However, that was true only for the companies that managed to make important
safe production adjustments according to the predefined schedule. Others, especially those lacking of financial means to proceed with the changes, risked losing their production licences. Adjustment of deadlines for food industry was the only issue to be solved entirely via mandated actors.

Assistance with knowledge and information, so vital for both types of technical reorganisation, was organised differently. Food companies relied almost entirely on the knowledge of the inspecting agencies or, occasionally, when these were not friendly or specific enough in their explanations, on consultancy services by private firms. Other SMEs turned to different other consultants; sometimes public, but, mostly, private for tailored courses or knowledge. However, businessmen were rather disappointed by the available services and seldom used them. Attempts to overcome the knowledge-based obstacle were mostly made by private consulting actors in terms of the endogenous type of challenge, and by a mixture of mandated and non-mandated actors as regards the externally evoked reorganisation.

Assistance organised for lack of suitable premises and additional financing was similar for both groups of SMEs. Companies contacted public or private Real Estate Agencies and private individuals to assist with premises, and banks, EU fund administrators or private networks for shortages of finances. Sample SMEs mostly made use of the assistance from private individuals for premises and land, while banks and private networks mostly helped with financial shortages.

The boundaries of the conceptual assistance structure for technical reorganisation challenge depended on which of the issues related the challenge a particular company found relevant to address (from those enlisted in figure 13.4) and the actors involved to address them. It could include, for example, following actor or assistance structure combinations:

1) Inspecting Agency + SME + Banks;
2) SME + private consultants (knowledge) + private networks (finances) + private persons or REA (premises).

The assistance organised with the externally evoked technical reorganisation challenge was more structured and a certain pattern could be discerned comprising at least several of the mentioned issues and the structuring or structures related to them. Assistance to the internal type of challenge was less systematically structured, why it may be likened with ad hoc structuration. This can be partly explained by the great variety of case-based needs. No major differences in assistance organised have been observed between the two studied municipalities.

Another major difference in assistance to both types of challenges was that food companies facing adjustment challenge were much more dependent on the external assistance with at least two types of issues—knowledge and deadlines—than other sample SMEs. Besides, the overall scope and magnitude of changes required frequently made them dependent on financial assistance actors. In general, success in exogenous technical reorganisation depended more on how promptly companies could acquire the needed assistance rather than on their creative solutions, innovativeness or gradual natural adaptation. While the SMEs of the first challenge group (type b see section 13.1) could opt out the assistance as an alternative to solution and modernise more gradually at their own pace by utilising their own financial resources, this was, in principle, out of the question for the second group of SMEs.
There were also some other differences between the two groups regarding resource organising phase. Companies facing challenge of type a) had most often contacts with banks and consultancy firms to gain more financial resources (those of EU), but also to increase their knowledge and competence in certain areas (for example, staff or quality management and bookkeeping). Food companies affected by the EU requirements were frequently in contact with inspecting agencies, banks, REAs and municipality (for building permissions).

Quite regularly (9 cases of 22), companies attempted to cope with their technical reorganisation challenges and the pertaining issues on their own, either because the assistance via the external actors was not organised or not even attempted. In this challenge, solution organising processes have often proceeded to resource organising phase (F3) and attempts have been made to organise all types of the identified solution alternatives.

Characteristic to the assistance organised with the external challenge was a greater dependency on mandated actor assistance and formal regulations. Interestingly, in organising assistance with this challenge, no external actors normally undertook the role of linking assistance into a more coherent structure by participating both in identifying and organising resources available. The occasions when inspectors assisted with information or deadlines did connect assistance on some challenge related issues into a more coherent whole, but this linkage was undermined for the rest of the issues (premise, financial) to be solved.

To conclude, even though inspectors and different other actors have been frequently engaged in assistance organising, the food-processing SMEs themselves acted as the link both between different solution organising phases in some issues and the linkage of the overall assistance structure. The companies had to choose the alternative solution ways and address actors, otherwise independent of each other, in the solution organising chain. However, each individual solution alternative was mutually interdependent why the solution results of some of the issues highly affected the rest.

In the internal type of reorganisation challenges, the only type of actors that were sometimes engaged in both assistance resource identification and organisation were financial assistance consultants. However, as discussed in the previous chapter 12, this type of combined assistance was extremely seldom used by SMEs due to lack of accesses (i.e. the expenses involved) and trust.

The conclusion here is that the identified solution and assistance organising processes in both types of technical reorganisation challenge cannot be regarded as a coherent assistance structure unless linked by the SME efforts. Regardless of the fact that diverse actors have been drawn into the process of resource organising sample SMEs often had to assume the role of identifiers of both possible solution ways and available resources. While various assistance actors have been frequently addressed for technical reorganisation, they were not always able to organise assistance. The success and adequacy of the assistance organised therefore depended on SMEs and not only on individual assistance actors. Whenever attempts to solve a related issue with external assistance failed, SMEs often had to rely on their own judgement and knowledge as to what other solution and assistance organisation ways could be possible.

In short, the solution of the overall technical reorganisation challenge was characterised by a strong SME self-organisation. Interestingly, except for some assistance with deadlines no specific other assistance was available to solving
technical reorganisation challenge mainly evoked by the accession into the EU and compliance to its regulations. The next section will account for the impact of the assistance provided.

13.5 Impact of Actor Groups and Assistance Structures on Challenge Solution

This section will briefly address the impact of different actors’ assistance in solving issues related to both types of technical reorganisation challenges. As we could see, the different nature of the challenges implied that food companies were more dependent on the external actors’ assistance than those experiencing more endogenous reorganisation needs. At issue here is whether the external actors (EU and the Lithuanian government) that put food companies in that dependency situation could also provide some adequate assistance? As assistance with some of the challenge related issues have already been analyses in the previous empirical chapters, the study will only briefly consider their impact, especially on the overall technical reorganisation challenge solution.

Impact of assistance with financial shortages

Financial problems were a major issue for organising solution to technical reorganisation challenge. Lack of money has been an impediment to technical reorganisation in most of the sample cases. However, not all of the affected companies used the available public financial assistance, be it banks or some government programmes.

Banks have been the most popular assistance actor addressed in 14 of 24 cases although in half of them companies did not receive the assistance they asked for. In 3 of the remaining 7 positive bank assistance cases financial assistance provided was insufficient and contributed only partially in coping with technical reorganisation. Additional finances were needed. Bank support did not always imply that SMEs had substantial financial means or could obtain them from other actors. Besides, frequently companies were simply afraid that high interest rates or low value banks ascribed to their mortgaged property would force them into bankruptcy. Other SMEs did not have sufficient mortgage for bank loans and thus had to wait until real property (premises or land) issue was solved (see section 11.7).

About half of the companies (11) that experienced technical reorganisation as a challenge and were short of finances have considered assistance from EU funds. The interest was quite similar both among the city and district companies. However, very few of the SMEs had actually considered preparing applications for support and only two had applied. None of the sample SMEs had received EU

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353 13 sample companies were affected by financial problems in relation to technical reorganisation challenge in 14 cases (1d, 2d, 5dA, 7d, 8d, 9dA, 9dB, 3c, 9c, 8c, 10c, 12c, 14c, 16c). Equal number of cases (7) was identified among both district and city SMEs.

354 The number of cases where the 11 companies had considered applying for EU support also amounted to 11, of which 5 in the district and 6 in the city (1d,2d,3d,5d,10dB, 7c, 9c,11c, 12c,13c, 16c).
support, which is a sign of both lacking assistance success but also an adequate assistance structure (see section 12.4)

**Internal solutions** via own savings or money borrowed from close relatives and friends, here called “private network” have been often the only alternative available, although sometimes as a complement to the bank assistance. At least in 8 cases out of 24 sample companies had opted for this, out of which 3 SMEs gained sufficient resources and the remaining 5 acquired partial funding. This type of solution was sometimes time demanding until enough savings were available.

In sum, due to its prominence among other related issues, the solution of this obstacle had, if statistically seen, the greatest importance for the challenge solution. Regardless of their failure to assist all interested SMEs, banks still were the most successful of assistance actors while internal solutions have been most successful of all type of financial solutions. In due time, internal attempts brought some or sufficient success.

**Impact of assistance with lack of suitable premises**

Lack of suitable premises was another—in some cases viewed as a major—obstacle in production modernisation or reorganisation processes. There were at least 9 cases where lack of suitable premises was directly linked to technical reorganisation. The interviewed companies attempted to address the premise needs either by, where possible, expanding and renovating the possessed premises or by looking for more suitable ones. In their search for new better fit premises sample SMEs mainly addressed the same type of actors—municipal or private Real Estate Agencies (REA). However, frequently neither of them had satisfactory solutions to offer – either their building prices were unacceptable for SMEs or there were not many choice alternatives. Only in one case premises where purchased with the help from a private REA. Otherwise, private owners and SMEs local contacts were of most help in purchasing premises or land.

As lack of suitable premises prevailed, most popular solutions were to build new or expand existing premises (in at least 6 cases of 9). New constructions required land and money. As was noted, land was often purchased directly from private persons and finances arranged via banks or private networks. Sometimes, an additional impediment was changing land use purpose or arranging building permissions that required involvement of municipal specialists. Occasionally, the inability to find or construct suitable premises (2 cases at the interview occasion) halted the overall solution to the technical reorganisation challenge.

In short, local public or private actors such as real estate agencies only very seldom contributed to a positive solution of the premise needs. This fundamental issue was rather successfully solved by SMEs themselves. However, where other public actors such as construction or land use municipal departments were involved, they were perceived as time demanding, faulty and difficult to access. Therefore, those other intermediary actors themselves instead were treated as hindrances.

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355 Technical reorganisation challenge required solving of premise issue in the following 9 cases: 1d, 2d, 5d, 10dA, 15dB, 7c, 8c, 11c, 13c.
356 Interview with a district company 15d.
357 Cases with a city and a district manufacturer (companies 8c and 11d).
Impact of assistance with land related issues

Lack of suitable premises or need of more collateral for bank loans forced some companies to look for solutions by acquiring land. Land had been purchased from private persons, but whenever additional engagement of public actors was required (for changing land use purpose or construction permissions), it turned into a complex, time and resource demanding issue.

Difficulties in solving land related issues were often related to missing, complex and often changing or contradictory laws, long procedures and malfunctioning and frequently corrupted responsible public organisations (for more detailed account see chapters 8 and 9). The mandated municipal department could not arrange assistance with timely cadastral land measurements sometimes did not provide right information and processed companies’ documentation for months and years.

In cases when lack of suitable premises had to be solved via expanding the owned manufacturing premises on company’s private land plot, building permissions were needed. Sometimes also land use purpose had to be defined or changed. Some private consultancy firms specialised in arranging for the procedures and contacts for getting building permissions or changing land use purpose. In an attempt to solve those issues sample SMEs hired private consultancy firms or looked for private acquaints with decision-makers. Consultancy firms arranged for the needed contacts with municipality and other public agencies and documents for obtaining the building permission. Difficulties in arranging building permissions prevented companies from acquiring suitable premises which, in turn, obliterated solutions to technical restructuring challenges. Analysis in chapter 9 noted that some companies faced complex procedures with unclear results when attempting to buy land under their manufacturing buildings.

To conclude, various land related issues such as issuing of the building permissions were experienced as long and complicated processes where the needed assistance from responsible public intermediaries was insufficient or lacking. This issue was perceived as a great impediment or even challenge for business development. It significantly impeded the solving of technical reorganisation and some other challenges. In some cases, it was precisely the involvement of an intermediary, e.g. the municipal Land use department that retarded the solution process.

Impact of assistance with lack of information and knowledge

Lack of knowledge of or information about what kind of technical changes would be appropriate was also apparent both in cases of new food safety requirements for food-processing industries, but also in other sectors. In at least 10 cases, SMEs perceived this as an important issue to solve in relation to technical reorganisation. Especially challenging lack of knowledge was for food companies that experienced the external type b) of the reorganisation challenge, but even wood or furniture producers needed to know how to specialise, market, count.................

588 For example, company cases 11c, 2d, 7d.
589 For example, company cases 11c and 2d respectively.
590 For example, company case 7d.
591 Following were the 10 cases where knowledge was an issue for technical reorganisation by 8 companies: 1d, 2d, 9dA, 9dB, 10dA, 10dB, 15dB, 7c, 8c, 11c.
costs or manage personnel. Companies affected by the internal reorganisation needs (type a) made some attempts to obtain information or knowledge from public and private consultants, but it was either experienced as too general or/and expensive. Some attempts at searching for consultancy assistance were still in process at the time of the interviews.

In the case of adjustment to new Lithuanian and EU safe food production requirements, the expertise of inspecting agencies, private consultancy firms and other sectors companies was sought. The solution to the lack of information hinder was eventually found, but sometimes—even when some assistance was organised—it took too much of their time and had caused the companies considerable delays in the technical reorganising process. Some company has experienced that local (Kaunas) expecting agencies were more willing to consult on needed adjustments than the national ones.

In sum, sometimes a solution to a pressing knowledge issue differed somewhat between the two groups of companies. Although food companies were highly dependent on the assistance from the inspecting agencies, these did not always assist with the right information or in acceptable manner. Therefore, SMEs also found some assistance with fellow companies and sometimes consultants. The knowledge-related requirements of companies facing incremental reorganisation needs varied considerably, yet the attempts to organise assistance mainly culminated and ended with initial contacts with private consultancy actors. Those actors were deemed as either too expensive or their services as not adjusted to specific SME knowledge needs. Sometimes assistance attempts ended because SMEs did not know of more relevant actors or had prejudices against their ability to assist.

Impact of assistance with deadlines

The ability to introduce needed adjustments on a prescribed time was reported to be crucial to the survival of all the concerned food-processing companies. As nearly none of the affected sample companies were able to adopt all the adjustments on time, they felt insecure about their company’s future. The same inspecting agencies that presented SMEs with the deadlines, especially SFVS, were the ones SMEs negotiated with for their extension. Some sample SMEs had succeeded in prolonging the deadline, while other yet expected or hoped for an agreement with the inspectors. In some cases, even after the convergence deadline has been postponed, company managers were unsure about their company’s ability to introduce the required changes until the extended deadline, due to the lack of resources. However, when the companies proceeded with the required adjustments too slowly, they risked to be closed. Actually, one of the studied SMEs did not manage to introduce the changes and was later closed.

By adopting a more flexible approach to the deadlines inspectors could be said to finally have found a working compromise that significantly alleviated companies’ adjustment processes. In fact, the approximation of Lithuanian legislation to the EC law since 2000 and the role the major inspecting agencies undertook in this process should bear part of the blame for seemingly too hastened deadlines for SMEs adjustments, applied actually even before Lithuanian membership in the EU in 2004. However, whether the inspecting agencies’ were inclined to assist with extension of deadlines depended to a large extent on how
From the Soviet to the European Union: a Study of the SME Assistance Organising in Lithuania

Successfully solutions of other issues pertaining to technical adjustment challenge were organised.

Interestingly, the EC legislation\textsuperscript{362} recognised the importance of some flexibility towards traditional and small producers in applying safe food production regulations if the food product hygiene would not suffer. EU regulations (853/2004) for produces of animal origin products allowed adjustment period of at least 18 months after the regulation was announced in April 2004.

The exemplary integration of the EU safe food production norms and monitoring mechanisms by the Lithuanian inspecting agencies was unofficially admitted by some interviewed actors to be possibly too strict as after their study visits to old EU Member States they realised that not all food companies there had adjusted to the requirements. Some interviewed actors recognised\textsuperscript{363} that the introduction of HACCP requirements in Lithuania was conducted rather unnaturally and not as in the old EU Member States, where safe food production needs had evolved naturally and gradually. All these requirements had to be introduced in Lithuania in a very short time period, “just because of the Europe”.\textsuperscript{364}

Inspectors have admitted they attempted to be exemplary in pushing companies to adjust to the EU requirements sometimes even \textit{ahead of time} to be accepted by the EU and because production safety “should be a matter of honour”\textsuperscript{365} to each company. Then, the same inspectors admitted, they had nothing to be ashamed of for such strategy as they “never heard of any complaints from foreign food importers.”

In brief, the way the inspecting agencies treated adjustment deadlines in the initial contacts with SMEs often was unsatisfactory and inadequate, but after some time it improved. Assistance with the deadlines provided by the SFVS to sample food companies could be assessed as frequently positive but only partial contribution to the challenge solution. It also came rather late in assistance processes. Postponing the deadlines or readjusting a time plan was an important precondition for introducing the needed changes, but it could only bring success if there were sufficient knowledge, financial resources and suitable premises required to adjust.

\textbf{Impact of the overall assistance with technical reorganising}

What can be said about the total impact of assistance actor contributions concerning this challenge? Technical reorganisation challenges have been of such a complexity as to subsume several other previously in this study analysed SME challenges or development impediments (see section 13.4). The overall assistance impact in each analysed case thus is to be assessed with regard to the impact of all assistance structures, \textit{ad hoc} structuring or individual actors involved in particular technical reorganisation cases (see table 13.1).

Important in this context is, as was revealed in the earlier empirical chapters, that assistance success and adequacy with regard to several major challenge related


\textsuperscript{363} Interviews with national expert for adjustment of safe food regulations, Interview with representative of the National Bakery Association.

\textsuperscript{364} Ibidem.

\textsuperscript{365} Interview with a specialist of the State Food Veterinary Service (SFVS) in Kaunas region.
issues was increased or made possible by the involvement of private non-mandated actors and an active self-organising role of SMEs themselves. Thus, as an answer to hypothesis 1 (see 4.6) is that, in principle, no adequate assistance aimed at handling the entire complexity of the technical reorganisation challenge (both internal, but also external) was organised entirely by mandated actors. Even though the overall unit of analysis indicated some structured and repeated pattern (especially with the externally evoked challenge type), it could not be seen as a result of some adequate public policy organised by mandated actors with the help of formal regulations.

To have a policy for assisting food producers in order to cope with the technical adjustment challenge (in regard to the particular food safety requirements) would have, according to the adopted approach, implied the ability of some actors (mandated or mixed) to present ideas and search for organisational arrangements that could offer SMEs resources (knowledge, reasonable deadlines, premises, building permissions, financial assistance) in solving this type of challenge, regardless of the related issues involved. The study indicated that even in the externally evoked type of challenge within a highly regulated safe food production area, mandated actors were dependent on private consultancy firms for essential information dissemination and factual knowledge that may help inform the needed changes (via manuals of good hygiene practice and individual information on adjustment requirements). In other words, the assistance of mandated actors was seldom sufficient regarding knowledge dissemination both regarding the needed adjustments and especially ways to implement them.

It is important to have in mind that technical reorganisation was seldom a linear process: it was a chain of mutually interdependent issue solutions, several of which could proceed either simultaneously or subsequently. The more actors (both mandated and not) could contribute as regards positive assistance, then the greater were the chances for SMEs to succeed in terms of implementing technical reorganisation. Sometimes a positive reaction from one actor (especially banks) could outweigh less successful assistance by others (REAs with premises, or inspectors with deadlines) as it enabled other solution alternatives. Often though, the inability to solve a particular issue (e.g. finances or premises) could hinder the whole challenge solution process.

In general, similar to both types of challenge was that while assistance with some of the challenge-related issues was more successful—as with lack of knowledge and deadlines in the external type of challenge or finances in both challenge types—many other attempts to organise assistance from actors in the public sphere—via inspectors, REAs, EU funds or banks—have ended in failure.

With reference to hypothesis 3 (see section 4.6) it is reasonable to ask whether the assistance to the overall challenge solution could be achieved without a coordinated linkage between identifying issues to be solved, and resources to be organised (i.e. F1 and F2)? The study evidence from technical reorganisation challenge indicates that no mandated assistance actors could link related assistance efforts into a coherent structure. Therefore, various actors’ abilities to contribute and organise resources depended on SMEs actively taking part in identifying and approaching the alternative actors for each of the related issues. Lack of assistance actors acting as a linkage of assistance organising processes significantly delayed or diminished assistance success and adequacy.
As was noted previously, two types of actors and structures involved in assistance with the technical reorganisation challenge solution—banks and inspecting agencies—were the major ones and had more often than others achieved a positive impact. Banks—major assistance actor for both challenge types—based their assistance on some strategies rather than policies in terms of identifying solutions and realising them. Bank assistance was too conditional and reliant upon other actors’ resources and they lacked linkage, dialogue and contacts with those actors and resources. Also bank assistance was dependent on SME self-organising efforts and contributions of other actors with bank preconditions (see chapter 11).

SME abilities to organise financial assistance often was the major factor that helped them to survive the changes, modernise or adjust to the EU requirements. Besides banks, the role of private networks was crucial. The impact of financial assistance, however, was not necessarily sufficient.

In the externally evoked challenge in the food sector (type b), the inspecting agencies enjoyed a role of the major actor, both in defining the adjustment and thus reorganisation needs (the challenge) and also in organising assistance with major issues—knowledge and deadlines. This was the actor who was closest to organising a systematic assistance, but some doubts remain of the success and adequacy of its manner. As the Lithuanian legislation pressed for fast adjustments to EU requirements, these actors were forced to choose between adjusting to local company needs and situation or imposing strict requirements. Often strategies of individual inspectors or agencies differed. Many companies were fined, others confessed of bribing inspectors to win more time. Transparency, clarity and sometimes understanding were lacking. In brief, many companies had been severely impeded by the inspecting agencies’ attempts to implement strict food safety requirements before the EU recommended deadlines, especially because the public assistance (e.g. with good hygiene practice manuals) was lacking or late.

In addition, local public actors mandated regulation and assistance with land and premise issues had sometimes been of insufficient help (impact B) or their assistance was inadequate (impact C). In fact, the inabilities of solving land ownership and use issue, as well as delays, prevented many companies (including those in food-processing) from proceeding with technical reorganisation or modernisation. Occasionally assistance from other private actors—consultancy firms for know-how and in land procedures or private real estate agencies—achieved some success.

In sum, most of the assistance organised, when successful, was ad hoc, except for the later assistance from SFVS with deadlines and knowledge which was rather systematic (see table 13.1). However, inspectors’ assistance was often not sufficient or adequate and the required changes were to be introduced with the help of other assistance actors.

It is also important to notice that—in such a complex challenge environment—even the positive impacts of some organised assistance, even when it assisted in solving a challenge related issue (land, knowledge, premises), could still be insufficient for solving the entire technical reorganisation challenge due to the variety of issues to be solved. Therefore, while some assistance with challenge related issues was adequate or sometimes indicated a tendency towards an adequate policy, it was not sufficient to assess the overall assistance organised as an output of adequate assistance policies.
The assessment of the overall assistance impact on technical reorganising challenge has to be related to the overall assistance results.

### 13.6 Technical Reorganisation Results

This section presents the result of the overall assistance local actors organised to sample SMEs with the two types of analysed technical reorganisation challenges.

In total, 20 of 31 sample companies dealt with technical reorganisation challenge in 24 cases. Solutions to the technical change challenge of both types have been arranged with varying results at the time of the interviews. Analysed sample SMEs had employed two basic ways of organising challenge solutions: with the help of mixed mandated and non-mandated actors or without the assistance from mandated actors (i.e. on their own or sometimes via private networks).

In slightly more than half of the cases (13) various mandated public sphere actors (mostly banks, inspectors and land use specialists) have attempted to organise assistance to sample companies but were reliant on non–mandated actors either in the same assistance structure (or occasional structuring) issue solution or in other challenge related issues. In the rest 11 cases, SMEs were left to cope with the challenge related issues on their own (or have chosen to abstain from assistance) or via relatives or friends (see table 13.2).

In less than half of the cases (11 of 24) studied companies have been successful in solving technical reorganisation challenge. Out of those cases, slightly more than half (6) have succeeded without assistance from public sphere actors. However, assistance was important for many companies and lack or insufficient assistance resulted in 10 partial and 3 failing solutions. At least in one third of all the cases (8) external assistance provided—especially bank loans or other actors’ assistance in solving premise, land or knowledge issues—was insufficient leaving SMEs to struggle with same or additional issues.

In the 3 cases, where at the time of the interviews sample SMEs still lacked solutions to technical restructuring, SMEs have approached various actors for assistance, but were neglected it, either in financial or land related matters. No support implied lack of solutions. The inability to get relevant support prevented even other companies from arriving at a satisfactory, instead of partial solution.

#### Table 13.2 Solution results of technical reorganisation challenge

<table>
<thead>
<tr>
<th>Actor types</th>
<th>Challenge solution (24 cases)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Satisfactory solution</td>
</tr>
<tr>
<td>Mixed actors (13 cases)</td>
<td>5</td>
</tr>
<tr>
<td>Private actors (11 cases)</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td>11</td>
</tr>
</tbody>
</table>

When SMEs managed to get information or know-how, acquire land and permissions to use it for manufacturing purposes, arrange sufficient financial support, adjust premises and acquire needed equipment it yielded positive challenge solution results. The challenge has been satisfactory solved in 11
cases, 5 of which have been achieved due to positive contribution by the addressed mandated actors. In addition, in at least 8 more cases, assistance from the approached mandated actors have contributed to partial solutions. However, here it is important to remind, that due to the number of challenge related issues to be solved mandated actors rarely were capable of organising positive assistance on their own.

Companies’ failure in achieving positive or satisfactory solution depended much on approached actors’ inability to organise assistance and not so much on avoidance of contacts with actors. The importance of external assistance should therefore be stressed.

Assistance results are summarised in table 13.2. The table indicates whether the challenge has been solved thanks to the assistance from some mandated actors in the public sphere (including banks) or by the efforts of SMEs alone (or perhaps via private networks of relatives or acquaintances). To achieve satisfactory solutions several interrelated issues had to be positively solved with or without the assistance from external actors.

Although indicating final solution results, this table does not specify contributions of the involved actors and the existence of adequate policies in solving particular challenge related issues. Also intermediary roles of the local actors involved have to be analysed not only in relation to the overall challenge, but especially to a particular challenge related issue.

There was a noticeable difference in SME assistance needs between the two types of challenges: no companies were capable of dealing with type b) challenge on their own while 6 companies managed that in group a). The conclusion therefore is that the externally evoked challenge required external assistance to a larger extent than the internal challenge.

In sum, the analysis of the overall technical reorganisation challenge solution results indicates that greater success was achieved with the public sphere or mandated actor assistance (5+8) than without it (6+2). In some cases, the actors contacted for assistance, in fact, constituted an obstacle in solution organising due to their corruption, lack of good will or knowledge in contacts with SMEs. This could be illustrated by the inspecting agencies’ willingness to punish companies instead of consulting them on the required changes. In addition, the refusal by Tax Agency specialists to repay companies the value added tax for imported new equipment or great delays in repayments was a manifestation of unprofessional and unethical treatment.

Solution organising results of adjustment to EU safe food production requirements

The interviews provided some additional information about the success of a broader population of food producers in tackling the externally evoked challenge (b) than our sample companies and these can be taken into consideration when

366 The challenge has been positively sold in the following 11 cases: 2d, 3d, 5dA, 9dA, 10dA, 15dA, 3c, 7c, 12c, 14c. The SME addressed actors contributed positively in the following 5 cases: 2d, 5dA, 9dA, 7c, 14c.
367 Interviews with companies (11c, 2d).
368 For example, a case with district food-processing company (3d).
generalising policy adequacy assessments. The adjustment process in the studied population has been rather sluggish and before the HACCP requirements have been extended to the smaller companies at the start of 2004 only ca 56% of all food companies in Lithuania had introduced this risk monitoring system.\textsuperscript{369} Failure in organising assistance with adjustment to the new safe food production requirements resulted in fines or seizure of companies activities. It contributed significantly to forcing a considerable number of food-processing companies, especially smaller ones, to bankruptcies. In Kaunas region, among food companies producing animal origin products by the start of 2004 22 companies were closed due to the failure to adjust to safe food production requirements. In Lithuania, from 2000 until second half of 2004 183 food producers have gone bankrupt (as compared to 1,416 operating food companies in Lithuania at the start in 2004).\textsuperscript{370}

Most of the affected sample food-processing companies happened to be bakeries and confectionaries (6 of 8). A representative of The Association of Lithuanian Bakeries pointed out the negative impact safe food production requirements had had on the larger population of bakeries and confectionaries not only in Kaunas region, but also in Lithuania in general. Failure to adjust to the requirements, large fines, pressing timetables and inability to find prompt solutions forced many companies to cease their activities. Although statistic data was missing, representatives from the sector company association claimed that at least 30% of bakeries and confectionaries in Lithuania have been closed due to their inability to adjust to the food safety requirements (on time). The steadily worsening situation has been claimed as “catastrophic”.\textsuperscript{371}

The study revealed that in 7 out of 10 cases with food-processing industries the convergence towards meeting the demands of EU food safety and hygiene represented a was experienced as a major challenge. The empirical material of the study provided us with some evidence on how smoothly this adjustment went. The companies had little if any choice when they were threatened with the withdrawal of licences, which meant the end of the company’s activity in the sector. Here the flexibility of SMEs and good will of inspecting actors in finding acceptable solutions was crucial. The attempts of our studied 7 cases with food companies were the following (at the time of the interview):

- No solution - 1 case;
- Partial solution - 4 cases, of which at least one with very little prospects and without intermediary actor’s assistance; and three more positive cases with the help of assistance actors;
- Satisfactory solution - 2 cases, both with the help of local assistance intermediaries.

Common to the externally evoked challenge solution processes was that companies had experienced similar impediments—strong time pressure, lack of knowledge, lack of available premises and shortage of finances. At least one of the contacted actors was the same—inspecting agency SFVS. Inspectors, however, initially failed in disseminating information and explaining adjustment demands to

\textsuperscript{369} The data has been presented by the interview with representative from the central SFVS office in Vilnius.
\textsuperscript{370} Interviews with SFVS specialists and a representative of the Lithuanian Bakery association; Statistikos departamentas prie Lietuvos respublikos vyriausybės 2004, p. 13.
\textsuperscript{371} Interview with a representative of the Lithuanian Bakery Association.
the concerned companies demonstrating lack of more flexible policies. Gradually, impact assessment and policy learning led to better adjusted assistance.

13.7 Conclusions

The analysed companies faced two types of reorganisation or modernisation challenge, evoked by internal company needs, relevant for all studied sectors, and generated by external pressure that affected food producers. Although the challenges differed, assistance organised for the two types of company groups shared a lot similarities. Besides, even though often actors’ assistance to several common challenge related issues was crucial, SMEs lacked access to it and the provided assistance was frequently insufficient.

In principle, no coherent assistance organising structure has been available, and this explains why SMEs facing both types of challenges had to actively search for alternative solution ways and assistance. Success in organising solutions depended on both the ability of the addressed actors (often several) to assist as well on companies’ ability to actively take part in search for assistance. Not surprisingly, in 13 out of 24 cases further efforts or assistance for successful solution was required.

The overall conclusion on the assistance asked for and organised is that no traits of overall SME assistance policies adequate to the needs of sample SMEs have been identified due to the shortage of consistently positive impacts as well as the limitations of the contributions of intermediary actors in linking separate assistance attempts into a coherent structure. The behaviour of inspecting agencies and senior decision-makers with regard to the external challenges faced by the food industry primarily signals attempts to organise a prompt rather than successful SME adjustment to EU market and safe food production demands. This was largely due to the lack of adequate policies for assisting Lithuanian companies to adjust to these EU pressures and demands. In the externally evoked challenge the major inspecting agency, SFVS, was found to increasingly adjust its services to the companies needs, but the manner of the assistance raises some doubts about whether it can be treated as adequate enough. Yet, as regards this challenge type, it was the mandated actor that was closest to organising systematic assistance, i.e. policies, to food-processing companies.

13.8 Identified Factors of Assistance Success or Failure

Here, I shortly present a few identifiable challenge-relevant contextual and behavioural factors, especially those pertaining to the externally evoked type of challenge. As assistance in solving most of the challenge related issues was discussed in the previous empirical chapters (see chapters 8-12) that also presented analysis of identified factors affecting assistance success, I will not repeat all of them here. Instead, a summary of major factors found characteristic to the SME assistance organised in different policy areas in the studied transition context is summarised in chapter 15.
Contextual factors and formal institutions

The positive long (or medium) term effect of the modernisation of certain sector or type of companies normally proffers an advantage to those already operating in a tough open-market competition both within Lithuania, as well as in the EU more generally. However, at least for the analysed externally evoked technical reorganisation challenge contextual factors, such as, EU integration and the pertaining (national and EU) formal regulations, were pivotal. The way these regulations were interpreted and applied in each food company situation not affected the definition of the challenge but also the adequacy and success of the organised assistance.

The study evidence indicates that technical reorganisation processes in the food sector caused by the strict top-politically defined deadlines for adjustment did not allow most of the companies to develop by gradually introducing adjustments in accordance to their capacity and needs. Therefore, when interpreted too strictly and applied too abruptly the requirements for conversion brought quite negative short term results, generating many bankruptcies in the food sector.

It is important to note, though, that the interviewed food companies treated the required food safety adjustments per se not so much as representing a great threat to their survival. Rather, they were more concerned with the stipulated deadlines that often forced them to introduce several adjustments simultaneously, which duly imposed financial burdens and therefore were actually deemed by the companies to be more of a threat for their survival (given lack of finances or inability to comply with the deadlines).

Did the top or local political decision-makers show any concern or thought of any special measures to assist SMEs with the required adjustments? The negative, at least in the short term, effects of the EU membership for the food sector were noticed by some Lithuanian experts even before accession into the union (Vilpišauskas, 2000). Our interviews indicate that decision to approximate Lithuanian laws to the safe food production requirements in aquis communitaire have been preceded by intensive discussions at the top-political level on their negative effects on the Lithuanian economy. Some local politicians had expressed concerns about awaiting bankruptcies and job losses in food sector where small companies not complying to the requirements were dominant. Because of that, attempts have been made by the Lithuanian government to negotiate extension of adjustment deadlines for at least some type of for animal origin food product on the domestic market.

Although there was some concern among local politicians about the adjustment pressure on the local food-processing companies, representatives from the food sector claim no official steps have been taken to ease the majority of food producers’ situation with food safety requirements.

“Indeed, it is hard to visualise a normal and gradual adjustment in Lithuania. In other neighbouring countries, such as Poland and Latvia, the transition and adjustment to food safety requirements was more gradual and there were no such rush as here.”

372 The term refers to the total body of EU law accumulated thus far, from e.g. www.smenetwork.eu.
373 Interview with a representative of the Lithuanian Bakery Association.
Local actors’ roles and resources

Another important group of factors for the challenge solution was the roles of the assisting actors, especially in applying the formal national requirements and assisting with the resource guidance in individual SME cases. The knowledge of what the adjustment would imply, what in particular is required from individual SMEs, and before what deadlines required a constructive dialogue with the inspecting agencies. Indeed, the ability of the inspecting actors to willingly share information with the concerned companies and to continuously consult them on the required changes (rather than fining or pressing them ahead of time) was a crucial precondition for a more successful SME adjustment and thus technical reorganisation. As was already noted, this dialogue between the companies and the inspectors often took a long time to establish and the good will on the part of the inspectors was frequently lacking; but there were some positive exceptions.

Equally important in assisting companies with both types of technical reorganisation challenge was SME and the assistance actors’ ability to successfully solve related issues—e.g. premise disposition, land use and financial support. However, distrust in most important assistance actors, especially banks, inspectors and business consultants, impeded or slowed down modernisation and adjustment processes. The distrust in assistance actors was more widely spread among the companies facing internal type of reorganisation needs, but on the other hand, they often could afford more time for finding other solution alternatives.

Referring to study hypothesis 4 (see 4.6) I find support also in this policy area (technical reorganisation) for the importance of local actors’ role in mediating between the national actors and companies to increase policy success. However, in the transition context local actors’ ability to act as successful intermediaries with regard to the challenge solution depended also on other factors, such as trust, resource adequacy and their discretion, but also willingness to assist.

And lastly, regarding hypothesis 5 it must be said that, as was noted in the previous empirical chapters, assistance actors’ assessments of their contributions with regard to the challenge related issues has been an important factor to increase assistance success. Here it can be added, that the particular group of actors involved in the external challenge—interviewed inspectors—were aware of their impact in challenge solution, but, at least initially, did not show much understanding for the SME situation. Naturally, their professional ethics collided with SME interests and inspectors were rather proud of the results they had achieved adhering to the strict production safety demands. Gradually however, the inspectors learned more of how to handle the adjustment process (due to experiences in other countries) and SMEs knowledge demands.

A conclusion that could be drawn from this type of regulatory policy area is that conflicting professional interests and the role of mandated actors in both fining and assisting with information impede policy learning. An independent, preferably public, actor informing and consulting SME on requirements and ways to adjust was needed to test the assertions on the importance of policy learning for assistance adequacy. Presently, however, the lack of assessments of assistance processes, impacts and manner (forms) by the inspectors can be regarded as impeding the further improvement of assistance adequacy.

In sum, organisation of solutions to external technical reorganisation challenge for the food sector bared many characteristics of transition period: companies have
been pressured to introduce large adjustments all at once and promptly instead of allowing for their gradual adjustment. In their attempts to save time, companies cheated inspecting agencies by purchasing guides of good hygiene practices and monitoring and in this way partially attempting to substitute for the real changes. Bribery of inspectors was not unusual as a measure for gaining more time for adjustments or extension of licences without sufficient changes. In general, SMEs in their search for solutions to technical reorganisation often faced difficulties, which they attempted to solve by searching for alternative assistance actors and resources and actively engaging in the increasing assistance success. Major impediments were caused by key transition problems—lack of trust, lack of sufficient support instruments, unfinished reforms, shortage of suitable land and premises and complicated, sometimes corrupted, assistance procedures (especially related to resource demanding construction permits and changes in land use purpose).
Part III

Explaining Policy Adequacy and Inadequacy During Transition
SME Assistance Needs and Official Strategies—Exploring the Linkage

One of the intended contributions of this study (see chapter 2) was to better explore the government and other mandated actors’ capacities to with the help of formal institutions structure adequate SME policy organising. The preceding empirical chapters have explored what type of assistance (policy) structuration in the Lithuanian transition context has been more conducive to policy success and adequacy. Especially local assistance (policy) organising processes have been explored. An important reason for the evolvement of a particular policy structuration (or its lack) might be, as was also demonstrated in this study, various macro level, especially formal, strategies and regulations.

A major critique to the bottom-up methodological approach to implementation studies is doubts about its abilities to properly grasp the influence of the macro level actors and institutions (enabling or restraining) on the local policy processes. In response to this critique this chapter will therefore further explore some of the major legislation and official (government) strategies that could positively affect local actors’ abilities to adequately structure policy delivery. In other words, it will search for relevant formal macro institutions and actors that could possibly be missed out by the employed bottom-up approach.

In addition, empirically exploring the direct or indirect macro level influence (indirect, in the sense not revealed by the analysis of local assistance policy organising processes), may also be necessitated by the particular results of local policy organising. In this study exploring the linkage between formal macro strategies (policy decisions) and local policy action is meant to better explain the particular local SME assistance structuration and especially its frequent lack of success and adequacy. Could any macro explanations be found for the particular assistance outcomes? In short, this chapter is expected to provide some answers to both empirical and methodological issues.

14.1 Introduction

In the introductory chapter (chapter 1) I drew the reader’s attention to the development and survival of SMEs in Lithuania as an important priority for the official government strategies. However, theories reviewed in the introductory chapters 1-3 of this dissertation suggested to critically explore the role of mandated politico-administrative actors and the formal institutions in organising locally adequate SME assistance policies.

The preceding empirical chapters in which we studied assistance organised to manufacturing SMEs with some major transition period challenges revealed that assistance for most of the challenges in the studied cases was mainly searched locally. Local actors, both public mandated and others, however, were frequently dependent on national actors, their resources and formal regulations. Some SME attempts to solve business development challenges and impediments were successful, while others less so. Positive solutions have sometimes been reached
with the help of the addressed assistance actors, however, even then with little evidence for adequate policies.

This study especially aims to explore (see chapters 2 and 3) the abilities of government, mandated actors and formal institutions to organise or contribute in organising adequate SME assistance policies. The government and top decision-makers' knowledge and ability to make adequate instruments available for SME assistance are not the only factors conducive to policy success as it is also dependent on the roles and resources of a variety of individual local actors, the type of local interactions and particular context factors.

Macro structures and formal institutions gain their importance as they are applied (often re-interpreted) by the actors in the local policy contexts. In organising assistance to SMEs the strategies of local authoritatively mandated actors have naturally been to some extent influenced by the formal national regulations and resources enabling or constraining their abilities to organise adequate policies. However, as was shown, sometimes local actors took to their discretion.

As has been mentioned, frequently, in literature the official strategies/programmes of formal actors are confused with policies. The adopted bottom-up approach to policy analysis allowed us to make a distinction between the actual collective action (eventual policies) in SME assistance organising, including the role of formally mandated actors, and the officially intended assistance policy process. This chapter looks for further explanations to the identified policy and ad hoc action. At issue in this chapter is whether and how the outputs and outcomes of the studied SME assistance processes could be further illuminated and explained by: i) exploring whether some formal regulations and official strategies of relevance have been missed out in the analysis or disregarded by local assistance actors, and ii) whether the behaviour of assistance actors and the eventual policy structures (or their lack) could be explained by the nature of the at the time available legal acts, regulations and the instruments of the official (macro) strategies.

The undertaken search for the answers to lack of adequate policies in assisting Lithuanian manufacturing requires therefore exploring the major macro institutions deemed of relevance or with important influence in organising local SME assistance. It will reveal major formally intended instruments—EU, national, regional or local—mandated actors, identified resources and assess their knowledge, role and/or relevance for the analysed local policy organising in addressing the particular transition challenges companies faced. This chapter aims therefore at further exploring the possible linkage between the formal Lithuanian government (but where relevant also EU) strategies to assist SMEs in general, and those in the manufacturing industry in particular, especially with the analysed types of SME challenges. It will explore whether these challenges have been identified in the formal national but also regional and local government strategies as policy problems to be addressed, and in that case what particular mandated actors or instruments were assigned tasks in assisting SMEs.

It has been argued that adequate formal measures and, moreover, policy aspirations for assisting SMEs in their development should build on the experiences from micro level, i.e. the current needs and the practical preconditions for the assistance. The adequacy of the formal instruments is mostly achieved through the acquiring of the most accurate and correct knowledge of business...
needs and of preconditions for implementing those instruments in practice. For this task, I will identify the SME assistance intentions in the official government strategies and assess the relevance of the measures planned for the studied local assistance organising.

This chapter therefore addresses two questions. Firstly, did the decision-makers have the knowledge relating to on what issues there was a need of systematic policies in order to assist manufacturing SMEs during the transition period? For that purpose we will explore whether and how our studied SME challenges were reflected in the official government strategies and what major instruments were intended. And secondly, whether the top decision-makers were aware of the preconditions to implement it, i.e. were the proposed instruments and resources adequate for the needs of our sample SMEs?

The two last chapters of this study (chapters 15 and 16) are intended to contribute to the theoretical discussion on important preconditions to successfully organise adequate policies in transition contexts.

14.2 Officially Set Priorities and Goals for Development of SMEs in Lithuania

As a Soviet Union member, Lithuanian state legal forms of private business ownership were severely limited until the mid 1980s. In 1987, the regulations were somewhat relaxed allowing for limited forms of cooperative style enterprises. A year after regaining its independence, Lithuania embarked on an ambitious stabilisation and reform programme supported by the International Monetary Fund and the World Bank, allowing for all forms of private enterprises (Aidis & Praag, 2004). The initial private sector developments in Lithuania were rapid and poorly regulated until the late 1990s when the government started increasingly to regulate business development and the first business support institutions and organisations were established.

In the late 1990s, Lithuanian companies, especially SMEs trading with Russia, had experienced a strong blow by the Russian economic (rouble) crisis. These and other external and internal factors influenced the rapid decrease of the number of registered SMEs. During the two year period from 1999 to the end of 2000 registered SMEs decreased by ca 36%. The Russian economic crisis and other external and internal factors had especially negative impact on micro companies. Indeed, micro companies in Lithuania constituted 53% of all the companies in 1998, but their percentage decreased significantly (to 38%) in 2000.

Whether a coincidence or a sign of a prompt response by the Lithuanian government, the fact is that since 1998 a number of specific strategies and programmes aimed at supporting SMEs were introduced in Lithuania. The nearly

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374 Such as sale of produce grown on private garden plots and the sale of handicrafts, see Aidis & Praag (2004).
375 Under the Perestroika programme propagated by the then Soviet leader M.Gorbachev.
10 years long period of preparations for the EU accession, from 1995 to May 2004, was another major reason urging Lithuanian national authorities and local governments to put a lot of resources in the preparation of various economic development strategies to deal with the many challenges transition period presented. This is a challenging task for any government and especially one dealing with political, economic and socio-cultural transition period problems.

In the preceding empirical analysis of assistance organised Lithuanian SMEs some of the official instruments, institutions and mandated actors related to the particular SME challenges have been identified. Here I undertake to explore more systematically how these formal instruments relate to the official macro strategies and economic development goals. I will also search for other relevant instruments, possibly omitted in the empirical analysis.

In the following, therefore, we will scrutinise the major official strategies for economic and SME development in Lithuania during 2000-2006, their goals, priorities set and, briefly, the intended measures to achieve them. In the first sections we will explore what industrial SME development challenges those strategies identified and had intention to address, and in the latter analysis—the relevance of the intended and applied official assistance instruments for our studied SME needs.

### 14.3 National SME Development Priorities and the Intended Instruments

The study of the formal strategies, although they have existed on local, regional and national political and administrative levels in Lithuania, starts with the central level here. The reason for this is simple—the formal regional and thus economic development planning at the local level has been centrally steered.

**SME development priorities**

In the first decade after regaining state independence, the national government failed to acknowledge the SME role and transition period needs, regardless of the steadily increasing importance of Lithuanian SMEs for the country’s economy. It was firstly at the end of 90’s that it has recognised the need to promote SME development. The government has firstly officially declared its concern for SMEs in the Development Programme for Small and Medium Businesses and its Implementation Measures in 1998 (LR Vyriausybės atskaita, 2000). Shortly before that, in June 1997, an inter-ministerial organ was established to analyse SME development issues and development barriers (Lietuvos pasirengimo narystei ES pograma 2001-2003, 2001). The law on Small and Medium Businesses in

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378 The regional or county level in Lithuania with major administrative organ—the County Governor’s Administration (CGA)—could be regarded as more an administrative than political level and was an extension of the central executive power. County Governor was the only ‘political’ position at the CGA appointed by the national government after the suggestion of the Prime Minister. Another political regional organ was the Regional Council consisting of Governor, Deputy Governor and the mayors of the local governments in the region. The regional level actors also had mandate to work out strategies and measures for regional development.
Lithuania became valid on 1 June 1999 which defined the subjects of small and medium business as well as major types of their promotion measures in accordance with the EC law. Worth noticing is that the law replaced, after recommendations from the European Commission, the previous concept of micro, small (up to 9 employees) and medium (10-49 employees) enterprises valid in Lithuania (since 1995) with that valid in the EU in such a way significantly increasing numbers of SMEs eligible for support. Thus, micro were recognised companies in Lithuania with maximum 9 employees, small—up to 50 and medium up to 250 staff.

The Development Programme for Small and Medium-sized Businesses (hereafter SMB) in 1998 set major tasks for SME development in Lithuania:

1) to establish a legal and economic environment favourable to SMEs and diminish the bureaucratic business development barriers;
2) to form a technical and financial system for SME assistance;
3) to develop business infrastructure and self-government (LR Vyriausybės atskaita, 2000).

While the programme highlighted prioritised tasks for SME development the Ministry of Economy, its major mandated implementing institution recognised it was lacking knowledge of what factors contributed to or impeded business development in Lithuania (ibid.). For that purpose, the Ministry initiated in 1998 a survey on the status of SME development in Lithuania (in which representatives from 1700 SMEs participated) that has been conducted regularly since.

In 2000, the national Lithuanian government had increased its declared interest in SME development and issued Strategic Directions for the Small and Medium-size Business Development till 2003, later adopting similar directions until 2004 and measures for 2000-2001 and 2002-2004 (Lietuvos respublikos vyriausybė, 2002a). Here it accentuated the need to prioritise the development of SMEs. The strategic goals set for the period 2002-2004 were focused on promoting the SME integration into the EU economic space by increasing cooperation and exports. For the achievement of these goals, the strategic guidelines pinpointed especially the need to increase the competitiveness of Lithuanian SMEs. Hence, in the guidelines the Lithuanian government highly prioritised enabling more SMEs to introduce innovations and new technologies. The government recognised that pivotal for achieving the above goals was the establishment of so-called institutional, information and financial support structures and their monitoring. The achievement of the strategic goals was further specified in nine strategic targets among which could be mentioned the development of legal environment, improvement of financial support for SMEs, improvement of business information and consultancy services, improvement of business infrastructure and promoting new businesses (Lietuvos respublikos vyriausybė, 2002a).

“The current low level of competitiveness of Lithuanian industry and business is the result of low levels of entrepreneurship, an underdeveloped

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379 LR Smulkaus ir vidutinio verslo įstatymas (1999).
380 Additional criteria established for classification of companies were: micro—annual income up to 7 million LTL or book value of assets amounting to fewer than 10 million LT, small—annual income up to 24 million LTL or book value assets less than LTL 17 million, and medium—annual income up to LTL 138 million or book value assets LTL 93 million. See also the Long-term Economic Development Strategy of Lithuania until 2015, (2002); Smulkaus ir vidutinio verslo plėtros iki 2015 m strategija, Vilnius 2001.
business infrastructure, outdated industrial structures oriented towards low-tech industry left over from Soviet times (as well as capital-intensive industry with outdated technologies). Industry is dominated by companies that use predominantly unskilled labour, and business support services are insufficiently developed to meet the evolving needs and requirements of Lithuanian businesses.”


In the criss-cross of development strategies of various economic sectors until 2002 the overarching national development guidelines were lacking and due to that lack of coordination and congruence of strategic documents was noticed. In November 2002 The Lithuanian parliament (Seimas) had finally approved of the major strategy for the long-term development of the Lithuanian state. It outlined the direction for the development of the Lithuanian society and state institutions – to successfully integrate in the EU market, develop knowledge and innovative technology based competitive economy and a modern welfare state. This required modernisation of Lithuanian economic development policy. The task was to increase its GNP by 2.5 times and reach 50% of the EU average per inhabitant. To reach these goals priority was ascribed to 4 key factors of economic growth (Long-term Economic Development Strategy of Lithuania until 2015, 2002):

1) workforce;
2) finances (capital);
3) knowledge, and
4) entrepreneurship.

The goals of the Lithuanian SME development strategies 2000-2001, 2002-2004 and 2005-2008 have not changed much; retaining their focus on promoting entrepreneurship and SME competitiveness and increasing start-ups. SME development was expected to be boosted by improving the legal, economic and information environment, strengthening the financial support system and developing public services to SMEs (SVV programos vykdymo atsakaita, 2007).

As the first instruments to improve SMEs’ lack of finances and information several public business information centres, business incubators, a national and numerous local municipal SME promotion funds have been established. However, the administration of these funds has been entrusted to local bureaucrats with little or no participation of SME representatives. Several years later, the first European
Information Centres were established as complementary agencies in providing information and consultations to companies on making business in the EU and the EU support programmes. Notwithstanding these instruments the density of SMEs in Lithuania by the start of the study period in 2000 was assessed as ca 4 times lower than in the Old Europe.\(^{381}\) The Lithuanian government thus concluded that support available to SMEs was insufficient. It recognised in 2002 that the period of transition still was not over and that the transition put other requirements on economic development policies than in the well-functioning western market democracies (National Development Plan for the Republic of Lithuania for 2002-2004, 2002).

**Industrial development priorities**

Lithuanian top-political decision-makers also recognised that development of the industrial sector demanded special attention and support. The national government showed its concern for the comparably low level of high technology based manufacturing in Lithuania which by 2000 amounted only to 13\% of the Lithuanian total industrial activities as compared to 20-25\% in the old EU Member States. This was pointed out as one of the most worrying factors that negatively affected the competitiveness of Lithuanian industries in the EU market. It was admitted in the strategy that the acknowledged business and industry development problems—lack of investments, low competitiveness of industries based on low and labour intensive, outdated technologies and limited possibilities in the domestic market—required adequate measures from government and mandated actors to change the focus and the direction of industrial development in Lithuania after the Russian crisis (Lietuvos pasirengimo narystei ES programa 2001-2003, 2001).

The special attention to the development of Lithuanian industrial sector and discussions of its support was necessitated as well by its decreasing share in the gross value added that in 1999 reached a dangerously low level, significantly lower that the EU average amounting to 23.3 \% of Lithuanian total as compared to 44 \% in 1991 (National Development Plan for the Republic of Lithuania for 2002-2004, 2002).

The Lithuanian national government in its official strategies has prioritised the development of the industrial sector among other economic sectors. One of the major tasks, for the government according to the long-term strategy was the “creation of stable macroeconomic and legal environment favourable for business, and infrastructure encouraging investments into the development of modern industry” (Long-term Economic Development Strategy of Lithuania until 2015, 2002, p. 46). Specific industry development goals were highlighted in the sector development strategy called: Medium-Term Industrial Development Policy and Strategy for its Implementation adopted by the Lithuanian government in July 2000. Promotion of the industrial sector development, and especially, its competitiveness was defined as a major objective. To undermine industrial development shortages the Lithuanian government set the following support goals: attract foreign direct investment, support new establishments especially in the high added value growth sectors with the intention to increase their exports, and boost

\(^{381}\) The density of SMEs in Lithuania amounted to 15 SMEs per 1000 inhabitants as compared to 50-60 SME in many of the EU Member States, see the National Development Plan for the Republic of Lithuania for 2002-2004 (2002).
development of innovations and new (including quality management) technologies (Lietuvos pasirengimo narystei ES programa 2001-2003, 2001). Measures related to these goals were, in general, seen to favourably affect the re-structuration and flexibility of Lithuanian manufacturing companies.

The National Development Plan for the Republic of Lithuania for 2002-2004 (2002) identified thus the need for developing supportive information and consultancy services as well as special industrial SME support infrastructure (especially business service infrastructure), clusters between larger companies and SMEs and measures expanding innovative capacities of industrial companies. Government intended to boost innovativeness primarily by developing technological parks and technological business incubators (intended mainly for start-ups). Special attention was to be paid to improving support to innovative enterprise projects and consultations. In short, the focus of state industrial development strategy was support to small and medium businesses, innovations and company re-organisation projects (Lietuvos pasirengimo narystei ES programa 2001-2003, 2001).

An additional type of strategy affecting on the development of Lithuanian manufacturing SMEs was the EU Regional Development Policy. By 2004 promoting the SME and industrial development were ranked among the highest priorities for the Lithuanian government. In the Single Programming Document for Lithuania for 2004-2006, that set out a strategy for Lithuanian socio-economic development during the first years of the EU membership and the planned usage of the Structural Funds five major priority areas were identified, among them development of the productive sector and human resources.

Preparations for the EU membership not only increased the Lithuanian government’s awareness of the status of SMEs and industrial sector in the country, but also allowed to count on financial EU business support instruments in promoting its development. A key document for defining priorities for the use of the EU structural fund instruments was the Single Programming Document of Lithuania for the period 2004-2006 (2004). According to this, the intended EU support to the development of Lithuanian SMEs and industrial sector was regarded as part of the EU regional policy. The relevance of the EU Structural Funds as well as the available national financial assistance will be dealt with in the coming sections.

Relevance of the government objectives

In short, the Lithuanian government had two major aims with its SME and industrial development strategies. Firstly, it intended to boost SME competitiveness, especially in manufacturing industry, and secondly, to increase its exports to the western and other global markets.

In general, it can be observed that some of the studied SME development impediments were correctly identified in the mentioned strategies. In general, lack of finances and lack of consultancy services i.e. knowledge and information were the SME development impediments that deserved most attention in the short-term SME-development strategies. Some of the SME and industrial sector development objectives enlisted in government strategies—such as the promotion of export to the EU, boosting SME competitiveness, developing a system of SME support
institutions—were quite relevant for the studied SMEs as well. Of the measures intended, the most relevant ones for the challenges highlighted in our study were those enabling better financing of SMEs and providing more adequate, professional and subsidised consultancy services.

Nevertheless, not all of the strategic goals proposed and instruments adopted towards the stated aims bore relevance to the analysed SME challenges. For example, not all of the sample companies were geared up for or could see possibilities in investing in innovations—an important precondition to qualify for government support.

Indeed, the formal strategies were based on a narrow conception of SME development and its impediments. Their focus was primarily directed at support for start-ups or boosting innovations and exports of the established companies, and not so much at (with the exceptions mentioned) assisting the operating SMEs with their other development challenges and impediments. While addressing the need of financial assistance and improved public consultancy services in relation to technical reorganisation were highly relevant to our studied SME challenges, some other important hindrances to SME growth our sample companies faced have been hardly mentioned in these strategies. Instead they were at best, set as targets for other sector strategies, for instance, education (better adjustment of professional education to labour market needs) or rural and agricultural development (enable developing land market and consolidating land plots).

It could be concluded that the SME and industrial development strategies developed and approved by the Lithuanian government seldom identified the major impediments for achieving the intended goals. The strategies showed little consideration of business development impediments as SMEs had perceived them. There was little discussion in these strategies and development programmes on factors that obstructed the competitiveness of Lithuanian manufacturing SMEs, for example, what impeded changing the old technologies or prevented the work force from adjusting to the market requirements.

Before we move on to explore in more detail whether and what major instruments the national (or local) government presented to deal with the four analysed SME challenges we will also take a closer look at whether the official regional or local economic development strategies have identified the studied SME challenges and assistance needs.

14.4 Regional SME development priorities and measures

Scholars of social, political and economic development ascribe especially local actors, among them politico-administrative organisations, an important role in assisting SMEs to develop (or survive). In practice, it has been demonstrated that local level actors have better knowledge both of local contexts important for organising assistance and the needs of SMEs in that particular locality (see e.g. Hjern, 1998; Gröning & Hjern, 1999). Nevertheless, in the discussions on

economic development and SME assistance policies, both in the western market democracies and in Lithuania, the legitimacy and power of local democratic units to organise their own strategies of economic development have been either questioned or excluded from debate.

If the support from local (and regional) government is necessary to achieve a positive local development then it should be especially interesting to examine the efforts at this level (and the eventual links with the higher levels of economic development policies). In this context, it is worth mentioning briefly the situation of so-called “regional policy” in Lithuania. Indeed, this new term entered Lithuania’s political vocabulary rather late, at the end of the 1990s and primarily as a reaction to the opinion of the European Commission on the Lithuania’s readiness to undertake membership obligations and the status of regional policy in Lithuania in relation to that (Bugociute & Burneika, 2002), (Bagdzeviciene R., Rimas J., Venckus A., 2002).

Prior to 1998 regional policy in Lithuania was understood in terms of the best model of the administrative division of Lithuania and the responsibilities of local government and regional politico-administrative levels. Later, around 1999-2000 another, sometimes called “horizontal” conception of regional policy gained ground in Lithuania. It was discussed in terms of ideas and instruments for an independent social and economic development of a particular Lithuanian region (i.e. county). Even though the Lithuanian counties (10) and local municipalities (60) had for several years been discussing their role in shaping local social economic development this aspect of regional policy was undermined by its centralised, or so-called, “vertical” dimension.

The dominant EU concept of the regional policy and its tasks—to diminish regional social and economic disparities—and thus focus on economic development policy shaped and controlled by the national politico-administrative centre gained dominance since 2001. The European Commission classified the whole Lithuanian territory as one region, thus administration of the EU financial instruments for regional development in Lithuania has been conducted in a centralised way by the Ministries of Finance and Economy together with the National Payment Agency or Lithuanian Business Support Agency. No individual strategies for the use of the Structural Funds in each of the ten Lithuanian regions were ever worked out.

Hence, the future role of the County Governor’s Administration, as well as other regional actors in shaping and promoting economic and SME development in the region in general was highly affected by the regional policy concepts valid in the EU, influences from the European Commission, and Lithuanian (especially central government) expectations on the role of the EU regional policy instruments. Since Lithuanian national government and especially regional and local municipalities lacked financial resources to directly support SME development the major EU regional policy instruments—Structural Funds—were seen as a very important tool in boosting SME development, restructuring of industry and increasing company competitiveness. In short, the major reason for the shift in the perception of regional policy actors and tasks was the influences from the EU.
Attempts to increase the role of regions in strategic planning

Prior to 2002, pilot attempts have been made in Lithuania to allow regional actors more responsibilities in the socio-economic development of the region especially by increasing regions' ability to take advantage of the approaching access to the EU Structural Funds. Assistance from the EU pre-Structural Funds (PHARE instrument) was provided to three pilot regions in Lithuania in the period 2000-2001 to increase the competence of regional bureaucrats and other actors in regional development. The major intention though was to increase the capacities of formal mandated organisations to administer the coming EU support funds in accordance with the strict guidelines drafted for their dissemination. For different reasons, and especially due to slow improvements in these capacities, the EU gave up the idea that ten individual Lithuanian regions could handle the EU structural support and thereby undertake a more active role in promoting their socio-economic development (in the frame of diminishing the regional disparities). Thus, finally after the accession into the EU Lithuanian was to be regarded as one region, qualifying for the EU regional development support instruments according to the Objective 1 (Petkevičius, 2001).

It is worth mentioning that individual attempts have been made in Lithuania to draft strategies for the development of individual regions in accordance to the specific local and regional contexts and needs, rather than strictly following the contents of national or the EU strategies, that included a much broader range of the stakeholders in the planning process than in the centrally prepared sector plans. (Hjalmarsson & Fredriksson, 2004; Lundeholm, 2007). These initiatives while noticed and applauded, were however, not taken much into regard in the context of increasing EU influence towards a centralised structural fund dissemination.

The role of the Lithuanian local governments and CGAs in the context of EU influenced Lithuanian regional policy continued to be discussed even after the EU had initiated its regional policy instruments from the Structural Funds in 2004. Questions continue to be raised whether the planning processes of socio-economic development in various localities should be conducted at the political top or rather start from municipal and/or regional level and proceed upwards (Šiupinskas, 2006).

Tasks for regional policies in Lithuania

The Lithuanian national government identified two major tasks for the latter conception of regional policy: 1) to integrate regional development needs with national development priorities, and 2) to increase the capacities of regional administrations to participate in the regional socio-economical development (Lietuvos Respublikos Vyriausybė, 2002c; Ragauskiene, 2005; Bagciute & Burneika, 2002). The government saw support from the EU Structural Funds as a major precondition for the economic development of Lithuanian regions. Since the support was conditioned by the EU requirements the task of the government was to see to that regional bureaucrats were capable of preparing economic development projects eligible for the support. EU and national bureaucrats were thus given a major voice not only in defining the preconditions for support but also in identifying potential support targets.

Interestingly, when the dissemination and administration of the Structural Funds support commenced the Lithuanian government still lacked clarity on how the
major task of its EU inspired regional policy—diminishing regional and significant municipal disparities—was to be achieved. Local governments and regional administrations were expected to draft their programmes of social and economic development and to apply to national and especially EU Structural Funds for support. However, attempts to develop regional development policy in Lithuania were criticised due to the lack of support and attention to improving capacities of the regional administrations to draft projects favourable for the region such as improving business environment, development of business infrastructure or else (Dumčius, 2004). Critique was also directed towards the lack of strategies to promote economic and SME development in rural regions and districts where it was lagging behind that of the major cities.

Having in mind the complex support requirements the ability of less advanced local municipalities or companies to make use of this assistance was questioned (ibid.). Support to the development of regions was to be provided from the Structural Funds and the government based on the priorities and measures identified in national planning documents (National Development Plan for the Republic of Lithuania for 2002-2004, 2002; Single Programming Document of Lithuania 2004-2006, 2004).

Thus, the national priorities served as a major point of reference in developing regional strategies in Lithuania. This type of EU so-called “regional policy” support (based on the centrally planned socio-economic development strategy and devoted for the development of a particular economic sector rather than localities or regions) left it to the regional and local authorities and individual companies (speaking of direct business support) to attempt to attract additional funds for their specific needs or combat significant inequalities in economic development (Ragauskienė, 2005). Indeed, such government strategy prevented regions from attempting to identify their specific goals and instruments and rather promoted top-down planning processes.

Attempts to work out a development strategy for Kaunas region

In this situation and lacking essential financial resources each region was delegated by national government to create its own regional development strategy. The County Governor’s Administration was recognised the responsibility for regional development. It had to undertake organising and monitoring of regional planning and later its implementation processes. For that, a special Regional Development Department at Kaunas CGA was established.383

The attempts to prepare a regional development plan were conducted in stages starting in 1999 and mainly with the efforts of regional administration bureaucrats, scholars, and a few public business consultants. Regional development priorities and even specific measures to address them were expected to be included in the national economic development plan—a major national strategy for regional development according to the Law on Regional Planning (LR Regioninės plėtros įstatymas, 2000)—many measures of which were to be co-financed via EU Structural Funds. The national government, however, provided very short deadlines

383 A decision by Kaunas Regional Development Council No 1 of October 21, 2001 (Kauno regiono plėtros tarybos nuostatai, patvirtinta 2001 spalio 19d, Kauno regiono plėtros tarybos sprendimas Nr.1).
for accepting suggestions on the regional measures to be included in the National Development Plan, and thus, the regional planning has been conducted hastily and superficially. The regional specialists participating in the planning process had the intention of preparing suggestions of some focused measures rather than thoroughly working out a strategy that would not have been incorporated in the National Development Plan.384

The project of regional development strategy prepared in 2000 was, however, rejected by Kaunas Regional Development Council.385 The major reason for the rejection was the shift in the perception of regional policy in Lithuania towards a centrally steered one also changing the role and the independence of the regions in planning their own development. Now they had to adjust to the centrally defined development priorities and types of measures, in other words, attempt to adjust their regional priorities and propose regional and local projects to execute national priorities and goals. The regional priorities had been, therefore, approved in accordance with the ministerial programmes and the National Development Plan. After the priorities have been approved by the Regional Council more serious work with preparing measures had commenced. Even though the job was initially undertaken by a few experts, gradually considerably more stakeholders were involved in the regional planning process based on the methodology approved by the Minister of Interior at the end of 2002.386 Finally, the first Kaunas regional development plan 2003-2013 has been approved in 2003 (Kauno regiono pletros planas 2003-2013, 2003).

A natural question that evolves in this context is what could be expected from a regional strategy and measures to implement it when the regional actors were limited in their actions by the centrally defined planning criteria and difficult access to financing from EU Structural Funds. Still it is worthwhile to examine Kaunas regional development strategy as an indicator of the regional government concern for and the intentions to assist SMEs. Preparation of regional and local socio-economic development plans should have increased the knowledge of local politico-administrative actors of the particular local SME and industrial sector needs. The study interest thus is in what formal goals were declared for the promotion of the industrial sector and SMEs, and whether the regional strategy had identified any specific goals for SME development in Kaunas region.

Searching for the linkage between regional development objectives and SME needs

The Regional Development Plan for Kaunas Region for the Period 2003-2013 has identified 4 regional development priorities: new economy, modern countryside, living quality, and human and nature concord (Kauno regiono pletros planas 2003-2013, 2003). Business support and development goals were enlisted

384 Interview with a regional planning specialist at the Kaunas County Governor’s Administration.
385 Kaunas Regional Development Council was the major political authority in the region representing all municipalities of the region and the County Governor’s Administration. Without the approval of the Council no regional strategy could come into value.
386 The Regional Development Agency (RDA) was hired for conducting detailed regional planning. It entrusted work to different municipal bureaucrats and scholars. However, the prepared document was accepted as a strategy and not as a plan for regional development in accordance with the methodology required by the Ministry of Interior.
under the rubrics “new economy” briefly defined as economy comprising the development of knowledge-based business, industry and transport infrastructure. Our concern here is whether the regional plan identified the challenges and business development impediments our sample SMEs faced. In the analysis of the social and economic development of the region presented in the plan several relevant problems have been identified.

It has been, for example, noticed that the manufacturing industries prevalent in the region have been undergoing difficult transition that resulted in many bankruptcies. The structure of the manufacturing industry in the region has changed. In food-processing—a dominant industry sector in Lithuania and the Kaunas region—many of previously dominant large enterprises (dairy and meat producers) had vanished or been transformed into numerous smaller ones. The strategy was concerned by the slow technical reorganisation and by the fact that a significant part of the technologies used by the manufacturers were morally outdated. It has been also observed that many food producers had inadequate levels of technologies compared to those in Old Europe and the EU demands which affected their possibilities to export. Problematic was also recognised the fact that much of manufacturing was based on labour intensive production and was characterised by lack of business management skills. This resulted in low added value products. All these factors together negatively influenced on the competitiveness of the regional manufacturers.

Our studied Kaunas district had the greatest density of SMEs in the region (28 companies per 1000 inhabitants as compared to 13 as the country average, ibid). Recognising it as a positive fact, planning experts still noticed that land in Kaunas, as in other districts of the region, was mostly suitable for agricultural activities. Interestingly, while the experts were worried by the empty areas of land in the districts not used for any activities and simply deteriorating, nowhere in the strategy of 2003 was it observed that manufacturing and commercial companies faced great shortages of manufacturing land or difficulties to use the possessed land. Lack of territorial plans in Kaunas district, region and elsewhere, though, was treated as a weakness impeding on the social and economic development and was intended to be remedied in the near future (ibid.)

Lack of workforce issue was not yet high on the agenda when the plan was being prepared. It was observed, though, that Kaunas region tended to have a lower unemployment level than the Lithuanian average (9% as compared to 12%) and the fact that it started and was supposed to continue decreasing, was predicted to lead to lack of qualified workforce, especially in the district areas. It was, however, noticed that in a generally negative development trend in the city and elsewhere, Kaunas district companies had been able to increase their employment (ibid.) Shadow economy and illegal jobs were admitted to be an impediment in regional and economic development, but no arguments were presented as to how it affected lack of jobs or company development.

The planners recognised a great lack of financial resources among SMEs in the region as a hinder in their development. Although availability of EU pre-Structural and the approaching Structural Funds was recognised as a positive factor, experts were worried by the too high administrative and financial requirements that prevented SME access to them (ibid.).

Experts drew attention to several shortages in the business support environment related to our studied SME development impediments in need of improvement:
shortage of business information and consultancy services, lack of business development centres and municipal engagement in their creation and coordination, lack of flexible financial support instruments and SME favourable credits, unfavourable to business development tax policy, insufficient cooperation of industry, research and administrative actors, a weak dialogue between local business organisations and local government, and more. In addition, special attention was given to existent shortages and improvements needed in human resources. Planners noted shortages in the professional consultation system and poor technical basis of professional schools, insufficient teaching qualifications and lack of cooperation on educational issues between different levels of government on educational issues. Regardless of the shortages mentioned, the programmers noticed that both manufacturers of the city and district municipalities had been able to increase their production (amounting to 18.6 % of the Lithuanian total).

Interestingly, the regional development plan stated that one of the strengths of the regional business environment was a sufficient number of suitable for business premises, thus no premise shortage or access problem was noticed. However, there were many unused, abandoned and devastated premises in the region, and that was noticed as a weakness. As a positive (!) fact for the development of the region in general sufficient agricultural land resources were noticed.

Priority in the economic development of the region was devoted to the so-called “new economy” that according to the regional programme was characterised by: i) the development of modern and competitive industry; ii) development of entrepreneurship and business clusters, iii) improvement of transport and logistics infrastructure, and iv) fostering of tourism (Kauno regiono pletros planas 2003-2013, 2003). It is worth noticing, that while the regional planners and decision-makers accepted the dominance of traditional for the region and Lithuania industries—textile and wearing apparel, furniture manufacturing and others, they looked very positively on the evolvement of high added value companies in the region (electronics and similar). They saw a need to reorganise the activities of the traditional manufacturing sector towards high added value production. Those that did not succeed were expected to move out of the country in search for cheaper workforce and more favourable laws, as were the tendencies especially with the sewing and wearing apparel manufacturers. In the coming years the planners predicted a decrease of the traditional manufacturing industries in regions’ industrial structure. The ones that remained were to employ qualified expensive workforce and produce high quality products.

SME promotion was also on the agenda of the regional plan. The planners recognised that local economic development was based on local business initiatives. As an effective regional measure to ease that the establishment of economic development centres, otherwise—business clusters—was proposed. The major objectives in promoting the development of industry and SMEs towards the new economy were four, based on the previously mentioned priorities. Two of the objectives (ibid.) were especially relevant for the purpose of this study:

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387 Due to various difficulties these companies had started moving out of the country to cheaper labor force markets in Belarus and Ukraine.
1) **Develop Kaunas region as a territory with high added value;**
2) **Create a favourable business environment for the development of SMEs and their clusters.**

Development of transport and tourism were the two other objectives that we will not analyse here.

The first objective was to be achieved in two ways:

a) **improving the image of the region and attempting to attract foreign investments** (measures: organising fairs, disseminating information, increasing dialogue between businesses and government);

b) **fostering a business environment favourable for the development of modern and competitive industry and foreign investments** (measures: developing a programme for industrial clusterisation, creating a business map of different business in the region, constructing a Science and Technology Park for promotion of knowledge based, innovative and high added value enterprises; establishing Kaunas University of Technology as a leader among the technological project organisers in the Baltic States; creating special measures to promote the development of unique for the region and Lithuania high businesses based on high technologies.

For the achievement of the second objective three groups of measures were intended:

a) **to improve economic, infrastructural and other types of business environment for development of SMEs and boosting their competitiveness** (many of the intended measures were creation of further programmes/strategies for SME development (done), preparing and implementing a list of financial measures for SMEs, regularly conducting business surveys on their development impediments and lobbying for the improvement of SME legal regulations);

b) **to create a composite system of business information, teaching and consultation services for SMEs**, (strengthen existing business information and consultancy organisations, create new business consultation services in the districts, create a one-step system for business services in local municipalities);

c) **to establish and develop centres of intensive economy** (create business incubators in the districts and develop them into knowledge clusters, strengthen existing regional incubator at Kaunas University of Technology, create a regional centre of research and development).

As could be seen from the strategy, only a handful of measures (marked in italics) could be of relevance for the manufacturing SME challenges and development impediments analysed in this study. Still, it is not clear how, for example, regional measures to promote high added value production were to be applied on the small companies pursuing traditional manufacturing activities that could hardly financially afford the newest technology or find specialists operating modern machines. The SME situation could hardly be improved by waiting until new SME development programmes in the region were prepared. A regional SME
promotion programme was worked out only in 2005, i.e. after the interviews with sample SMEs.

We should remember, though, that SME and industrial sector support measures set out in the regional development plan were to be implemented in the context of the centralised regional development. If regional policies were understood in terms of a vertical top-down implementation of central strategies, it is indeed unclear how the regional government was, in addition, to implement its own policies of SME support. One may wonder if the regional level was at all capable of drawing the attention of national government (or the EU) to and resources for the specific regional and local needs. I will not, however, dwell in particular on these issues in this study as my concern is with the adequacy of the formal (goals and) measures actually applied in the assistance organised. Relevant for this study is, however, a question what had the policy aimed at diminishing disparities of regions to do with the assistance to individual SMEs facing particular transition challenges or impediments?

To diminish significant disparities within regions and municipalities the development indicators of which were significantly below those of the regional centre were to take active actions for attracting more resources to their territories. Municipalities were not only to address the national government and EU funds for more resources via individual projects, but also attempt to extract resources from the regional centre. The latter was the matter of the internal regional policy in Lithuania that was not yet developed at the study period (Ragauskiene, 2005; Mačys, 2006).

Nevertheless, the regional administration had ordered a strategy for SME development in the region (Regional SME Development Programme for Kaunas County) that was prepared only in 2005. This strategy indicated, among other things, the still pertaining need to simplify procedures for land use and detailed planning issues starting with the second half of 2005. An aspiration to lobby for the case of SME favourable legislature has been included both in Kaunas regional development and in SME development programme. This was, for example, relevant in the case of the food industry and the strict adjustment deadlines to the EU food safety requirements. The SME strategy has also set out as a goal to increase financing to SME consultancy institutions (read organisations) and expand their activities starting mid 2005. Increasing the qualifications of staff in public business consulting organisations was a noticed need and an intended measure (while the BIC in Kaunas complained in 2007 of great dropouts, lack of competence and great personnel rotation due to the unsure future of the centre!).

Municipalities, business support organisations were to provide financial and other resources since mid 2005 to promote SME innovativeness and adoption of new technologies.

Implementation of the national SME development strategies was to be adjusted to the regional (local) conditions so as to, in accordance with the EU aspirations, diminish significant regional disparities in Lithuania (Beleckiene et al., 2003a). Small and medium-sized business support measures were to be implemented and coordinated at three levels: i) strategic planning level (creation of favourable legal, political and economic environment), ii) implementing institution (read organisation) level (developing effective business service network), and iii) SME

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388 Interview with a representative of Kaunas BIC Business People House.
level (including initiatives both from SMEs, consultancy firms). At all the three levels and, especially in local contexts, SME needs were to be prioritised in the support policies.

In the literature on public and business entrepreneurship local economic development is, however, regarded as a phenomenon that can hardly be created with external, be it national or EU resources, even if these might be helpful under the right preconditions. The important precondition for a successful SME assistance (and thus economic development) policy to evolve is the united effort of local actors, their engagement and the same entrepreneurial or innovative spirit in the public sector (among the assistant actors) as is required from the business actors themselves (see e.g. Ekonominių ir teisinių konsultacijų centras, 2005; Gröning & Hjern, 1999). Knowledge of the major local needs and a commitment to the common goals is required. Resources, including financial ones are important, if they are adequately used in combating the given problems.

Interestingly, analysing the regional and local financial measures to support SMEs (Smulkaus ir vidutinio verslo vystymo Kauno regione programa, 2005) implemented in the region shows that Kaunas city was the only municipality in the region that lacked a special SME promotion fund (but could still in 2004 find some resources to assist companies from the municipal privatisation fund). It is, though, unclear how the SMEs of the municipality could find out such possibilities and were they correctly informed.

Besides, regardless of the aims to strengthen public business consultancy services, the only previously publicly financed business information centre (BIC) the “Business People House” in Kaunas city (used as well by the district companies as no such centre was available in the district) was refused financial support from Kaunas city municipality in 2004. In addition, regardless of the fact that the “Business People House” was serving the SME population of the second largest Lithuanian city it was provided the same financing from the Ministry of Economy as the BICs in much smaller district municipalities. To be able to function satisfactorily and gain more finances the BIC in Kaunas, besides paid SME consultations, had to participate in diverse other projects and earn money from consultancy services. This naturally took a significant part of the BIC consultants’ time. The intentions to prepare a programme for financial SME support by a common effort of business associations and local municipal administrations had not been realised during the study period, at least not in the studied municipalities, and instead postponed to 2005-2008.

14.5 Local SME Development Strategies

City Municipality

After the national government had officially declared its interest in SMEs in 1998 by adopting the mentioned provisions for SME development, also local governments increased their concern. A very interesting situation with the SME

389 The activities of five public business information centres in the county were primarily financed by the Ministry of Economy and local municipalities.

390 Interview with the representative of Kaunas BIC Business People House.
development strategy developed in Kaunas city municipality. There have been several attempts since 1998 to analyse the local SME situation and their basic development hindrances with the aim of working out an SME support programme.

The first suggestions for an SME development strategy in Kaunas municipality were prepared together with business representatives. These attempts had been influenced by SME situations in other western market democracies and measures adopted there. However, the *Kaunas City SME Development Programme* prepared in 1998 (Kauno miesto smulkaus ir vidutinio verslo pletros programa, 1998), had been able to better identify the business development impediments analysed in this study—both difficulties in obtaining bank credits, purchasing used premises and using the land for business (as well as difficulties in changing land use purpose) than the latter programmes. Also some negative effects of malfunctioning of business control authorities, for example, with tax administration, were noted.

*Lack of qualified workforce* was not identified in the programme as the unemployment remained high and was increasing and the out migration has not yet resulted in the dramatic consequences experienced by the studied companies. In addition, the programme was worked out based on the old classification of companies, where only those with up 50 employees classified as SMEs. At the time when the programme was prepared they amounted to almost 89% of Lithuanian companies.

As local municipalities in Lithuania had no special budgets for SME development since 1998 attempts have been made in the majority of municipalities to establish special municipal SME development funds from privatisation budget or similar. At the start of the study period in 2000, already 33 of 56 local municipalities had such funds established and the number had increased to 52 in 2002. However, during the study period Kaunas city municipality stood out as one of the 4 municipalities in Lithuania lacking such a fund. The local *Kaunas City SME Development Programme* of 1998 for financial support of SMEs referred instead to other national institutions: SME Promotion Fund at the Ministry of Economy, Limited Company SME Business Insurance, and some equity funds. The SME development suggestions in 1998 were, however, not approved in the City Council "either because it was rejected by some Council Committees or because businessmen presented unrealistic demands".

Another municipal SME development programme prepared 3 years later, in 2001 recognised the inefficiency of the earlier programme basically because the goals and measures set out in it could not be offered any financial support except for lowering the tax level or postponing taxes for SMEs in individual cases. In

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391 *Kauno miesto smulkaus ir vidutinio verslo rėmimo programa*, 2001 ("Kaunas Small and medium-sized business support programme"), obtained from the interviewed municipal civil servants.


393 *Kauno miesto smulkaus ir vidutinio verslo pletros programa* (1998) Kaunas Small and medium-sized business support programme" prepared on 23 July 1998 (but never approved of by the City Council ) obtained from the interviewed specialists.

394 Interview with a strategic planning specialist at Kaunas city municipality.


396 Here it is referred to the so-called tax loans ("mokėstines paskolos") that is postponement of tax payments as an agreement between local municipality and tax agency. Our interviewed
the newly prepared programme following local SME support measures were enlisted: partial or total bank guarantees, interest rate discounts, special credits from the local SME assistance fund, municipal tax relief or postponements and direct capital investments. Even other types of support from the municipality were planned: rent discounts on premises in municipal disposition, leasing of premises, assistance in changing land use purpose(!). However, not even this programme has been approved by the local elected representatives.

The interviewed economic development specialists from Kaunas city municipality had recalled that after several amendments the SME development programme for Kaunas city had been finally approved in 2003 or 2004, but it was not accessible publicly. The interviewed SME managers or owners had no information of such a programme. However, neither the strategic planning specialist of Kaunas municipality nor public business consultants or representatives of Kaunas SME organisation were pleased by this programme as again, no SME assistance fund was established and not many intended assistance measures were operating in practice. Possibly because of that, the municipality did not even attempt to make their SME development programme public.

Municipal civil servants presented several reasons for the reluctance to establish such a fund or provide direct financial assistance to SMEs. Firstly, the sum that the fund could offer was small and “inessential for any businesses”; and secondly, City Council and companies could not come to an agreement on the criteria for such support. The demands from various SMEs were so many that it would have been difficult for the municipal representatives to explain why some company groups or projects were to be supported against others. Indeed, Kaunas municipality did not want to repeat the mistakes of some other municipalities that sometimes offered SMEs loan credits risking municipal property. Municipal civil servants argued: “Municipality is no bank to offer such risky type of support” (400) The only type of available SME support that the interviewees pointed out (besides tax postponements in few individual cases) was support to companies participating in the annual exhibition of their production in Kaunas.

In general, several interviewees claimed there was little interest for SME support among the local elected representatives in the City Council “due to conflicting party interests and the dominance of influence from large capital (read large companies).” (401)

“In the city municipality they started talking of business development more seriously only around 2000, as until then major transition structural reforms (like privatisation) and challenges (collapse of many large industries in the city, bankruptcies of banks) had been in the focus. Until 2000 business was representative of Kaunas SME association meant such discounts were made mainly for public municipal companies.

397 Interviews with specialists of strategic planning and economic development in Kaunas municipality; interview with BIC representative, interview with a representative of the SME Association of Kaunas Region.
398 The programme for SME development valid during 2000-2006 could only be obtained from the specialists and not even published or mentioned in the municipal website (or similar web resources).
399 Interview with a strategic planning specialist in Kaunas city municipality.
400 Interview with a strategic planning specialist in Kaunas city municipality, 2007 08 28.
401 Ibid.
mostly related to small traders, black economy and more serious small businesses evolved only around 2000.\footnote{Ibid.}

In general, strategic planning specialists at the city municipality claimed they had little information of the situation with SME development in the city and it was difficult to obtain. At the start of the study period around 2000-2003, their access to the information was easier as some of SME statistics was managed by the municipality. Later, when the registration and management of statistical information was taken over by the State Centre of Registers, the access decreased. Besides, there was little, if any, exchange of SME information between municipality and the local Tax Inspection which is why municipal experts complained of lack of information on SME development in their municipality (!).

Indeed, there was not much support the city could offer small and medium businesses. The business incubator (later two) were meant to support small numbers of start-ups mainly with premises, and the two public business information centres, the Chamber of Commerce could provide SMEs with some free of charge or subsidised consultations. Interestingly, while the municipality was involved in their establishment of those business support organisations, later (since 2004) it has ceased financing one of those centres (“Business People House”) due to internal conflicts. In the opinion of interviewed city specialists, as regards questions of financial support, SMEs were to approach the banks.

The situation with eliminating some of the major business impediments to the knowledge of the municipal specialist of economic development programmes was rather unfavourable. Especially stuck in a stalemate were issues of land property and use and, in particular, \textit{land for business activities}. Even the so famous project of Science and Technology Park (Technopolis) in the city had been struggling for land for 3 years. Municipal offers of business and manufacturing premises were not great, and most of the buildings were solved via auctions at rather high prices to be accessible for SMEs.\footnote{Interview with a strategic planning specialist in Kaunas city municipality, 2007 08 28.}

In general, the economic planning specialist felt that \textit{little could be done} by the municipality to assist business as legal preconditions for SME development were quite unfavourable, inspecting agencies or laws could not be controlled or influenced locally. Interestingly, the interviewed municipal specialists have noted that the majority of the SMEs they have been in contact with do not expect or ask for any special financial support from the municipality (except occasionally), but their concern was that local government and bureaucrats rather \textit{would not hinder} SME development by unfavourable or prolonged decisions on various matters (land, construction and other permits and similar).

In sum, \textit{the SME assistance practice in the city municipality had little correspondence with the aspirations of the regional and local SME development programme such as intentions to influence the legal SME development environment by making proposals on law amendments to national government, tax postponements and similar.}

\ \footnotetext[402]{Ibid.}
\footnotetext[403]{Interview with a strategic planning specialist in Kaunas city municipality, 2007 08 28.}
District Municipality

The situation in Kaunas district municipality was somewhat better, especially with the possibilities for direct financial support via the SME support fund operating since 1999. The interviewed economic development specialist at the district municipality noted that, besides finances, land acquisition or use issues were a great hinder to business development. He admitted though, that municipality had not developed any systematic assistance mechanism for those issues by 2007, instead the assistance was sporadic, directed to individual companies often as a favour due to private contacts. It was only after the end of the study period in 2007 that the municipal administration undertook, for example, a systematic register of free land plots and premises in the municipal disposition. Prior to that, the situation was chaotic and the information possessed by land use specialists was sporadic inviting them to misuse their discretion. Besides, without such a register municipal government was unsure of the resources it could offer interested investors.404

Interestingly, while the change of land use purpose and detailed planning was stopped in the district from ca 2005 until the district General Territorial Plan (GTP) was prepared, the district government still attempted to find solutions (by interpreting laws) in the favour of some large companies with strategically important projects. There were very few chances for smaller SME projects to get such support.405 Delay with finances to the GTP was one of the major reasons why its preparation took such a long time (still unfinished at the end of 2007). Until the finances reached the planners, the costs for preparing the plan had increased 4 times!406 In general, the major focus of the economic development (strategy) in practice was directed to attracting larger companies and foreign investors, especially transport and logistics, due to a favourable geographical location. Lack of workforce was another major development impediment for SMEs in the district. Municipality had some ideas to attract a vocational training school, but primarily for training transport specialists for the planned logistics centre.

The interviewed specialist noticed that the municipality lacked statistics and analytical data on the SME situation in the district (!) The specialist admitted, that in general, there was no vision of SME development or assistance in the district: "It is unclear what direction to take, what model to chose." The strategy for SME development was treated just as a paper declaration while in practice mainly larger companies with private contacts in the City Council could get attention and support for their impediments or business activities (as promotion of innovation).

In general, while the City Council had a major role in initiating and setting the direction for SME support for a number of years the willingness was lacking. “Not only were the politicians unsure of the direction, but short of some greater interest for SME development.”407 In such a context district civil servants with responsibility for economic development issues were rather inactive and their role in the process was, to say the least, unclear. The attitude towards small and medium businesses in the district municipality has become somewhat more favourable only after the new City Council was elected in 2007.

404 Ibid.
405 Ibid.
406 Ibid.
407 Interview with a specialist of economic development at Kaunas district municipality.
Conclusion

To conclude, in both municipalities the concern for SME development was superficial. Neither the municipal councils nor, subsequently, their responsible civil servants showed much concern for improving support and diminishing local impediments to the small and medium businesses. The interviews did not disclose more active attempts to influence the legal and regulatory SME environment as intended in the local and regional strategies. Even if some SME development strategies have been suggested or even approved by the local councils it cannot be said they were effective as neither the municipal specialists nor SME representatives found them significant or, as in the city, working at all. Financial support from the district SME fund was a positive measure, but possibly not always available on fair grounds to all interested SMEs. The dialogue between the local SME organisation and the municipality had broken down which also worsened the preconditions to organise some adequate support in practice.

The interviewed SME representatives had little knowledge or positive experience of local government concerns for their development impediments. They seldom expected any financial support from municipality, but were more interested in smoother, more transparent and simplified procedures dealing with matters for business concern and more good will in spreading relevant information.

In sum, municipalities as major formal self-government organisations were incapable neither of organising adequate assistance policies to support SMEs nor of providing adequate and successful contributions in local policy organising. Occasionally their political actors or civil servants made positive contributions, but in such cases using their discretions to circumvent existing regulations. Local level simply lacked interest, abilities, and adequate formal assistance institutions.

14.6 EU Influence on the Lithuanian SME and Industrial Development Strategies

Although SMEs in Lithuania had faced major transition period impediments to develop, Lithuania, having re-established its independence in 1990 had, though, no experience either of policies to support SMEs or official instruments thereof. In the context of transition with all types of structural challenges it also entailed this task was much more burdensome. Already as early as in 1995 the Lithuanian government had made a choice to direct the country’s development towards an integrated EU market by signing a special membership preparation treaty, called Europe treaty, on June 12, 1995 which came into power in February 1998. Naturally, Lithuania was affected by the influences of the EU and other, especially western democratic, economies. In this section we will briefly outline some of the major ways the integration into the EU affected the Lithuanian economic development strategies and instruments.

The choice to strive for the EU membership had a significant influence on Lithuania’s political and economic development and on the strategies Lithuania developed to support SME development. Indeed, the strategic planning of the country’s development has only commenced in relation to the EU membership preparations. In 1997, the European Council invited the EU applicant countries into the Accession Partnership that was at the same time an individual accession
strategy for each candidate state and instruments devoted to fulfil its goals in relation to the Copenhagen Criteria and deal with their particular accession problems.\textsuperscript{408} It was the European Commission that had the major voice in the formation of the accession partnership strategies based on the priorities, objectives, conditions decided by the Council. Lithuania had an obligation to yearly present a Regular Report on its progress in fulfilling those membership objectives.

The European Commission used to issue a yearly assessment on the basis of a Regular Report that influenced the Lithuanian government planning and instruments of political, social, economic and legal development. Since 1998 until 2002 Lithuania has annually adjusted its development goals and instruments in the EU Accession Programme (otherwise called the National Programme for the Adoption of the Acquis) to the requirements of the EU. The Lithuanian Medium-term Industrial Development Policy and Strategy for its Implementation was also drawn in accordance with the industrial policy guidelines of the European Commission (Lietuvos pasirengimo narystei ES programo 2001-2003, 2001). In assessing the Lithuanian readiness to access the EU economic development criteria were of pivotal importance. The assessment was conducted horizontally, i.e. by indicating major problems and measures to be applied in diverse sectors such as: competitiveness, tax policy, industrial policy, SME, regional policy, to take a few examples (ibid.). It is therefore, evident, that the EU directly affected the Lithuanian economic development priorities.

In 2000 the Lithuanian Government had declared its firm determination to join the EU and adopt the EU acquis (National Development Plan for the Republic of Lithuania for 2002-2004, 2002). It was, therefore, in the first hand for the purposes of the approaching membership negotiations that the Lithuanian government had developed many of its economic development programmes starting with A Medium-term Economic Development Strategy that was rapidly worked out in 1999 and later a National Development Plan for the Republic of Lithuania for 2002-2004 (2002).

As in the accession process new Member States were monitored by the European Commission, the Lithuanian government paid great attention to carrying out general so-called structural reforms—further privatisation of state owned enterprises, tax and social security reforms, legal procedures (bankruptcy regulations) and privatisation and re-structuration of banks. However, these measures did not suffice to assist SMEs in coping with various transition challenges. Interestingly, in the Lithuanian EU membership preparation programme for 2001-2003 it is argued that the above mentioned measures were intended to consolidate the already functioning market economy in Lithuania. Development of politico-administrative institutions and business infrastructure were primarily intended for proving Lithuania’s readiness to join the union (National Development Plan for the Republic of Lithuania for 2002-2004, 2002) and not so much in regard to the endogenous particular for Lithuanian transition period SME needs.

Four major SME promotion strategies in the EU had influenced on those of Lithuania: European Charter of Small Enterprises, European Entrepreneurship

Lithuania has adopted all those EU strategies by that undertaking their goals and obligation even before the EU accession.

As was mentioned (1.6) adoption of Lisbon Strategy in 2000 among the EU Member States implied new much more ambitious tasks for the member but also candidate states including Lithuania. It is interesting to note that this strategy was aimed at a transition of an already competitive common European market into a next phase. For the former Soviet bloc countries joining the EU it meant a *double economic transition*—firstly, to a democratic market economy, and secondly, to a most competitive economy, based on knowledge and high technology and focused on producing high added value. After a short 10 years410 period of transformation from a command to market economy the Lithuanian government had accepted to direct its future economic development strategies towards the Lisbon goals. That meant in practice that economic development in Lithuania had to significantly speed up development of certain focus areas such as adoption of high technology and innovations attuned to the goals of the Council of the European Union.

In the enterprise policy field the EU aspired to combine local and national programmes to create better conditions for entrepreneurship: simplified administrative procedures, increased access to venture capital or manager training. The macro level economic policies were expected to, for example, enable creation or growth of innovation potential, increase possibilities of financial assistance for new investments, vitalise growth, employment, foster education and training, research and innovation (Lisbon European Council, 2000).

In general, this strategy could be said to refer to two goals: setting a specific direction for the economic development of the union and organising assistance with particular known EU-15 specific SME challenges. These goals have been further specified in the Lisbon Strategy that has since its adoption been the major point of reference both in the EU, but also in developing Lithuanian strategies and programmes for economic and social development (Rodrigues, 2004). A process of spreading best practice models for each area of priority in the Lisbon Strategy, including enterprise development, has been initiated. How the instruments intended for the SME development challenges in the old EU could assist even Lithuanian SMEs still struggling with their specific transition challenges will be discussed in the preceding sections.

The above political intentions bedded for *divergent policy goals* in Lithuania. On the one hand, to develop programmes for the intended strategic change in the focus of economic development; and on the other hand, to assist companies with their daily transition period challenges. If so, institutions and resources had to be made available for those two, not necessarily compatible or of equal priority goals.

It is evident that the first SME development programmes worked out nationally and locally were still based on insufficient knowledge of SME development needs. Many of the reasons for much lower Lithuanian entrepreneurship level than the EU

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409 The goals of those strategies, have, for example, been reflected in the EU Accession treaty (2003) and the ‘Single Programming Document of Lithuania for 2004-2006 (2004).

410 At the time of Lisbon declaration Lithuania had had 10 years (since 1990) to adjust to market economy. The period of 10 years from the declaration of Lithuanian independence in 1990 to the adoption of Lisbon Strategy was quite short in order to transform the Lithuanian economy from command to market keeping in mind the new rules, completion of legislation, currency reforms, and constant changes in regulations of company activities.
average still remained unidentified. My analysis of the strategic documents for development and support of small and medium business in Lithuania gives ground to believe that the concern for SMEs was mostly an externally evoked (especially influenced by the EU) phenomenon lacking domestic anchoring. It seems that both the Lithuanian government but also many top decision-makers and representatives of mandated organisations from national to local levels had to be enlightened on the reasons why the organising policies to assist SMEs was a positive and even a necessary phenomenon in the transition context.

Many of the analysed strategies for SME support had planned measures for a regular analysis of business development barriers and information exchange, especially as a task for the local governments. However, in Kaunas region and city municipality, representatives of SME business organisations and public business information centres complained not only of the lack of local government interest in SME needs, but also serious disagreements with it and frozen relations. As was mentioned, one of the results was and the seizure of financing to the public business centre BPH in Kaunas.

Regional SME association representatives claimed that the national as well as the local government instead protected the interests of the large enterprises and its declared concern for SME development was a protracted hypocrisy. Their criticism was primarily directed towards legal regulation favouring large businesses and without ex ante analysis of how small businesses will be affected. The abolishment in 2006 of a major mandated organisation to defend the interests of the SMEs—Lithuanian SME Development Agency—was pointed out as a supporting factor among several. Its functions were to be undertaken by an SME department of the Ministry of Economy. The Kaunas regional SME association was very sceptical about the ability of such a ministerial structure to analyse and, even less, affect the legislative processes negatively affecting SMEs where other ministries were engaged. Especially the lack of systemic approach towards SME development in legislative processes was observed. “The SME development agency that was to take care of the SME matters was constantly overloaded by different tasks, as coordination of BICs and even administration of EU funded projects instead of allowing it more freedom to deal with issues of most concern for the SMEs”.411

Representatives of business associations also expressed their dissatisfaction with the fact that they had no information of the fate of their suggestions presented on, for example, law amendments, measures to be promoted and similar (Verslo Žinios, 2006a). Towards the end of the study period concerns were still raised by associated SME representatives of the decreasing numbers of SMEs during 2000-2004 (SMEs decreased by almost 11,000 reaching 60,000 in 2006). The businessmen pointed out though that the number of various business controlling authorities amounting to 152 remained intact. The new Minister of Economy declared in 2006 his determination to better cooperation with SME representatives: “It is necessary to have a mechanism for conducting dialog with business representatives” (ibid.). Formally seen, some previously attempted consultation models still existed, according to the Minister, but could possibly be resumed and improved.

The Lithuanian Government, however, took some positive steps towards a greater concern with SME development in 2006 when company representatives

411 Interview with a representative of SME Association of Kaunas Region.
were invited to take an active part in preparing amendments in the valid law on SMEs. The major wish of business representatives was to establish an independent organisation that would analyse and coordinate essential SME development issues including important *ex ante* effects of proposed laws on small businesses. However, by the end of the study the law amendments were still in a planning stage and some suggested tasks of the proposed agency were rejected by ministries (Verslo Žinios, 2006b). While the Lithuanian parliament adopted a resolution on 23 October, 2006 of a need to establish an institution (read organisation) analysing and representing SME needs in legislative processes the Prime Minister of Lithuania was sceptical about its purpose.

At the end of this chapter, we will summarise in what ways could the Lithuanian government and especially manufacturing SMEs take advantage of the EU experience and assistance in addressing the analysed impediments. Could any of the EU proposed instruments positively contribute in assistance organising, when and how?

**Government Awareness of SME development Impediments**

Analysis of strategic Lithuanian SME development programmes during the 2000-2006 period suggested that there was evidence of decision-makers at the political top demonstrating notable and sufficient awareness of some of the impediments to increase competitiveness of Lithuanian SMEs. In fact, in planning their measures the Lithuanian government and especially the Ministry of Economy had initiated several surveys on the SME development status and barriers in Lithuania such as *The Lithuanian Industrial Competitiveness Survey* carried out in 2000 and 2001, the *EU Competitiveness Survey*, studies such as *Business Development in Lithuania and Central Europe* and *SME Business Success Factors* in 2006, *Analysis of the SME Situation in Lithuania in 2003, 2004*, and others412.

In these studies the general institutional SME support structure, especially in the rural areas, but also elsewhere, was recognised unsatisfactory (ineffective). Experts recognised malfunctioning bureaucracies and insufficient legal environment as an important barrier to SME development. Those pivotal for SME development impediments were planned to be eliminated by the end of 2004 (ibid.)

In those studies, among the most important impediments for SME growth companies mentioned lack of lower taxes for start-ups, lack of favourable credits and complicated tax administration. Besides the above mentioned, were also indicated *lack of qualified workforce* and increased workforce expenses (due to increased social fees), lack of relevant *business development information* and knowledge of business management, limitations of local markets, low purchasing power and difficulties to find and acquire suitable *premises*.

Other studies of Lithuanian SMEs (Lietuvos SVV analize, 2005) indicated specific economic development difficulties for micro and small companies, for example, to achieve higher business profitability or increase exports. They tended to conduct more labour intensive activities and had far fewer possibilities to invest in business development and innovative processes or technologies. Nevertheless, their importance for the country’s economy was undeniable and there was much

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412 See more information at the website of the Ministry of Economy at http://www.ukmin.lt/lt/strategija/.
room to increase their value added to the EU average. Due to the reasons enlisted it was, therefore, especially challenging for the SMEs to develop in the studied manufacturing sectors—wearing apparel, food and wood processing and furniture manufacturing—and to increase their exports and profitability.

In sum, the government had possibilities to inform itself on local SME transition period needs. However, the empirical analysis had revealed that the assistance to the challenges our studied SMEs identified not always achieved success and even less often was organised in an adequate manner. In the following, I will explore some major formal official support instruments intended and assess their relevance to the analysed SMEs assistance needs. The aim here is to reveal the linkage between the impacts of various assistance instruments offered to our SMEs (primarily by mandated actors) and the intentions of formal economic development strategies.

Results of this linkage analysis are meant to disclose not only whether the top-decision-makers have been able to identify the needs expressed by the sample companies, but also to foresee the strategies and relevant instruments to combat those problems. The focus in the analysis will be laid on those macro instruments that actors involved in organising assistance in practice or SMEs themselves had referred to.

14.7 Formal Measures to Attract Qualified Workforce

Lack of workforce in practice was an issue that shifted in character during the studied 6 years of the transition period. While at the start of 2000 some of the manufacturing sector companies (especially sewing and textile) already claimed they lacked specialists, companies of the other studied manufacturing activities were somewhat better off. However, with time, the opening up of the western markets had positively affected the growth of those industries. Especially sewing and wearing apparel, textile and furniture manufacturers’ exports to the EU kept increasing. The wood processing industry has been experiencing ups and downs as the raw material prices kept increasing, but some specialties were in demand since the start of the study. Food-processing companies due to the food quotes to the EU could export more production, but even the increasing domestic purchasing power positively affected the development. However, as we have seen in the empirical analysis, increased food safety demands was a strong blow for the food industry and forced significant numbers of companies to bankruptcies.

Shortage of qualified specialists naturally also depended on other contextual factors, such as the unemployment level in the country, abilities of educational organisations, effectiveness of government support measures, including taxes, and the emigration. In general, most sample companies expressed their concerns with the qualifications of their workforce as well as knowledge of personnel and quality management as a major factor in keeping up with the competitors. The study is interested in whether and how these needs were reflected in the official government strategies in Lithuania.

Lithuania, adopting the EU aspirations, already in 2002 has defined the strive for a knowledge economy as one of its major socio-economic aims and a basic
precondition for the economic development. To achieve that goal the competence of the workforce and its adjustment to the market needs has been recognised of utmost importance (National Development Plan for the Republic of Lithuania for 2002-2004, 2002, p. 69 and on). At the end of the 90s and during 2000-2001 the constantly increasing unemployment rate in Lithuania had reached worrying heights (17% in 2001 as compared to 7.6% of the EU average). Especially high unemployment was among the young people aged 14-25 that reached 21%-30% in 2001 in different Lithuanian regions (as compared to the average 1% in the age group 25-49 years and 14% of the EU average). One of the major reasons for the low unemployment among the young was their lack of a basic education or profession skills that specifically characterised the transition period and was new to Lithuania. The tendency in 1990’s was that young people kept dropping out of their basic school education for trade market or other activities (Single Programming Document of Lithuania for 2004-2006, 2004). The majority of the unemployed in Lithuania in 2000 were found to be unprepared to enter the labour market as their occupation had low demand or they had no formal professional skills at all.

Since 2002, however, the unemployment level in Lithuania started steadily decreasing. This, together with extensive out migration and aging population resulted instead in lack of workforce that posed different requirements for labour market measures. Was the Lithuanian government able to organise the assistance the manufacturing companies demanded in such a shifting context, i.e. to train a workforce for the needs of manufacturing industries and to match the unemployed with the offered jobs?

The Lithuanian government was aware of the lack of skills of many unemployed to fit the market needs and undertook some measures to improve the situation. The instruments were mostly intended to assist the workforce and the unemployed to adjust to the rapid changes in the country’s economy and improve their employability and adaptability to the market or were focused on increasing advanced knowledge not necessarily in demand by our studied companies. Among the major measures suggested (National Development Plan for the Republic of Lithuania for 2002-2004, 2002, p. 69) could be mentioned:

i) Targeted professional training and employability programmes (especially intended for companies introducing innovative technologies or new production, SME managers and employees, and training of employees for new jobs);

ii) Improving the quality and availability of professional education (especially relevant was intention to improve practical profession training);

iii) Integration of social risk/socially vulnerable groups (directed at integration of the disabled, single parents, people at a retirement age, unqualified youth) especially due to a widespread poverty among those groups.

The government aimed also at improving the ability of mandated labour market and professional training organisations to adjust to the market needs (Vyriausybės programos įgyvendinimo priemonės, 2001) and proposed some adjustments in the Employment Enhancement Programme for the years 2000-2004. As one of the measures to achieve those goals the government introduced a re-training (adult professional training) system in 2001 based on public procurement. There were
some fears, though, that the lowest proposed prices for organising professional training courses would not guarantee a sufficient quality (Beleckienė et al., 2003b).

Reducing unemployment was set out as one of the major government priorities for the period 2000-2004. In its national Employment Enhancement Programme for 2000-2004 the government focused on elimination of “negative effects of the structural economic reform and external factors upon employment and labour market” with the short term aim to decrease unemployment to the EU average and a long term aim—to achieve full employment (ibid.). Introduction of a larger variety of measures to reduce unemployment was one of the essential criteria for qualifying for EU membership and participation in the EU Employment Strategy. Lithuanian government intended to use some of the EU Structural Funds support to reduce the unemployment. Part of the common Lithuanian-EU employment strategy were measures to reintegrate unemployed people into the market and making public employment services more effective (ibid.). Organising assistance to the unemployed was more of a task for the national education and unemployment reduction strategy than for the regional administration or municipal governments. Little linkage could be found in the regional strategy for Kaunas between the attempts to foster the development of SMEs in the manufacturing sectors and measures to increase the quality of education and professional training, its ability to adapt to the market needs. Indeed the strategy retained a general focus on increasing access to professional consultation actors firstly by establishing an information system. The needs of various educational organisations (regarding educational material and competence development) were yet to be identified in Kaunas region during 2003-2013.

The programme for Kaunas city development for 2005-2015, for example, indicated adjustment of educational organisations to the market needs as one of many tasks in developing a favourable business environment. Some general measures to improve the local labour market situation were planned starting with 2006, but with no specific indications of the need to address the lack of qualified demanded workers in Kaunas. Rather, the political intentions were to advance the image of Kaunas as a city of higher education and innovation centres.

As the unemployment in Lithuania started rapidly decreasing from 16.4% in 2000 to 5.6% in 2006413 the government was rejoicing at the success of their labour market strategies. The decrease in company bankruptcies also went down (to ca 13% as compared to its peak in 2002) and fewer companies warned employees of firing.414 In addition, Lithuania was among the leading EU countries in its amount of GDP allocated for financing education, training, research and development.415 Nevertheless, a need for market-oriented education was recognised. However, a problem that government noticed in relation to that was a constantly decreasing percentage of young people (due to low birth rates, emigration) in Lithuania that traditionally constituted the major part of participants in educational and training measures. Between 1990 and 2005 youth under 30 years decreased by 21.3% (or 361,000). Therefore, the government realised the need to activate more adults

413 Department of Statistics, www.stat.gov.lt
414 See Vyriausybeje isklausyta užimtumo didinimo programos ataskaita, 2005.
(especially unemployed) in re-training and lifetime learning activities (Valstybės ilgalaikės strategijos igyvendinimo 2005 metais ataskaita, 2006).

Although the government still (at least officially) retained its concern for the traditional industries it directed much focus on increasing the ability of Lithuanian companies to introduce high technology based production. To be able to invest and make use of higher technologies to keep up the competition companies needed skilled workforce. The Lithuanian government has, though, been criticised in other studies for lack of adequate and effective measures to promote science and research activities adapted to the market needs and oriented towards development of high technology and innovations. Especially the existent research infrastructure was criticised for being out-dated and lacking qualified intellectual personnel and effective management (Socialinės ir Ekonominės Plėtros Centras, 2007).

Besides, emigration, economic growth and aging population had intensified the increase in the salaries which negatively affected the SMEs possibility to hire qualified specialists. The situation was similar in all the three Baltic States.

Relevance of the formal measures among the studied SMEs

How relevant were the intended (and adopted) measures to assist small and medium manufacturing businesses in their search for specialists? The empirical analysis conducted on the assistance with attracting and training of needed workforce (see chapter 10) indicated that most of the official measures applied to assist manufacturing SMEs of our sample (and sometimes the population) were insufficient or lacked relevance and, thus, success. The involved formal actors had, though, made attempts to organise solutions involving own resources and government programmes, and sometimes they succeeded, especially with assisting companies to employ the long term unemployed (for the creation of new jobs). However, often shortages in the training system prevented positive assistance impact. The willingness of companies to employ the jobless sent by the state Labour Exchange Agency (LEA) would have been much greater had they been better trained and motivated for the speciality.

The empirical analysis in this study also indicated a great mismatch between companies’ needs and the skills of the unemployed or the unqualified employees. Sample companies complained in 2004 and 2005 that it was still difficult to find workers of some specialities that would be trained to work with the more modern technologies they now had introduced to keep up with the European competition. Most of such specialists trained by the public or private mandated actors (LEA; LMTC; VTS) needed to be retrained by the SMEs to be able to use the modern machines without damaging them. Other sources indicate that only less than one third of the Lithuanian unemployed that participated in those measures had got employment (Single Programming Document of Lithuania for 2004-2006, 2004, p.114). The poor economic situation of the majority of the vocational training schools prevented them from modernising their teaching equipment. Some of the sample companies complained of how the Lithuanian government has further worsened the situation for SMEs by steadily increasing the minimum salary and thus social taxes that significantly increased their labour costs (Socialinės ir Ekonominės Plėtros Centras, 2007).
The mismatch between the qualifications and abilities of jobseekers sent by the labour market organisations and the offered jobs in the industries was significant. Besides, many unemployed refused to take the offered employment (due to lack of interest or skills). Seemingly, significant black market compensated some jobless so that they were sometimes not interested in undertaking the offered jobs. The companies would not pay higher salaries for low qualification specialists that they had to retrain, while the employees attempted to search for better conditions at other companies and that created great workforce rotation.

In addition, the employers encountered great difficulties when attempting to import workforce from the third (non-EU countries) like the neighbouring Belarus, Ukraine, or further away countries like China. Visa and resident permit regulations were complicated and unfavourable for those purposes. SMEs were in demand of national measures to combat workforce emigration, but did not know or feel any impact of such.

Government measures to engage the unemployed in state financed labour market training were insufficiently successful. Some studies put the blame on the lack of state finances for those purposes. In addition, as the tradition of adult learning in Lithuania was lacking, mandated organisations had difficulties coping with their re-training task (Single Programming Document of Lithuania for 2004-2006, 2004, p. 114).

As was mentioned (see chapter 10), the way assistance actors perceived the problem differed from that of the companies. While the actors blamed companies for poor salaries and unfriendly treatment of trainees or new employees, manufacturers complained of the lack of qualification of the specialists sent. The government strategy at the start of the study period was primarily directed at increasing general employability of the great numbers of jobless and only gradually started shifting towards adjustment to the market needs. Besides, some mandated actors (especially LMTC) were seemingly unaware of the reasons why SMEs treated their assistance as less successful. Lack of that knowledge prevented the de-learning processes.

The situation with lack of qualified workforce remained did not improve until the end of the study period and even in 2007 causing major problems for the Lithuanian industry and the whole economy (Socialinės ir Ekonominės Plėtros Centras, 2007). It inflated the salaries that, in comparison to the productivity, were increasing more rapidly and bringing a negative effect for the local economic development. While Lithuania spent a relatively large percentage of its GDP on educational and training issues and was even provided support from the EU Structural Funds, the resources had not been optimally used to undermine the negative trend in labour force qualifications (ibid.). Having achieved the lowest unemployment among all the EU Member States (25) in 2005, Lithuania was still in 2007 suffering a lack of qualified workforce in many industries.

Conclusions

Although the statistics indicate significant decrease in the unemployment, the conclusion here is that the formal labour market measures used by the local assistance actors in organising assistance to sample SMEs with attracting and re-training demanded specialists were not successful and thus not relevant enough. In general, the local assistance organised has been dependent on the formal national
instruments. While the number of official measures and labour market programmes was constantly increasing they had little relevance for the studied manufacturing SMEs, and were not well enough adapted to the needs of small and medium businesses in the manufacturing industry in general.

As was noted in the empirical analysis, a major factor preventing successful assistance was not the roles of local actors, but rather the inadequacy of the national measures and resources. The resources offered had only occasional success. The formal measures primarily directed at increasing the skills of the unemployed, such as IT, language or entrepreneurship, were not necessarily the most demanded employee skills among the studied manufacturing SMEs. Companies were rather searching after workers skilled in their profession. Therefore, neither a great percentage of highly educated population could seemingly solve the lack of specialists in some workers’ professions.

On the other hand, the government (and SMEs) lacked measures to prevent the intensive workforce out migration. Until the Lithuanian manufacturing companies were competing on the basis of lower production prices with procurers abroad they could not match the foreign salaries, even though significantly increasing the salaries to the most competent industry specialists has sometimes been the only solution available.

In general, it can be said that the mentioned labour market programmes and measures were intended more at diminishing the unemployment still high at the start of the study period rather than taking seriously the increasing labour needs of companies in the studied manufacturing industries. The re-training system was still rather inflexible, local course organisers could not organise courses of specialties needed frequently enough to adjust to the suddenly evolved needs of SMEs. Too little focus was laid on re-training the groups aged 35 and above that the SMEs were more interested in hiring (due to the high out-migration of younger trained specialists). The technical basis of training institutions was insufficient and the lack of practical skills was still evident. Short training courses did not guarantee the quality and companies were not economically rewarded for training unqualified specialists themselves. Given these shortages little was done by the government to improve that or allow companies to import workforce.

Due to lack of adequate labour market policies manufacturing SMEs had frequently attempted organising solutions on their own and with somewhat better success. However, neither their own solutions nor the assistance practiced by the formal mandated actors was successful enough and the needs frequently remained insufficiently attended. In short, a complex of more relevant and successful formal measures were needed to enable more adequate assistance organising.

14.8 Formal Measures to Assist with Manufacturing Land and Premises

The empirical analysis has highlighted several SME development challenges related to land (and premises) acquisition or use for manufacturing purposes. Although the government objective to continue with the land reform initiated in 1991 was declared in several major strategies, it was not completed until 2007. The Lithuanian government identified creation of favourable conditions to develop land
market as its goal and a task to be achieved during 2001-2004 (Lietuvos Respublikos Vyriausybė, 2005), but the focus of the government programme, however, was mostly laid on the restitution of rights to land and especially making its usage for the agricultural purposes more efficient. Indeed, developing the land market was intended primarily as a measure for agricultural and rural development. As the returned land was fragmented into small farms the official intention was to initiate land consolidation processes to increase the competitiveness of agricultural farms. In parallel with the land reform the government aimed at creating principles for the land usage and for development of infrastructure (National Development Plan 2002-2004, 2002, p.29 and on).

For this task, amendments in laws to regulate sale and rent of free state land were intended (Long-term Economic Development Strategy of Lithuania until 2015, 2002, p.33). Besides, rules regulating the use of land were to be worked out and laws that would simplify land measurement and land property registration procedures issued. Two ministries—the Ministry of Agriculture and the Ministry of Environment—were mandated responsibilities to complete the mentioned measures by the end of 2002. In another major long-term economic development strategy the Lithuanian government set as one of its goals to enable municipal land ownership for local development needs and to make municipalities eligible to decide on land issues (including land right restitution) (ibid. p. 33).

Industrial development is highly dependent on the access to land and infrastructure. Possibly realising that, government set as a goal to improve the system of territorial planning in a way that would take into account the regional development needs (Lietuvos Respublikos Vyriausybė, 2005). This was intended as a measure within another closely related economic sector—environment protection and urban development. To improve the situation amendments in the territorial planning law were to be worked out by mid 2002 and the goals witness official attempts at an integrated approach as several of ministries were ascribed responsibilities for that task—the Ministry of Environment, the Ministry of Interior Affairs (responsible for regional administration and development), the Ministry of Agriculture and the Ministry of Culture.

Formal intentions to improve the work of mandated organisations

Yet another goal of the government was to see to that contradictions in laws were avoided and laws became more stable (consolidated). Land use and territorial planning issues belonged to the category of both contradicting and constantly shifting laws and regulations. Interestingly, the major measure proposed by the national government to attend to these two essential problems was to prepare a list of Lithuanian laws that was mandated the Ministry of Justice (ibid.).

Here, it is worth noticing that especially in regard to land related issues (but also the administration of EU support funds) SMEs complained of lack of transparency, occurring corruption and malfunctioning among mandated actors, a problem that also drew government attention. Lithuanian government awareness of the problems in the public administration was revealed in the Long Term Development Strategy for Lithuania (2002) intended for the period 2002-2015. Improving the quality and transparency in the public administration was set as an important strategic goal. Citizens should get informative and prompt answers to the questions of their concern, decision procedures should be simplified and regard to the public interest
taken in important decisions. Governance was intended to be decentralised on the issues that could best be solved on the local level.

Regardless of those intentions, the Seimas (Parliament) Ombudsman Office has revealed many facts of malfunctioning and corruption during the studied period. The dominant complaints by the citizens on the treatment and negligence by some local and regional administrations for which they addressed Seimas ombudsmen were related to construction permits, territorial planning, restitution of rights to land and land use projects (Seimo kontrolijerų įstaiga, 2006). State administrative organs—primarily local bureaucracies and mandated authorities—frequently were found not in the service of the citizens (the principle stated in the Constitution). Seimas ombudsmen referred to lack of good will, inattentiveness to clients among civil servants as frequent hinder in assistance organisation. According to Seimas ombudsmen, the major reason for that was the lack of legal culture and adherence to the rule of law in Lithuania. Lithuanian public servants, however, regarded the ombudsmen recommendations as non-binding and thus were not compelled to make the necessary adjustments and improvements (Zinkeviciene, 2005).

Relevance of the formal measures for organising assistance

What was the contribution of official resources, formal regulations and mandated institutional actors in attempts to organise assistance? The strategies explored did not disclose any greater national government awareness of the land related impediments to the development of manufacturing businesses. The empirical analysis (see chapter 6) has revealed similar situation even with local government while more concern was shown by the mandated local civil servants—city urban planners or rural land use specialists or some economic development specialists. In general, land use and acquisition impediments our studied manufacturing companies faced were hardly highlighted in the official government strategies.

The empirical analysis conducted for this study revealed some cases of success, but regardless of that, a lack of adequate assistance structure. Especially the identified assistance the mandated actors offered with land acquisition or use was regarded by SMEs as insufficient.

How can the existent formal regulations explain the particular assistance organisation outputs and eventually outcomes? Regardless of the government goals declared for the period 2000-2004 there remained significant law incongruence that obstructed local solutions—national laws and strategies of territorial planning and land reform had clashing goals and were difficult for the local level to implement in parallel. Local governments were, for example, assigned responsibilities for making land plots in the municipal disposition available for rental or sale, but at the same time they were to restore land rights and the free land lots were lacking. Municipalities lacked even free land plots for the development of their local infrastructure projects.

Constantly changing laws and lack of common direction in the land reform since its start provided an unfavourable background for de facto organising policies. However, even during the study period several new legal regulations adopted (for, example, changes in territorial planning law in 2004 that prohibited detailed planning when the general territorial plan was missing) put SME detailed planning processes and attempts to change land use purpose in the district
municipality in a stalemate between mid 2004-2006. In addition, the new law introduced even more complex and protracted procedures for changing land use purpose (used in the city) without making a difference between strategically significant for the city projects and minor SME land plots. The fact that hired land, according to the principles of land reform or the way it was implemented, could at any time be claimed back by the owners was an additional obstruction to a satisfactory solution. Lack of legal regulations, lack activity from local governments and lack of local actors’ willingness to provide adequate information impeded making land rental contracts. All these are evidence of insufficient or lack of positive impact by the prescribed measures or due to their inadequate implementation by mandated actors.

Additional obstacle for organising an adequate structuration (output) was a significant incongruence between national goals and local actors’ abilities. Shortage of (national and local) resources to work out a general territorial plan in Kaunas district and the region impeded any further solution attempts during 2004-2006. Neither the national or local government could devote sufficient resources for improving the situation with land market. Specialists qualified to implement land reform in the municipalities were lacking. Urban planners in cities were forced to deal with issues outside their professional knowledge—land reform and land use specialists in the district have to sometimes execute the duties of urban planners. There was an evident lack of land surveyors or geodesists that significantly contributed to the protraction of land reform.

While the level of detailed regulation was high, sometimes clear guidance as to how specific, often conflicting, land use issues were to be solved was lacking. This created a situation where local public specialists sometimes took their discretion to interpret conflicting and unclear laws by creating their own rules to push the process. However, sometimes this resulted in local bureaucrats making companies pay undue favours. In other cases, when the local civil servants attempted to follow the available formal regulations to the detail this constituted bureaucratic impediments that protracted the assistance. Here it should be mentioned that attempts to replicate processes of collaborating planning and public participation in it from a Canadian model—applied in the formally organised assistance from land use issues—were badly suited to the Lithuanian realities lacking of public ethics and the rule of law. Stronger organised interests could misuse the SME situation preventing a solution on unfair grounds.

In addition, divergent perceptions between formally mandated local and regional actors of the policy problem or especially its solution in terms of compliance and performance prevented policy organising. A fruitful cooperation between the local government and regional administration on land related issues was still lacking during the studied period and the local specialists felt they were controlled in how they complied with the formally prescribed deadlines instead of being assisted in the situation. National level pressed local actors for deadlines they found impossible to hold in the factual procedures, which frustrated the SMEs. Yet another gap of understanding was between local politicians and the bureaucrats. The local elected representatives could not always make sense of the territorial planning processes in their municipality and lacked understanding for the situation of urban planners.

Occasionally, lack of local actors’ adherence to formal prescriptions in organising assistance eventually resulted in a negative impact on the policy
problem solution. Such situations occurred, for example, when the local mandated actors undermined suggesting companies formal land leasing contracts.

Due to lack of adequate organising and relevant resources the local actors could not always offer SMEs some acceptable solutions. Transparency in the assistance delivery process was lacking, formal solutions were often unpredictable and that weakened the position of the company against assistance (policy) actors even more. The complex national regulations and internal local decision-making rules of which companies could hardly make sense as well as the tasks required from the company in the process made many of them address professional private actors to clarify their role and present their case so that the bureaucrats could understand. Expensive professional consultants thrived on the lack of adequacy in mandated public actors’ assistance and SMEs inability to grasp it.

The above were important factors indicating that the resources offered by the government and the mandated actors had in many ways themselves obstructed the assistance and delayed the policy problem solutions at the same time failing to achieve the national goals with land market and territorial planning. Incongruence of the legal regulations (in detailed and territorial planning) and difficulties to adjust them to conflicting situations in practice is an indication of insufficient knowledge and willingness of the national government to address the mentioned impediments. The national level lacked knowledge of both the local contexts and the prevalent procedures and decision-making practices at the local level.

Foreign countries and organisations seemed to show more concern for this essential business development impediment in Lithuania than the national government did. The World Bank, for example, in its assessments of the Lithuanian investment climate as late as in May 2005 criticised the situation with the commercial land development (similar to the situation with the industrial land). It recognised problems “in all links of the chain—from the acquisition and leasing of land to land use planning, change of land use, application for building permits, and supervision of construction. The laws, rules, and regulations governing land acquisition and use were deemed “deficient, conflicting, and unclear, and the red tape enormous.” Authorities mandated administrative tasks in land use or acquisition were found lacking in coordination in the land development process and willingness to cooperate. As a result, developers and construction companies were often prompted “to cut corners, ignore rules and solicit undue favours” (The World Bank, 2005).

Conclusions

The national government and mandated local actors, as has been concluded before, evidently lacked the capability to organise successful and adequate assistance with all the three land related issues addressed in our empirical study. It implied both a frequent lack of adequate policy organising (output) and a positive impact. More often this was caused by the adherence to the irrelevant or incongruent formal regulations or lack of any relevant regulations and resources, but occasionally also by the local actors using their discretion in a way incompatible with the rule of law principles.

Firstly, while municipal inability both to offer and plan free land plots suitable for industrial or commercial use was evident, no national regulations or other measures were identified to ease assistance organising. Secondly, mandated actors’
attempts to help companies with establishing rights to the land in use could not be assessed as adequate policies in our studied cases either. Lacking or delayed favourable legal (national and local) regulations and partly lack of interest and resources from the local actors ignored the company needs to purchase or rent their used land. Frequently SMEs had to undertake organising relevant private actor assistance (for detailed planning and land measurements) before the land could be purchased or leased. Local actors’ inability to arrange for land leasing contracts or the long delays in a situation when the used land was subject to land rights restitution presented great business development impediments for our SMEs. In some cases local land use specialists were more eager to help companies than in others.

And lastly, assistance with changing land use purpose was not so appreciated by the SMEs either. Land reform was designed and executed in a way that, in much, ignored the needs of industrial development and made them struggle for their rights to use the possessed land for manufacturing purposes. Companies had not much choice purchasing industrial land so they engaged in lengthy and unsure processes of detailed and territorial planning. National regulations increasingly complicated changing of land use purpose in both city and rural municipalities during the studied period. No regard has been shown to SME needs for prompter at simpler procedures, especially for projects of minor importance for the municipality. Local actors’ (for example, urban planners’) attempts to assist companies by applying simplified procedures have been prevented. Strict adherence to the regulations and red tape was required and local self-government was severely restricted, which explains why some solutions (like district mid 2004-2006) were prevented at all.

In sum, regardless of the importance of land issues for manufacturing SMEs and the complex and frequently unfavourable solutions, the Lithuanian government failed to identify them in its major economic development strategies and, therefore, did not devote specific measures. Local government felt their inability to find more successful solutions due to their dependency on the unfavourable national laws and regulations and lack of financial resources.

14.9 Financial Support Instruments

Different expert groups had found the available financial business support instruments, especially those accessible to SMEs and start-ups, still insufficient or lacking in Lithuania in 2000-2001 ca 10 years after the independence restoration. Lack of SME financial resources and difficulties to get loan credits were noted. Therefore, the national government declared a need to expand financial services to SMEs, introduce new support instruments and improve the conditions or the use of favourable and micro-credits, risk capital funds, loan insurance and support of the EU Structural Funds (Long-term Economic Development Strategy of Lithuania until 2015, 2002, p.45).

The major instruments (resources) to assist SMEs with financial shortages mentioned in diverse Lithuanian economic development strategies\textsuperscript{417} were as follows:

- State credit insurance and bank interest subsidies via the state credit insurance company, INVEGA;
- SME subsidies, financial assistance:
  - National SME development fund;
  - Local municipal SME development funds;
  - EU pre-structural (e.g. PHARE, SAPARD) and, since 2004 Structural Funds;
- Better banking practices and goals to micro credit SMEs;
- Spreading of information of other SME promotion programmes.

Until 2004 little change has been achieved in the major official financial instruments to SMEs. Although the Credit Insurance Guarantee Institution (INVEGA) has been functioning since 2002 relatively few companies had used it. Pressure for more SME favourable services forced the state to improve the situation. In 2004, a treaty with the European Investment Fund enabled INVEGA to increase its obligations to banks and enlarge the number of SME guarantees provided. Changes were made as to the size of the companies that could obtain INVEGA support (from 50 to 100 employees) and the insured loan amount increased (from LTL 1 to 2 million) (Valstybės ilgalaikės raidos strategijos įgyvendinimo ataskaita, 2005).

As one of the major measures to directly and indirectly assist SME development the government set up a nationwide SME promotion fund in 1998. Until 2001 it was the major instrument of national financial SME support.\textsuperscript{418} The fund was intended for credit guarantees, businessmen consultations, development of business information systems, infrastructure, and similar activities. A year later, in 1999 the fund targets were expanded to include financial support even to business incubators, business information centres and partial financing of business innovation projects. The fund was abolished in 2001 and replaced by other measures. Yet, none of the interviewed companies used and extremely few were aware of some national SME development fund and in that case were very sceptic about their possibilities to get the support.

In general, although the Lithuanian government aimed at creating and implementing a favourable micro crediting system by the end of 2005, some more systematic attempts to provide SME access to favourable micro credits were, however, only the resources from the Lithuanian PHARE programme assignations (ibid.). Financial assistance could also be provided for creation of new jobs and via similar labour market programmes.

In general, a study of Lithuanian SMEs, especially micro companies and start-ups usage the government assistance measures, including the financial ones, concluded in 2006 that ca 71 per cent of SMEs do not use any official government


\textsuperscript{418} The government had allocated nearly LTL 19 mln in 1998 and an additional LTL 1 and 2 mln in 1999 and in 2000 respectively, source: LR Vyriausybės Atskaita, 2000.
support. In cases companies use of the support it was primarily simplified accountancy systems and some tax favours (Nacionalinės Plėtros Institutas, 2006b).

Relevance of the formal measures to increase adequacy of bank assistance

Banks were the most often addressed actors for financial assistance among the sample SMEs. However, as was noted, especially during the first half of the study period obtaining assistance from banks entailed great difficulties. The assistance preconditions banks presented were difficult to fulfil and SMEs had to involve other, even non-financial actors, to assist them in meeting the posed bank requirements (loan interest rates, collaterals, business plans, and similar). The output of the financial assistance asked depended, in much, on successful assistance and solution of assistance preconditions.

Our empirical analysis of financial assistance via banks has disclosed that some actors were more successful in assisting sample SMEs to fulfil bank requirements (private consultancy firms; private networks) than others (real estate agencies, local municipalities and land use departments or INVEGA). In fact, private non-mandated actors had more frequently made a positive and timely contribution than the public mandated ones.

None of the companies studied had been able to use micro credits— a measure where the state via INVEGA offered specific SME assistance—as they (a limited amount) had been offered very late in the study period (since around the middle of 2006). Even though some companies admitted they had heard of favourable SME credits (e.g. for start-ups) during the second half of the study period, in practice, the preconditions posed for receiving them were not significantly different from the usual credits, and sometimes were more difficult to fulfil than at the banks where the SMEs had been long term clients. Instead, often SMEs had to rely on the ordinary loans. Later, at the end of the study period, since around 2004 receiving bank loans became much easier especially because of the significant decrease in interest rates, and not in particular due to some specific SME favourable measures.

Solutions to some of the bank requirements, like collaterals, were difficult both for the companies alone and for their engaged actors to arrange. Interestingly, regardless of the government’s attempts to market INVEGA as one of the new, but major assistance actors that could significantly ease the solution of collaterals (by providing banks with credit insurance) sample companies had hardly made use of this assistance. Not many of them knew of the possibilities offered or trusted them, others regarded it too expensive. Local banks (especially until 2004/2005) had some reluctance to use INVEGA services and thus abstained from providing sufficient information to SMEs on INVEGA’s services (see chapter 11).

Instead of using INVEGA’s assistance sample SMEs attempted to rather arrange for real estate collaterals, often in form of land or manufacturing premises. Here as well they encountered difficulties partly due to unfavourable laws, but also due to the complex and prolonged local (land use or acquisition and similar) procedures. Official land reform strategy and contradicting laws (of territorial planning and land reform) had a negative effect on solving land use and acquisition

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419 For example, premises could not be mortgaged without the accompanying land while not all companies had possibilities of establishing their rights to that land.
issues by creating lack of manufacturing land. The shortage of land significantly increased its prices which further decreased the abilities of SMEs to obtain it as collateral. As was already noted, neither the national government, nor the involved local government could offer much assistance on this issue. Occasionally, engaging private non-mandated actors could contribute to a more positive solution, but at significantly increased costs for SMEs. While the government prevented further sales or mortgages of buildings without land it did not draft sufficiently successful measures to solve land acquisition for manufacturing purposes.

It is important to note that the resources organised by banks (but also other actors) have been affected both by the external EU assistance measures (directed to banks or the Lithuanian government) and Lithuanian national legislation and government strategies. Some official EU strategies and resources, together with other macro factors, have positively contributed to achieving a gradual shift towards more SME favourable strategies of Lithuanian banks. During the early pre-accession period before 2004 the EU had, for example, introduced several financial SME support instruments in candidate counties directed at strengthening bank SME loan capacities and interest, one of which was the EU PHARE programme with its SME Finance Facility. Later, in 2005, EU provided additional assistance via the so-called Preparatory action to local financial actors from the new Member States in order to improve their ability and capacity to extend loans to SMEs. In general the assistance was intended to alleviate the often-encountered difficulties of financing a business in Lithuania. During the Preparatory Action that was to last for some 3 years, finances were allocated to several major financial institutions in the EU that later, via contacts with national financial institutions in Lithuania and other new Member States, especially banks, could provide financial support or credits to SMEs.

One such initiative could be mentioned between German KfW Bankengruppe and Medicinos bank in Lithuania for providing better opportunities to provide credits for SMEs and, especially, micro companies. Medicinos bank could loan euro 5 million to be used for micro credits or loans to SMEs. However, this initiative only started in year 2006 and could not be of assistance in our studied cases. The loan has been used to develop the bank’s financial products to SMEs and upgrade its IT system. In general, this support has made an impact on bank’s

420 Assistance from SME Finance Facility was, for example, provided to Šiaulių bank in Lithuania that had received euro 5 mln revolving credit line from the European Bank for Reconstruction and Development (EBRD) in 1999 to boost the country’s small and medium-sized enterprises (SMEs). This was the first such credit line for a Lithuanian bank provided under the SME Finance Facility. Šiaulių bank had also benefited from substantial technical co-operation funding aimed at developing a sustainable SME lending programme and a grant to help cover the costs of developing this programme. Both were funded by the European Commission. Source: (Valstybes ilgalaikes strategijos igyvendinimo 2005 metais ataskaita, 2006).

421 The Commission adopted the Preparatory action on 23 December 2004 and which entered into force in early 2005 after agreements between the European Commission and participating IFI had been signed. As a result of this instrument a budget of euro 6 million in 2004, euro 8 million in 2005 and euro 7 million in 2006 was distributed to four international financial institutions - European Bank for Reconstruction & Development (EBRD), European Investment Fund (EIF) jointly with European Investment Bank (EIB), Council of Europe Development Bank (CEB) jointly with KfW Bankengruppe. The participating IFIs were to, among other things, make funds available for loans to credit institutions that then shall provide loans, leasing and/or guarantees to SMEs, with a preference for micro credit. Source: Ibid.
services. In 2006, 92% of bank loans from Medicinos bank were provided to SMEs and the amount of loans granted increased.

Cooperation between some Lithuanian banks and the financial EU institutions and banks, such as the European Investment Fund (EIF) or the German KfW Bankengruppe has gradually resulted in more pro-SME strategies and loans with lower interest rates or other more SME favourable financial assistance conditions. The EU initiated Preparatory action to assist regional financial actors from the new Member States, “to further develop their credit operations vis-à-vis SMEs” (The European Commission, 2005) was one of the factors among others (increased bank competition, changes in the international financial markets and more) that contributed to the decrease in loan interest rates. At the end of the study period around 2005 the bank interest rates had decreased considerably to some 5.5-6.5% as compared to 11-12% initially and this automatically presented a more acceptable solution for SMEs.

In addition, cooperation between the European Commission and the Lithuanian Government on the remaining financial resources from the EU funds to be allocated to Lithuanian banks in the form of micro credits was another solution positively affecting SMEs, although introduced too late to affect our sample cases. Even the Central Bank of Lithuania had taken a step towards more SME flexible bank services by introducing on October 1, 2005 new criteria to assess credit granting risks. These were new criteria for the evaluation of loans, which “provided more freedom to banks in this area and simultaneously increased their responsibility in the evaluation of loans and the assumed credit risk.” (Bank of Lithuania, 2006) Nevertheless, in order to ensure that the bank credit risk evaluation does not weaken, the Bank of Lithuania proposed domestic banks and foreign bank branches “to follow conservative principles in the valuation of assets and to assess the level of the risk assumed reasonably, taking into consideration potential unfavourable market changes.” (ibid.)

The micro crediting of SMEs had opened both new opportunities for the Lithuanian banks to attract new customers among SMEs, but it had also presented them with a challenge in this rather unexplored field in Lithuania. Karin Derflinger, project manager at Bankakademie International maintained that there was “…much more potential in the Lithuanian market to serve micro, small and medium-size companies” (Kmieliauskas, 2006).

The impact analysis of bank assistance conducted in this study indicates increased possibilities, but remaining difficulties to obtain bank assistance. It explains why the assistance from private networks or internal solutions was a frequent practice. Regardless of the official government intentions, in 2002 SMEs in Lithuania still complained of the difficulties in obtaining financial support and a lack of greater variety of financial support institutions. Lithuanian banks were claimed insufficiently flexible and difficulties in obtaining loans were evident

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422 Interviews with a representative from Medicinos bank.
423 Three of the Lithuanian banks have at the beginning of 2006 been granted state loans from the EU funds to be used for micro credits for SMEs. Micro crediting provided both new opportunities and new challenges to the Lithuanian banks on how to best attract new SMEs as customers. For SMEs, especially micro companies, this type of loans was of considerable assistance although rather quickly used-up and sometimes too small. Source: interviews with banks.
(Žukauskas, 2002). Studies on SME development had noted that rather few Lithuanian companies used external financing from banks for starting up their activities during the study period, and relied rather on their own savings or financial support from relatives or friends (Lietuvos SVV analizė, 2005). In general, relatively few SMEs had used state financial support instruments (Nacionalinės Plėtros Institutas, 2006b). Lack of access to correct information about such support was indicated to be a major hindrance.

Relevance of direct EU support to SMEs

As was observed in chapter 12, besides the indirect financial support measures via banks and other financial institutions discussed in the preceding section, the EU offered special Regional Policy instruments devoted to supporting SMEs in Lithuania and other new Member States. Especially a pre-structural (pre-membership) assistance instrument SAPARD and, later, assistance from the EU Structural Funds is to be mentioned.

Both the EU and Lithuanian government had an intention to use some of the available Structural Fund support for assisting Lithuanian SMEs. It was already indicated in the empirical analysis (see chapter 12) that even though financial EU support during 2004-2006 has been directed to more diverse industry sectors and needs than the previous EU support to Lithuania, these support instruments, in principle, remained unused by the sample SMEs. Besides, strong doubts remain about their adequacy for the large part of our population companies.

One of the major explanations of this disappointing result is the clear discrepancy between the government’s perception of the SME (even in the manufacturing sector) needs and the actual needs of sample SMEs and many companies in the population. Initially the Single Programming Document of Lithuania for 2004-2006, that set out the support guidelines had identified the urgent need to renew the technologies and equipment used by SMEs in Lithuania. The intention of the government was to achieve this by primarily supporting those projects and SME needs that were focused on increasing company competitiveness and innovativeness. Therefore, the intended financial assistance was conditioned on some specific criteria related to the innovativeness, introduction of high tech and transformation of the production from low into a high added value production. Assistance was also provided on the basis that the SME development projects were of major importance for the regional economy and were capable of integrating other bureaucratically defined criteria, such as environmental and gender equality. Both the narrow (used to define innovative, prospective, progressing projects) and the broader assistance criteria simply excluded most of the companies from the support.

In addition, before the companies in need of financial assistance could judge the relevance of the support they had to undertake extensive information search processes. In fact, the government while making such resources available was unable to organise adequate and easily accessible information and, especially, consulting assistance as few of the public (especially local) actors could offer it at no or low costs. Instead, a (in)formal practice was established that required engaging expensive private consultants (some of which in the early assistance period often behaved unethically) to at all increase their access to the financial assistance offered. In that the role of such local assistance intermediating actors
was not primarily to assist companies with their major needs, but instead, often attempt to adjust their needs to the assistance offered. Besides, SMEs needed professional assistance with the numerous EU financial assistance requirements to be fulfilled both for filing in applications and also qualifying for support assistance. As mandated organisational actors could not suffice to provide such services companies had to hire professionals, but these—both the few available public and numerous private ones—were expensive. SMEs that knew their needs and development plans best were in practice not qualified to present them for the assistance organisers!

In case SMEs found their development projects as qualifying for the support, another big issue was the preconditions for using the support. Having in mind that manufacturing SMEs were an important group for which the national government showed its concern and attempted some assistance, it might be strange that the intended assistance was organised under such preconditions that the majority of the concerned SMEs simply could not accept. Companies felt that obligations for receiving such financial assistance would be a hard burden for them! For example, not only were they to cover half of the remaining project costs (which is natural), but they were also asked, for example, to invest in an equipment much more expensive they had initially intended, preventing them from getting VAT back, obliging them to turn to banks for extra financing that induced extra interest rate costs. Even more importantly, expenses related to consultations on project application, success fees and the costs it would take to audit and make public the project results simply minimised the expected value of the support.

No wonder that intentionally or less so the financially stronger and larger companies (or their projects) anyway had better possibilities to get the support and were prioritised among the applicants. Most of the interested interviewed SMEs lacked access to the very assistance, regarded it as inadequate for their particular and/or lack of trust in support administration mechanism. It is worthwhile mentioning that the role of the few involved public and many private local consultants has been considerable, but access to their assistance and trust in it was insufficient. Costly procedures, little transparency, a variety of criteria and unclear judgement, small chances for success, at the start of the period very high “success fees” gave ground for suspiciousness.

The Lithuanian government made some attempts to adjust support mechanisms to the companies’ needs, but only to some of the applicant companies by readjusting the predefined fund allocation sums (for the specific activities under direct business support measure (3.1) of the SPD 2004-2006) to some of the few predefined types of programme assistance measures in greater demand. National level experts admitted that even these amendments were difficult enough to arrange as it required additional negotiations with the EU. Some larger changes in the resource allocations or preconditions were non-negotiable during that assistance period.

Were the identified formal preconditions and resources for support conducive to adequate assistance organising—a goal the government ascribed itself? Although the initial interest among the studied SMEs was quite high the empirical evidence of this study revealed that it was extremely seldom attempted at (especially among the sample SMEs, but even among small manufacturing or population of

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425 Interview with a representative from the Ministry of Economy.
companies) with no positive impact among the sample SMEs for the intended challenges. The fund resources were used up, but that does not allow us to conclude that the offered formal support enabled adequate assistance organisation neither to the studied SMEs, nor to the population SMEs by itself. To be used up the formal resources needed an assistance structure including even non-mandated actors (mixed structure) drawn in by the SMEs themselves.

Failure in assistance success can be best explained by the lack of, especially national formal actors’ understanding of the SME needs for which the financial assistance was intended. While many SMEs struggled themselves with keeping up or increasing their competitiveness in the market—a goal identified even in the official Lithuanian government (and also the EU) strategies—their perception of how/ways to do it and the pace at which it should be done poorly corresponded with that of the government and fund administrators. For some companies especially, the costs of receiving this assistance were unacceptable, others were concerned and impeded by too long delays,426 or simply did not qualify for it. Yet sometimes, companies were given too short a time to develop their plans before the application deadlines were closed. Very many SMEs mistrusted, in general, the assistance administrators and thus did not dare to undertake even the application costs. Besides, the costs of attempting the company’s access to the funds were too heavy for most of the interviewed SMEs, given so little chance success.

There is evidence that indicates at least some interest by the Lithuanian government to draw some lessons from the previous EU support measures (pre-Structural Funds) directed mostly to farmers and rural SMEs. An assessment made on the allocation of the pre-accession support measure SAPARD in Lithuania indicated that instead of reaching out to the intended beneficiaries from the weaker targeted sector it mostly assisted the sector that already was internationally competitive and supplied most applications (Lietuvos SVV analizė, 2005). The guiding assistance strategy (SPD) for 2004-2006 emphasised therefore the need to make efforts that the assistance reaches the sectors in most need of support. However, more detailed assessments of pre-accession EU support experiences were missing or incomplete at the time SPD support measures were planned or at the start of their operation (ibid., p. 17).

Conclusions

To conclude, while the Lithuanian government was aware of the need to strengthen its assistance to SME needs of additional finances, the instruments used were either irrelevant (like INVEGA, the National SME Development Fund) or introduced too late (as micro crediting) to make a sufficient or any positive impact to the sample SMEs. Some evidence from the empirical analysis indicate that also the studied population of manufacturing SMEs had little use of these measures especially until mid 2006 before the micro credits had been made available.

The financial and technical assistance EU has provided Lithuanian financial actors, primarily banks and INVEGA (via European financial intermediaries), has

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426 Support from the Structural Funds for the period 2004-2006 at the end of 2005 was provided only to 9 SMEs of ca 250 applicants (corresponding only to 25% of the support). Such prolongations in the support provision processes became a direct barrier in business development. See for example, Lietuvos SVV analize (2005).
been of considerable importance for their abilities to financially assist SMEs. However, at least during half of the study period Lithuanian banks did not have sufficiently successful financial assistance strategies for SMEs like those of our sample. The external EU support in form of micro credits in 2006 was greatly appreciated by SMEs, but the beneficiary Lithuanian banks also shared some critique on their insufficiency for SME needs. The allocated sums were too small and therefore the provided micro credits were insufficient for the majority of the interested SMEs (besides the micro companies). However, due to its relatively late introduction this solution could not be analysed in more detail.427

The external financial support that EU intended to provide Lithuanian SMEs with via the Structural Funds, offered a unique possibility for the Lithuanian government in its aims to financially assist SMEs in their development. However, the pooled EU and Lithuanian assistance, although meant as an important measure for economic development and increasing industrial SME competitiveness in Lithuania, lacked its adequacy for the studied SMEs. Indeed, the conclusion is that this assistance while especially directed at companies in the industrial sector was badly adapted to the needs of SMEs, particularly smaller companies with up to 50 employees which constituted the bulk part of the Lithuanian SMEs.

Also several other studies referred in this chapter were concerned with the fact that the Lithuanian government’s intentions of business support can remain only declarations as they were of little relevance or success in practice.

14.10 Formal Measures of Support for Restructuring of Manufacturing

One of the major goals of the Lithuanian government during the studied period 2000-2006 was the accession to the EU induced by political, security and economic reasons. Integration into the EU market where advanced economy countries dominated presented both opportunities, but also great challenges. It also required from both the Lithuanian government and society undertaking numerous obligations. As our empirical analysis indicated, companies from all of the studied industries had experienced the general modernisation and technical reorganisation challenge, but during the period 2000-2005 it was in particular, the concern for three of our studied manufacturing activities—food-processing, wood-processing and furniture manufacturing. In addition, technical reorganisation and modernisation has been more or less imposed on the food-processing industry due to the adjustment of the Lithuanian safe food production regulations to those valid in the EU market.

The external nature of the technical reorganisation challenge affected the food-processing industry somewhat differently than the others experiencing more endogenous modernisation and reorganisation needs, thus making an enquiry into official instruments extra interesting. Regardless of the source of this challenge it was one that required different solutions to the variety of SME assistance needs. In this context it is worthwhile mentioning that food sector was a significant and traditionally dominant industry in Lithuania as it remained during the whole study

427 Micro credits started to be issued in mid-2006.
period. In 2004 food products amounted to ca 19% of the production of the Lithuanian (processing and manufacturing) industry (Valstybės ilgalaikės raidos strategija, 2001). There were 722 food companies in Lithuania in 2000 of which 519 or 71% were micro and small (Lietuvos statistikos departamentas, 2000).

The interest here is in whether and what formal instruments assisted local actors and SMEs themselves in organising solutions to technical reorganisation. Before we undertake our discussion of the compatibility of the government goals and instruments intended to the studied SME needs, we will briefly look at how the official strategies identified the reorganisation and modernisation needs of Lithuanian manufacturing SMEs, and what general assistance instruments they intended.

The Lithuanian government worked out a major strategy for its economic growth in 2002, in which it declared:

“**Each country has an optimum strategy for its growth, the implementation of which makes the optimum trajectory. The connection between the policy and trajectory is not simple, whereas, above all, it depends on the exterior conditions out of the country’s control. The EU membership will ensure favourable and stable economic conditions. Under such conditions, Lithuania has to implement the economic reforms without any rushing about and by orienting itself towards the long-term enlargement goals and modern factors of economic growth.**”


While the Lithuanian Government in other documents declared its interest to boost its economic competitiveness, integrate into the EU market here it states that the development should not be rushed about. Much of the governments’ focus was directed towards boosting SME competitiveness and reorganising of the traditional manufacturing industry, which after the trade sector was a second dominant economic sector. Manufacturing industry in Lithuania was labour intensive and dominated by low added value production.

The government set out as a goal for economic development to attain innovative, based on the use of high technologies and competent workforce companies. Interestingly, while the Lithuanian national government had recognised since 2000 (or even the first strategies in 1998) the fact that manufacturing and processing industry based on outdated technologies was undergoing transformation and restructuring and pointed to its negative consequences it saw mainly two types of SME needs and measures to assist – consultations on research and innovation and financial needs.

The major Lithuanian economic and SME development strategies had identified the coming need to reorganise the traditional industrial sector. Food producers’ need to adjust to the new type of food safety regulations in a short period of time and the reorganisation awaiting many SMEs in relation to that was in particular highlighted as a challenge and task for the government assistance policies (PHARE SEIL, 2001). In a study financed via PHARE an ex-ante analysis of integration into the EU impact on the food sector stated that Lithuanian food SMEs were too weak to compete with the strong and large food industries in the EU (ibid.). The manufacturing equipment was found outdated if compared to that in the EU and
many companies were lacking the quality certificates needed for export. In a seminar on food policies organised in 1999, food sector representatives highlighted the fact that even though technical restructuration of the food sector was proceeding, most of the small companies experienced investments into new technologies as too costly. A need to better safeguard food quality was also stated.

In the EU food sector, restructuring was progressing gradually in the last two decades and naturally contributed to improving food quality and new technological standards. Lithuanian companies, however, had very short time to adjust to the challenges of the open EU market. In this situation, the company owners or managers complained of non-proportionally high government attention to agricultural sector and lack of concern for the food industries. In the mentioned study, strategic reorganisation of the Lithuanian food industry and the need of assistance especially to smaller companies were recognised of prior importance. To be able to cope with the restructuring, Lithuanian food SMEs pointed out a great need of additional, at least short term, financial assistance from the government (PHARE SEIL, 2001).

Lithuanian government has repeatedly stated its goal to achieve the scientific and technological development and boost innovativeness also of manufacturing companies among the top priorities within the nearest 10-15 years in developing the country’s economy. In its Long-term Strategy of Economic Development the government pointed out the following goal:

“Within the nearest 10 years, to ensure that the scientific and technologic development became the main factor for the increase of industrial... efficiency and competitiveness in the world market.”


Government has even intended to financially support the development towards these goals:

“To ensure such budgetary financing of the scientific and technologic development that within the nearest 12-15 years and based on the scientific and technologic development the general public quality management became an integral part of the society and the state, a naturally understandable and used instrument for the maintenance of the country’s competitiveness.”

(ibid.)

To achieve that, “scientific and industrial interaction operated in accordance with the model of modern innovations and the promotion of innovations” was to become the major measure “implemented on the highest governmental level” (ibid.).

In its strategy for 2001-2004 Lithuanian government had set a goal to establish effective monitoring of food-processing and handling and ascribed this task to the State Veterinary Service. This organisation was to see to that amendments in the regulations of its activities were prepared before 2003. However, no particular measures to ease the reorganisation of the food sector SMEs were identified in the major government strategies. According to the government programme for 2001-2004, the food products of non-animal origin special export regulations (certificates) were to be issued by the end of 2002 (Lietuvos Respublikos Vyriausybė, 2005, measures 314-315). No related financial assistance or other
(consultancy) measures intended to assist food sector SMEs have been highlighted in the programme.

**Relevance of the formal measures**

As has been mentioned, due to the new type of market and its regulations our studied SMEs had experienced diverse technical re-organisation needs: better information and knowledge, increased access to finances, assistance with solving land use for manufacturing, establishing rights to the used land, acquisition of free land, access to better premises, lack of qualified workforce and need for better equipment. Both SMEs that were defined time limits and strict regulations for adjustment (food sector) or those that perceived the challenge as a natural outcome of the ever increasing competition faced similar challenges. The major difference between the two groups was that the food companies were highly dependent on the professional knowledge and judgement of the inspecting agencies in their adjustment tasks and were pressed for time. Besides, restructuration activities hit food companies more severely as they often were to make several adjustments simultaneously that impeded or temporarily halted their activities. In whatever of the mentioned impediments were to be overcome SMEs were reliant on the services of intermediary actors—local inspectors, bank officials, land use specialists, real estate agencies, business consultants and more.

Both the empirical analysis, but also analysis of the formal government strategies reveals that the assistance the government offered food companies with the exogenous challenge was delimited to the mandated supervising actor, State Food and Veterinary Service. This organisation, together with several other mandated public actors tended to focus more on how to strengthen the control of the food sector adjustment instead of focusing on working out a policy to actually assist SMEs with more gradual adjustment. For example, even though smaller companies were allowed to adopt somewhat simplified food quality and control procedures the guides how to conduct them (Good Hygiene Practice for different food sectors) were delayed. Correct information and good will in advising food SMEs was often lacking and companies were unsure about their possibilities to prolong the SFVS deadlines. Interestingly, while the EU was more prone to wait with the introduction of the stricter food safety control measures until the accession, Lithuanian government and its food inspecting agencies were eager to rush with not only introducing the stricter requirements before the required deadline, but as well applying them on SMEs with fines as a consequence.

In general, as was noted earlier (chapter 13), food processing SMEs and the inspecting agencies did not share the same perception of the problem and companies were rather forced than assisted into solutions. Food producers were left responsibility for searching and organising solutions to pertinent financial shortage, premise and land issues without any further assistance from some coordinating actor. In fact, the sample food companies had not been informed or offered any special financial assistance instruments (with one exception of BASF programme) that could alleviate the reorganisation. For financial assistance sample companies relied on ordinary bank loans (without INVEGA guarantees) and/or private networks.

Contrary to food producers, the other studied companies facing technical reorganisation needs had seldom entrusted their challenges and ideas to cope with
them to public or private consultants, although several of the companies were in need of a professional advice on what measures to take (and possibly what challenge to focus on). This was due to the lack of trust in consultants’ ethical norms or abilities. Besides, companies of other manufacturing activities also lacked access to adequate, less expensive and need adjusted consultancy services. Interestingly, while our studied manufacturing sectors that were among the major ones in Lithuania have been found to be dominated by low technologies at the start of the study period in 2000 (and during it), their export results were admitted to be very promising and a sign of their competitiveness. Since 1995 their export amount and revenues have been constantly growing which placed them at the top of the Lithuanian manufacturing exporters (National Development Plan for the Republic of Lithuania for 2002-2004, 2002). Possibly, the companies needed other type of assistance than the narrowly focused formal strategies to develop innovation and research and very general goals in strengthening business consulting and informing institutions.

**Conclusions**

Of all the major related impediments to organising technical reorganisation the studied companies have experienced most positive help from the formal mandated organisations with financial issues (via banks). Some SMEs have been organised successful assistance with knowledge, information or lack of workforce, but it was more of an ad hoc type than pointing to the existence of adequate assistance policies. Moreover, on some issues mandated actors provided some assistance (e.g. information on the needed adjustments, postponement of deadlines, or with land or financial issues), but the way it has been organised often left the companies dissatisfied. In general, national government or mandated local actors could seldom offer timely and adequate assistance via formal institutions even where it was essential for solution success and company’s development (or survival).

Regardless of its official goals, the Lithuanian government has been criticised for its inability to provide adequate and effective measures to promote market adapted science and research activities to boost the development of high technology and innovations during the studied period. Especially the existent research infrastructure was criticised for being out-dated and lacking of qualified intellectual personnel and effective management. Until 2007, Lithuanian government did not succeed in achieving any significant promotion of SME investment in innovativeness and high technology (Socialinės ir Ekonominės Plėtros Centras, 2007).

**14.11 Summary**

This chapter undertook to explore with the help of empirical and official document studies whether some government and mandated actor instruments positively contributing to sample SME challenge solution could be identified. It also analysed in more detail the impact of the empirically identified formal assistance measures (institutions) and resources organised.

It was found that the national government had an intention to assist both SMEs and, in particular, the industrial sector to develop and cope with the transition
challenges. Therefore, the study focus on SMEs of four dominant manufacturing activities, both in the studied Kaunas region and in Lithuania in general, corresponded with a major targeted group by the government economic development strategies.

National, regional and local governments all had acknowledged SME importance and a need of special assistance measures to promote their development by eliminating important development barriers. It has been observed, though, that both the national and local government strategies for SME and industrial sector development mainly focussed on two major objectives—creating favourable SME development environment and promoting their competitiveness and exports to the EU. However, while these general objectives were relevant for the needs sample SME identified the measures to achieve them and, thus, various short- and medium-term goals were less so. Especially financial and knowledge resources directed at promoting and supporting SME innovativeness and transformation into high technology and high added value production activities based on highly competitive and, thus, expensive workforce were not (not yet?) relevant for the challenges and the assistance needs our studied SMEs had identified.

In general, it could not be maintained that the government and other top-decision-makers lacked the essential knowledge of SME situation and their major development needs in the country. Especially the SME lack of access to financial resources, information, and consultancy services were highlighted. Local level strategies were even more observant of the SME needs. The SME development strategy of Kaunas city prepared before the start of the study period in 1998 and in cooperation with associated SME representatives was a positive example of how relevant knowledge could be incorporated in an official strategy, but this strategy was never set in practice. Yet, especially the national government had to a great extent missed the focus on important in the study highlighted SME development impediments (such as land, premises, workforce issues or assistance with technical reorganisation) pertinent to the Lithuanian transition context.

The approaching EU membership and the integration into the union had affected Lithuanian top decision-makers’ focus regarding the support intended to SMEs and the industrial sector. Influences from the EU and the European Commission strategies gained power also due to the lack of domestic financial and other resources. The Lithuanian government adopted EU propagated ideas which were interpreted as a need to focus on high tech, science and research development, and integration of innovations into business. However, by doing that the government missed the linkage between the current transition challenges and development impediments of the small and medium businesses in the traditional, but still dominant manufacturing industries, and the future high tech, high added value and highly skilled workforce dominant industry. The available support measures, especially knowledge, information and financial support were poorly adapted to the studied SME needs at hand and the eventual transfer of these companies towards the depicted model of a more competitive economy. It is important to notice that many of these measures were simply inaccessible or inadequate especially to small companies predominant in the sample and some of the studied industries.

A critical overview of the Lithuanian government attempts to form economic development strategies (Socialinës ir Ekonominës Plëtros Centras, 2007) had noted that the government and mandated actors should not only devote its assistance to the development of broad spectre of high technologies, but also not abandon the
traditional industries and adapt the innovative knowledge to their needs. The study was also critical to the relevance of the Structural Funds support and ability to use it by the traditional Lithuanian industries. While, as the study pointed out, the funds were created by the old EU Member States to primarily support research and development of innovations, the new EU Member States, including Lithuania, were in need of other types of assistance. It was to be directed at restructuration of industry, to making use of a qualified, but relatively cheap labour force and improving preconditions for foreign investments.

Some other studies also criticised the success and adequacy of the SME assistance delivery in Lithuania (Ekonominių ir teisinų konsultacijų centras, 2005). Although company satisfaction with assistance services delivered should be a major indicator of its success, Lithuania ranked lowest in the company satisfaction as compared to the old EU Member States and other countries of Western Europe. The percentage of companies satisfied with assistance delivered in Lithuania amounted only to 31% as compared to 80% of the EU average (although assistance in several other countries like Sweden, Norway and Italy were ranked at similarly low level 35-45%). It has also been observed that in Lithuania business assistance services were of a more general kind and lacked individual tailoring concerning the specific company needs and problems (ibid.).

The mandated actors addressed by the studied SMEs differed somewhat in their interest and success in their attempts to organise assistance. Some of the analysed SME assistance needs were much better identified (financial, consultancy, technical reorganisation needs) than others (land, premise, adequate workforce). Besides, certain measures were meant to be addressed mainly by national actors and resources (such as financial assistance via EU funds or INVEGA) while others were treated as more appropriate issues for the regional administration and, especially, local governments (land, premises, consultancy, professional training).

However, the resources and a sincere willingness to assist SMEs both locally and nationally were limited. The change in the attitude towards small businesses as a positive engine of the country’s economy at various public organisations dealing with business impediments was too slow. During the interviews in 2004-2005 the company managers and owners often shared negative experiences of how they had been treated by local, regional or state administrative actors. The representatives of the companies were used to being demanded to perform undue favours and fined by various controlling agencies with little explanation or consulting. Some of the interviewees had experienced not only malfunctioning institutions but also corrupt behaviour by the mandated assistance actors (especially those dealing with EU fund administration, land and premises). The assistance manner by some of the public mandated organisations (like the state Labour Exchange) was treated much more positively though.

Local mandated actors addressed by sample SMEs for attracting or training the workforce have been active in suggesting solution alternatives and attempting to organise resources, but success was frequently lacking. This was due to several context and structural factors, among them, the inadequacy or insufficiency of the official resources. Besides, complementary formal measures were in demand by SMEs, for example, to prevent emigration and enable import of workforce from non-EU countries; more favourable tax policies to enable investing more in the employees education; to better quality in professional education; to prevent trained unemployed to massively refuse undertaking offered jobs and similar.
In general, more focus on adjustment of measures to the actual labour market needs was necessary. The official measures adopted in practice were simply insufficient or inadequate for the studied SME needs and, thus, the goal defined in labour market strategies to adjust measures to labour market needs has not been fulfilled.

Financial assistance has been an SME support issue that deserved considerable attention in all types of strategies. Both national, EU and sometimes local government resources (as in the district municipality) were made available for SMEs. However, of the official financial measures SMEs made most often use of one type—bank—financial assistance. Therefore, the most relevant and successful in this context were the official financial support measures to banks. Other government measures, such as, credit insurance guarantees (INVEGA) or direct financial EU support were not successfully employed. In organising financial assistance companies were also reliant on a number of other assistance measures—collaterals or credit guarantees and consultancy—for the solution of which official measures did not achieve sufficient success either. In fact, companies were quite reliant on private non-mandated actors to arrange positive solutions.

Some forms of indirect EU support were significant and arguably quite successful, especially in the traditional SME support areas, such as micro crediting and favourable SME credits, however applicable more for the population than sample SMEs. The direct and more specific financial support—like that under SPD measure intended for technical restructuring of SMEs and their innovative, high tech based projects—was much less successful among the studied companies. Neither the access nor the relevance of these instruments was adapted to the local SME needs.

The national government did not show much awareness of how its land reform and territorial planning regulations impeded the development of manufacturing SMEs. The concern it showed resulted in laws and regulations that local mandated actors perceived as conflicting and limiting their possibilities to assist SMEs. While the national government imposed detailed regulations and demanded local actors adherence to them (e.g. in changing land use purpose) mandated local actors could not always comply with them in their search for assistance solutions. Besides, mandated actors did not provide sufficient information or transparency in those procedures and due to divergent interests lacked cooperation. While the contradictory government regulations frequently put local actors in conflicting situations, legal guidance in solving these situations was missing. Proceeding with individual SME land use projects could, therefore, often be problematic.

With land related issues transition specific situations evolved where national government and its agencies attempted to control the land use processes by detailed regulations, but local actors did not always found these regulations helpful in concrete local contexts. Complex national legislation and regulations demanded expert knowledge why processes were difficult to understand and explain for the companies. Different involved actors had to use their discretion to find local solutions in the context of complex, contradicting and changing laws, but it tempted them to sometimes misuse their power and demand undue favours from companies.

This dilemma of national and local political decision-makers that were attempting to control and regulate the actions of civil servants to avoid misuses of their power caused a stalemate or protraction of many solution processes. Private
hired non-mandated actors (architects, consultancy firms) could sometimes increase SMEs chances of successful solutions, but also the solution costs. Other times not even privately organised assistance could hasten up the processes depending on (lack of) detailed regulations or local actors’ inability to correctly apply them (e.g. protractions with land rental contracts). EU was, seemingly not, able to assist Lithuania with solution of land issues. Attempts to replicate practices from other western contexts when applied in Lithuania with its lacking rule of law, brought doubtful effect of the local actors’ ability to offer working solutions to manufacturing company needs.

In general, while acquisition of free land could be (and was) solved via private actors, acquisition of used land or changing land use purpose could, in principle, only be solved via mandated local actors and with the help of official resources (laws, regulations, expert knowledge and availability of experts). Indeed, SMEs were very unsatisfied with the assistance provided (or available) with these issues.

Lastly, technical reorganisation was a complex issue for the solution of which SME were reliant on several groups of actors. In exogenous technical reorganisation manufacturing SMEs were in particular reliant on at least one group of mandated actors (veterinary and inspecting agencies) which although attempted assistance did not share the perception of the challenge with SMEs. Even though Lithuanian national requirements on those SMEs were stricter than the EU initially required assistance relied partly on how local mandated agents interpreted SME adjustment needs, how willing (or capable) they were to share the information and how flexible they were in adjusting final deadlines. The study observed that local actors could have shifting assistance strategies with ad hoc success.

14.12 Concluding Thoughts—the Adequacy of the Formal Strategies and Instruments

The conclusions that were drawn from the empirical analysis (in chapters 8-13) was that more often than not the assistance organised for the given policy problems—SME development impediments—did not bring sufficiently positive impacts on the solutions of those impediments. Without the positive impact of the organised assistance, the evolving structuration, regardless of its type, cannot be treated as successful or adequate. It was observed that no mandated actors had been able to organise adequate assistance policies in accordance with the adopted bottom-up perception of a policy. Occasional assistance success had been achieved with nearly all studied SME development challenges and impediments, in most cases not without the self-organising of SMEs or assistance from non-mandated actors. In addition, enrolment of non-mandated actors and the role of SMEs significantly increased the adequacy of the organised ad hoc type of assistance.

Has the wide range of formal economic, industrial and SME development strategies developed and instruments crafted enabled or positively contributed in solving some of the major SME development problems presented in this study? The analysis presented in this chapter allows for the addition of an important conclusion, namely that—the role of the applied (or attempted) official instruments available in organising assistance to SME challenges (often perceived as public
policy problems) was, in general, insufficient or inadequate. Besides, sometimes the formal regulations actually impeded local actors’ ability to more successfully organise assistance instead of positively contributing to it. While some of the SME assistance policy problems analysed were noted in official strategies the measures proposed (and applied) were either irrelevant (co-financed financial EU support, INVEGA) insufficient (technical reorganisation, consultancy needs), contradictory (land acquisition) or they were simply missing (manufacturing land acquisition, land use, easing of labour immigration and more).

Some of the official measures have, though, made a positive impact (like EU assistance to banks, some labour market programmes), but were conducive to only ad hoc success in the overall assistance organisation. Even when contributing positively, official measures were often, though, insufficient (like in labour market strategies or financial INVEGA assistance) for a successful challenge solution.

The role and impact of the local mandated actors was an important one in applying and interpreting the formal regulations as well as organising new types of assistance. Even though restricted or insufficiently enabled to assist SMEs via the formal, often centrally dictated and controlled resources, those actors still bore some responsibility for the lack of or, on the contrary, positive assistance success. The way SME needs were received by these actors, and their willingness and ability to share correct information, played an important role. A separate factor was access to these local actors as well as their access to centrally controlled resources.

The conclusion is that the Lithuanian national government and its established advisory organs intended to promote SMEs development by setting a (too) narrow focus on some particular SME needs, missing out important others. In their daily development SMEs faced a much wider range of challenges and thus, exhibited a greater variety of needs. Hence while the ambitious aspirations to boost the competitiveness of Lithuanian SMEs and the industrial sector in order to be able to compete on equal terms with companies in the EU and other western markets were of some relevance to the studied SMEs, the intended measures were limited in focus. The prioritised measures, in particular financial and general consultancy support, were insufficient and not always relevant for the studied manufacturing SMEs.

In sum, the frequent lack of successful assistance to a given SME development impediment depended on irrelevance or insufficiency of the major official resources and instruments applied. Therefore, a pivotal issue that needs to be re-addressed by the Lithuanian government, but also other, especially mandated, assistance actors is how to make the SME assistance instruments and resources more adequate to companies’ needs.

In the next chapter 15 the results of the analysis in the empirical and present chapters will be summarised and linked to a discussion on whether some post-Soviet transition specific traits could be identified among the revealed structural and behavioural factors of assistance policy organising. It identifies the most dominant factors and their combinations with effect on SME assistance policy success and adequacy in Lithuania.
15 Factors Conducive to Policy Adequacy in the Lithuanian Transition Context

This chapter compares the organised assistance structures and the ad hoc structuring analysed in the preceding empirical chapters and summarises the major identified factors affecting their success and adequacy in the Lithuanian transition context. It shortly compares factors found conducive to the evolvement of an adequate collective action and policies to assist SMEs in several policy areas. It then summarises the results of study hypothesis testing in the Lithuanian transition context. This way, this chapter therefore presents the combination of variables and their values found characteristic to organised assistance (policy). In particular three variable groups conducive to its success and adequacy in the studied transition context are discussed.

15.1 Three Explanatory Factor Groups

The major research focus of the empirical part of this study was directed at identifying actors and their constellations capable of organising adequate SME assistance policies to discern the patterns of the implementation process in a post-Soviet transition context and the role of the government (mandated) actors and the new formal institutions in it. By identifying the more general characteristics of policy action it also sought to reveal some major factors conducive to its adequacy. To identify adequate policies this study explored both ad hoc and systematically organised assistance processes around particular SME challenges. It explored three types of factors affecting this ability: behavioural, structural, and context. Policy adequacy was assessed in terms of three indicators: assistance structure, manner and impact.

This chapter summarises the patterns of collective action and, in particular, the public policies organised to assist sample SMEs. It briefly summarises the three groups of policy adequacy indicators and conducive factors and for each of the analysed type of challenge. The organised assistance is compared for more general and unique patterns and factors of success or failure in achieving their adequacy from the viewpoint of SMEs. It starts with reviewing the type of structurations (mandated, mixed or private actor constellations) that evolved in the studied transition context capable of organising public assistance to the identified manufacturing SME challenges and development impediments. Then, it sums up the identified behavioural and, lastly, contextual factors. The aim here is to reveal the combination of variables characteristic to policy adequacy in the studied transition context.

In the conducted empirical study two types of the structural factors were found of importance for policy adequacy—actor constellations or types of actors involved in collective action and the level of action structuring capable of revealing policy existence. In the following both of these structural factors are analysed for the studied policy areas.
15. Factors Conducive to Policy Adequacy in the Lithuanian Transition Context

15.2 Structural Factors of Adequate Assistance: Actor Constellations

Here I will consider the mentioned structural characteristics of the organised assistance in relation to assistance adequacy. Both structural similarities and differences between the challenge types will be analysed.

The study was intended as a test of formally mandated actors’ abilities to organise adequate assistance policies and of the relevance of formal institutions for that purpose. I will start the assessment with the abilities of this actor group to achieve positive assistance results in SME challenge solutions in mandated organisations alone or via inter-organisational interactions. This will also provide answers to study hypotheses 1 and 2 (see section 4.6).

Success and adequacy of the mandated actors’ assistance

Assistance to our sample SMEs with the analysed challenges has been attempted in 76 cases. Solutions via formal mandated actors (both public and private) have been achieved in 20 cases of 76 (27%) (see table 15.1). Even in those cases, assistance success and adequacy was frequently (e.g. land issues, financial assistance via banks) reliant on the involvement of some non-mandated, mostly private, actors.

Not all of the identified assistance structures (or ad hoc structuring) have been adequate though. Therefore, it is particularly important to further review assistance adequacy indicators—impact and manner—in each challenge group. This section will mostly deal with the impact while the manner will be analysed in relation to the behavioural factor in section 15.5.

The summary of the actor contributions (i.e. impact) sufficient to reach a positive result in challenge solutions (positive outcomes) could be illustrated by the charts below. For the sake of simplicity, only the results of those assistance structures that led to positive challenge solutions are indicated. The charts are drawn to illustrate and compare assistance from both mandated and non-mandated actors from private and public sphere, in each type of challenge. Assistance cases are located in the dimension of the chart that best corresponds to major actors of the evolving assistance structuration. The total number of challenge assistance cases analysed is indicated in the centre of each chart.

Challenges related to land acquisition were positively solved in 6 cases of 8. Three solutions were achieved with the help of assistance (structures) organised by public mandated actors. However, as was noted in chapter 8, also private mandated actors (surveyors) and non-mandated actors (detailed planning consultants) participated in this type of assistance therefore called mixed assistance. The other 3 positive solutions were achieved by SME self-organising that engaged solely non-mandated private actors.

In more complex challenge solutions such as technical reorganising where several assistance structures (ad hoc structuring) might be involved a partial positive impact of one assistance structure might be a sufficient indicator of adequate policy.

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Land use refers to changing land use purpose to allow manufacturing and was one of the SME development impediments that could only be solved via the structuring involving (or rather organised by) mandated actors. Also here, mostly SMEs themselves had to additionally engage private non-mandated actors (surveyors, architects) to increase positive assistance impact and adequacy. Therefore, no pure mandated actor assistance structures capable of organising adequate assistance based on the available formal regulations have been prominent in this policy area (for details see chapter 9).

The studied companies had attempted to attract workforce both via mandated public and non-mandated private actors. Assistance organised with attracting or retraining of workforce was a policy area that indicated a more systematic policy-like action by mandated public actors (see chapter 10). The major assisting mandated public actor (the Labour Exchange Agency) also involved a private mandated actor (the Labour Market Training Centre) as well as public vocational training schools that had a mandate to train workforce, but not to actively mediate between SMEs and the students. However, even though more systematic public assistance on this issue resulted in little success as the assistance resources and measures lacked relevance. In the private sphere, an alternative assistance structure evolved via private employment agencies or, most successfully, via close private networks. Especially the latter showed to be most adequate for SMEs under the
given circumstances but its success was significantly prevented by the general context variables such as migration, illegal labour market and lack of formal ways to attract the needed workforce from abroad or lack of skilled in the profession. Therefore, even these self-organised structurations, in general, achieved too little success thus decreasing their adequacy. Many companies still lacked of workforce after having attempted all the mentioned types of assistance.

### Attracting Workforce

![Diagram](image)

The financial assistance issue had resulted in 3-4 types of assistance structures or *ad hoc* structuring—via banks, via EU fund coordinators, via other public funds and private networks. The two major assistance types—via banks and EU actors—both relied on a mixed actor constellations for greater success and adequacy. Banks as a private mandated actor relied on a number of others, both mandated and not, to provide SMEs the needed financial assistance from their own resources. Direct financial SME assistance from the EU funds was primarily managed by mandated public actors, but also relied heavily on non-mandated consultants’ assistance.

### Financial Assistance

![Diagram](image)

The financial assistance organised via EU fund administrators was the least successful in helping the studied companies, even though non-mandated private and public consulting actors were important actors engaged in this structure to
increase its success (see chapter 12). Assistance via banks—the most successful and adequate financial assistance organised—also was dependent on other public and private actors and self-organising by SMEs. Thus although somewhat better structured (individual bank solutions, INVEGA services) and more successful, this assistance still lacked indications of some adequate public assistance policy to increase SME chances for bank loans, at least for the sample cases (see more in chapter 11).

Finally, solutions to technical reorganisation challenge required the most complex assistance structures (if compared to the other studied challenges) due to its dependency on solutions of related issues/challenges (such as financial assistance, land, premises, knowledge and time, see chapter 13). The chart below indicates that 5 of the total 24 cases were solved by *mixed* assistance structures (including primarily mandated, public and private, but also non-mandated actors). However, the alternative assistance organised solely via non-mandated private actors (SMEs themselves and various private consultants) also resulted in positive outcomes in at least equal number of cases (6). As this challenge was of two types—internal and external character—the role of mandated public actors (especially the State Food and Veterinary Agency assisting food-processing companies) was more significant in the latter. However, only 2 cases of the externally evoked challenge resulted in positive solutions.

![Technical reorganisation chart](chart)

In challenges such as the technical reorganising, where solutions were very individual, actors of all four types depicted in the chart could be drawn in to increase assistance success. In conclusion, *to achieve a positive total assistance outcome, assistance success often depended on the involvement of several types of actors from various mandated organisations and outside them and linkages between the related assistance structures*. Given such interdependency, a positive impact by some actors was sometimes undermined in the final assistance outcomes. Therefore, the empirical analysis continuously highlights positive but insufficient contributions of some assisting actors.

In general, of all types of attempted assistance *the least success* in the sample cases has been achieved with the financial assistance from the EU Structural Funds (mostly for diverse technical reorganisation, but also other needs) quite tightly
15. Factors Conducive to Policy Adequacy in the Lithuanian Transition Context

followed by attempts to organise assistance to the lacking work force. It means that these types of assistance organising failed in bringing positive impact on challenge solutions. In addition, the studied companies have been unable to obtain enough assistance both with land acquisition and with either type of technical reorganisation challenge. Successful cases have mostly been of an ad hoc character. While partial assistance was sometimes provided, it was insufficient for reaching a positive solution (by the time of the interviews).

Among the studied challenges, the mandated actors were the most successful in providing financial assistance (especially banks). Even though private solutions to financial shortages were frequently attempted, those where mandated actors were involved were more successful—in 12 cases of 25 or 48% sufficient or in 63% at least partial assistance was organised (see Appendix 4). However, successful financial assistance frequently depended on positive contributions by the involved non-mandated actors, engaged by company managers or owners.

There were two other challenges heavily dependent on the assistance from mandated actors—land acquisition and externally evoked technical reorganisation. Even these were somewhat more successfully solved with the assistance from mandated actors than via other alternatives. Very similar success percentage has been achieved even in land use issues (40% success), but here SME dependency on private assistance actors, often engaged by companies themselves, was substantial. Besides, the manner of the assistance did not satisfy companies. Similar observations have been made regarding the next more successful assistance for external technical reorganisation challenge. Organising financial assistance via other actors (BAS programme or municipal SME development funds) has achieved some success although mostly as a partial contribution to solution. In the financial assistance organised via banks, also financial support and influence from the EU was of importance for better success.

In total, three of the six challenge groups indicate mandated actors as an important actor group with some success in assistance organising, but with significant dependence on non-mandated actors’ contributions and SME self-organising. Therefore, no pure assistance (policies) entirely via mandated actor from various organisations have been identified. However, we should not be deluded by this somewhat positive account of assistance provided with the help of mandated actors as it was not always adequate or appreciated by the SMEs. This could be illustrated with assistance in changing land use purpose, acquiring land for manufacturing or adjusting to the external technical reorganisation requirements. Besides, the Lithuanian government or the EU concern and the formally regulated measures were seldom sufficient or relevant for organising adequate and successful assistance locally (see chapter 14).

The organised assistance, even when successful, was mainly of an ad hoc manner where systematic structuring (polices) were frequently lacking. Interestingly, while in some cases assistance resulted in positive outcomes the way SME problems have been handled by the mandated actors and the additional self-organising efforts and resources that were required from the SMEs indicate lack of mandated actors ability to organise adequate assistance on their own. Assistance success, therefore, not necessarily is an indicator of the adequacy of mandated actors’ contributions.
Success and adequacy of non-mandated actors’ assistance

A common feature of the assistance organised was SME reliance on non-mandated, mainly private, actors to complement assistance structures (or ad hoc structuring) organised by mandated actors. Besides, alongside with such mixed mandated—non-mandated actor assistance structures SMEs frequently self-organised alternative assistance involving primarily non-mandated private actors. Sometimes such self-organisation evolved after failed attempts to organise assistance via mandated actors or lack of trust in them. These structures cannot be regarded as equally structured as the mixed ones, since actors belonged to individual company networks and shifted from case to case. Nevertheless, SMEs thanks to their self-organising efforts and with the assistance from private non-mandated actors had achieved just slightly less success (14 cases of 76 or 19%) than via assistance structures offered by mandated actors (that, in fact, frequently were mixed ones). The empirical evidence indicates that the involvement of non-mandated actors in all challenge solutions was significant and it notably increased assistance success (see table 15.1 and Appendix 4).

While non-mandated private actors were pivotal for a more positive assistance impact it was mostly not the actors from mandated formal organisations who engaged them in assistance organising. Instead, this task fell on the SMEs themselves that either under advice of the mandated actors or by their own searched up private individuals and organisations to engage.

The assistance from solely private non-mandated actor structuring was by no means always successful with SMEs still sometimes remaining dependent upon the assistance from actors with a formal mandate. In some challenges, however, (especially acquisition of land or financial assistance) private networks were a successful group of assistance actors, especially in resource organising phase (F3), totally detached from the mandated (or mixed) assistance structures. Financial assistance (especially via banks), albeit sometimes insufficient, was one of the most successful mixed actor constellations in assistance organising linked by self-organising efforts of company managers or owners.

In a simplified form, the study results are summarised in table 15.1 below.

Table 15.1 The overall SME assistance outcomes

<table>
<thead>
<tr>
<th>Assistance success</th>
<th>Nr of cases</th>
<th>%</th>
<th>Contributions by actor groups</th>
</tr>
</thead>
<tbody>
<tr>
<td>Positive solutions</td>
<td>34</td>
<td>45</td>
<td>Mandated/mixed actors: 20 cases</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Non-mandated actors: 14 cases</td>
</tr>
<tr>
<td>Partial solutions</td>
<td>21</td>
<td>27.5</td>
<td>Mandated/mixed actors: 14 cases</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Non-mandated actors: 11 cases</td>
</tr>
<tr>
<td>No solutions</td>
<td>21</td>
<td>27.5</td>
<td>--</td>
</tr>
<tr>
<td>Total nr of cases:</td>
<td>76</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>
Solutions via formally mandated actors have been achieved in 20 cases of 76 (27%) yet in most challenges (except for workforce) by involving also non-mandated private actors. Somewhat less success (14 cases or ca 18%) was achieved without involvement of mandated actors when assistance was self-organised by the SMEs and reliant on private non-mandated actors. In the next section the ad hoc assistance success and lack of systematic structuration for adequate policies to evolve is discussed.

15.3 Structural Factors of Successful Assistance: Level of Structuring

The adopted approach to policy implementation implied a search for policy areas in which mandated actors alone or in mixed actor constellations could provide systematic structures to successfully assist SMEs. Structures are a sign of policies and are treated as policy output. This study, however, took a broader perspective which allowed exploring also less structured collective action.

Comparing challenges by the level of structuring

One of the results of this study regarding the structural characteristics of the organised assistance was that much of the assistance organised to the SME challenges was of a more ad hoc character implying lack of policies. At issue here is the impact that the two different structuration levels had on challenge solutions in the studied transition context. The general picture of the structural characteristics of the cases with positive assistance impact on challenge solution is presented in table 15.2.429

It is important to note that the complexity of the challenges and the variety of their solution ways resulted in structurations and structures exceeding in numbers the analysed challenges. This, together with the outspread of the individual cases, makes the conclusions more modest, especially regarding the level of structuration of each successful collective action. However, some conclusions on general tendencies can still be drawn.

Table 15.2 indicates the successful (in terms of impact) assistance actor constellations. In some type of challenges, there were attempts to organise solutions or assistance other ways, but these were simply unsuccessful. For example, in attempting to solve their land needs (challenge 1) sample companies were only satisfied with the assistance from private land owners. Only companies in particular situations could be organised assistance in their attempts to change land use purpose. Many others, also from the population, had to wait for years for some assistance with that issue. When working satisfactory, the formal regulations often paved way for a more systematic assistance structure. However, we have cases (challenge 3 and 4-EU) when an organised assistance structure (either by mandated or mixed actors) did not necessarily bring a positive impact and thus lacked adequacy. In such cases, companies had to rely on other type of ad hoc assistance structuring.

429 In simple challenges impact A is considered as positive assistance, and in complex ones—both A and B.
Table 15.2 Structural characteristic of successful assistance with SME challenges

<table>
<thead>
<tr>
<th>Level of assistance structuring</th>
<th>Ad hoc structuring</th>
<th>Policy/assistance structures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Actor constellations</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Mandated actors</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mixed actors</td>
<td>Ch1, Ch3, Ch4-banks, Ch5-internal, Ch5-external</td>
<td>Ch2-A, Ch4-banks? Ch5-external?</td>
</tr>
<tr>
<td>Private actors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ch1: Assistance with land acquisition challenge</td>
<td>Ch1: Assistance with land acquisition challenge</td>
<td></td>
</tr>
<tr>
<td>Ch2-A: Assistance with land use challenge, where it was allowed</td>
<td>Ch2-A: Assistance with land use challenge, where it was allowed</td>
<td></td>
</tr>
<tr>
<td>Ch3: Assistance with attracting workforce</td>
<td>Ch3: Assistance with attracting workforce</td>
<td></td>
</tr>
<tr>
<td>Ch4-banks: Assistance with financial needs via banks</td>
<td>Ch4-banks: Assistance with financial needs via banks</td>
<td></td>
</tr>
<tr>
<td>Ch4-EU: Assistance with financial needs via EU funds</td>
<td>Ch4-EU: Assistance with financial needs via EU funds</td>
<td></td>
</tr>
<tr>
<td>Ch4-private networks: Assistance with finances via friends and relatives</td>
<td>Ch4-private networks: Assistance with finances via friends and relatives</td>
<td></td>
</tr>
<tr>
<td>Ch5-internal: Assistance with internally evoked technical reorganising</td>
<td>Ch5-internal: Assistance with internally evoked technical reorganising</td>
<td></td>
</tr>
<tr>
<td>Ch5-external: Assistance with externally evoked technical reorganising (food industry)</td>
<td>Ch5-external: Assistance with externally evoked technical reorganising (food industry)</td>
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In the classification in the table above, assistance with three types of challenges (policy problems) are characterised as systematically structured—land use (where the changes in land use purpose were allowed), financial assistance via banks and the assistance with externally evoked technical reorganising challenge. Especially the last two assistance actions could only conditionally be called structures. Financial assistance could obtain a character of a structure in occasions when banks arranged for individual solutions or via INVEGA (later also with micro credits). Assistance with externally evoked technical reorganising was more systematically structured in cases when inspecting agencies successfully assisted with knowledge and deadlines. Although not sufficient as a solution to the entire challenge, systematic structure could contribute in this part of the assistance.

**Ad hoc structuring—the most adequate assistance**

The major conclusion from the study regarding the level of structuring in SME assistance organising is that ad hoc structuring has not only been the more frequent type of assistance but the most successful one. Therefore, the study empirical data does not provide much evidence of SME assistance in terms of successful (and adequate) public policies, but rather of successful ad hoc structuring engaging a mixed constellation of actors. This also implies that the existent formal institutions were not sufficiently relevant or enacted in a way as to produce adequate public policies.

Actors’ adherence to formal rules and regulations could sometimes result in successful structuring (as in challenge types 2-A, or 4 and 5 in table 15.2), but more frequently assistance success and adequacy was a matter of implementing actors’ discretion and abilities to perform. A crucial factor for a positive impact of nearly all of the assistance was actors’ abilities to establish a linkage between
organising functions (F1-F4) and, where it was lacking, the self-organising by either SMEs or some (mostly non-mandated) actors.

How can the specific structural characteristics of the SME assistance organised in the Lithuanian transition context be explained? Why were the *ad hoc* performance-based solutions so predominant? Institutional literature argues that the *de facto* or otherwise informal, non-prescribed organising when repeatedly successful over time may gradually become institutionalised and thereby formalised. The unexpected and thus non-prescribed circumstances force actors to act *ad hoc*. Besides, an informal non-prescribed action may be a result of the conflict between the formal prescriptions and the practical problem-oriented action (Meyer & Rowan, 1991). The *de facto* or otherwise informal, non-prescribed organising when repeatedly successful over time may gradually become institutionalised and thereby formalised (cf. chapter 3) (March & Olsen, 1989). This is the case with most of the SME assistance in Lithuania. It has not acquired a more systematic pattern and so it lacks adequate formal or informal institutions. Interestingly though, some types of challenges were offered a more solid and systematic formal assistance structure (e.g. assistance with workforce or finances via EU funds) which, however, were found lacking positive impact on the particular companies' needs, and therefore inadequate.

**Adherence to the formal regulations**

Some argue that unsuccessful structuration has little chances to endure (Bostedt, 1991), but it is much more complex to change the already formalised unsuccessful policy structures (institutions). The more institutionalised policy organising becomes, the more chances it has to live on, even when it no longer fills its originally intended purpose.

The government attempted to institutionalise solutions to some type of SME challenges by detailed formal regulations to which local assistance actors were expected to adhere. Laws of territorial planning and regulations of food safety control could serve as examples. These were formalised prescriptions to deal with particular problems and needs, but from the point of view of the studied SMEs this type of assistance was seldom adequate or successful. Therefore, in practice alternative *informal or semi-formal* structuration was evolving via mixed or non-mandated actor structuring to complement the formal institutions and counteract their failure. By “semi-formal” here is meant mandated actors’ attempts to act in accordance with the formal prescriptions but also relying on non-regulated assistance from private non-mandated actors in the same assistance process. Some of such mixed assistance organisation patterns were quite common, which indicates higher level of their institutionalisation. They have been accepted by the political and mandated administrative actors and included in their terms of reference.

In lack of institutionalised adequate assistance policies, SMEs frequently engaged in organising alternative assistance structures on their own, which is a sigh of the irrelevance of the existent and dominant formal institutional patterns. Even alternative private assistance organising was frequently affirmed by the mandated actors as an alternative solution. However, SMEs could not always bear the cost of

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430 See, for example, Garfinkels (1967) arguments in DiMaggio & Powell (1991).
co-organising such structures even when it could increase chances for assistance success. The revealed assistance structuration patterns indicated that in many successful SME assistance cases government and mandated actors did not succeed in their assistance with the help of formal measures and/or institutions. In fact, many times assistance was achieved regardless of them.

The non-exclusive role of formal (mandated) administrative actors and their resources in organising policies to problems defined by SMEs do not in themselves point to the failure of their successful transition. In implementation studies of the Western democracies mandated actors have been shown to successfully interact with other actors across the organisational boundaries as well as from the surrounding community in producing successful policies in welfare service delivery (see Hjern & Hull, 1982, Wittrock, 1985; Bostedt, 1991). Thus, for an adequate public SME assistance policy to evolve the assistance does not have to rely entirely on the mandated actors. However, the lack of mandated actors’ ability to exert sufficient positive impact on their own or in a mixed assistance structure (with other non-mandated actors) in organising successful SME assistance policies does indicate their inability (and frequent irrelevance of formal rules) to cope with the societal needs at hand. The empirical analysis indicates a situation in a transition Lithuania where local actors attempts to institutionalise assistance in accordance to the formal prescriptions from the political top lacked success and adequacy for the policy problems at hand. Therefore, the relevance of the analysed formally prescribed or institutionalised assistance ways is also questionable.

15.4 Summary and Conclusions on Structural Factors

The empirical insights on the two types of the structural factors will be used here to respond to the relevance of some bottom-up implementation assumptions (see chapter 4) for the post-Soviet transition contexts. Hypotheses 1 and 2 especially were intended to put on test the structural SME assistance characteristics.

Hypotheses 1 and 2 stated at the start of the study (chapter 4.6) indicated doubts about the government or other mandated organisations’ abilities to organise adequate policies to specific outspoken SME needs in general, and especially to organise such policies on their own. The empirical study supports both of these hypotheses. Firstly, both the document and the process studies proved lack of government or other formal organisations’ knowledge or attentiveness in formal strategies to some (although not all) important SME challenges. Failure to recognise relevant challenges as problems for public policies prevents allocation of relevant formal resources or organising of measures. The study results, therefore, support hypothesis 1:

**Actors of formal organisations in a post-Soviet transition society do not necessarily have adequate policies (ideas, resources and instruments) for addressing the specific multiple needs of social groups such as SMEs.**

The next conclusion related to study hypothesis 2 is that in policy areas where the government recognised particular SME challenges as tasks for public policies
the formally mandated actors hardly managed to implement (organise) adequate policies or even ad hoc assistance on their own, either within the boundaries of a single formal organisation or in-between them. Because of that, in a number of challenges SMEs have been forced to instead engage various private actors. In addition, in those regulatory policy areas where assistance to particular SME needs was reliant on the participation of formally mandated actors (or was formally delimited to them), these actors nevertheless were seldom capable of adequately addressing the company needs and were frequently reliant on non-mandated actors and SMEs themselves to increase assistance success. A general conclusion of the empirical study is that non-mandated private actors were found to be of great, mostly positive, importance for increasing chances of positive assistance impact (success) and assistance adequacy in general. Their role was important both in the mixed assistance structures and especially outside them—in alternative assistance structures. The latter group of private actors consisted often of friends, relatives, other companies—i.e. actors from so-called private networks. Government and mandated organisational actors were not able to provide adequate organising in addressing the particular company needs by relying entirely on the available formal institutions. Therefore, the study provides support also to hypothesis 2: Even if formal policies existed, actors of formally mandated organisations and the formal institutions they employed to achieve policy results frequently did not have exclusive solution organising power in the studied transition context. In other words, this type of structuration (i.e. the organising processes and the evolving structures) often did not prove adequate to particular SME needs, even when these needs were recognised as policy problems.

In general, most of the assistance organised to the studied SMEs has been of an inter-organisational character which supports the policy organising model (see figure 3.2) and the idea of a scattered authority. In addition, the evolving structuration was most frequently an output of actor interactions in mixed constellations, i.e. involving both formally mandated and the non-mandated (private) actors from various organisations or outside them. Dominant among the mandated ones, were actors from public organisations while those lacking of formal mandate were mostly private actors.

An additional conclusion regarding assistance structuring in the Lithuanian transition context is that there frequently evolved assistance processes (especially resource organising) or entire structures relying entirely on non-mandated actor, here called alternative structuration. In such cases collective action, even though to some extend structured by formal institutions on macro level, clearly did not follow detailed formal prescriptions and could per se be seen as an indication of performance thorough which new type of ad hoc structuring occurs (I will soon return to the performance aspect in section 15.5). The involvement of private non-mandated actors often strengthened the performance (as contrasted to compliance) aspect in assistance organising even in the more regulatory policy areas. Alongside with the formal goals and resources, non-mandated actors contributed with alternative ideas, resources and their intermediation. The engaged private non-mandated actors simply filled in the existent gap in public service delivery, sometimes (as in land issues) undertaking the unfulfilled tasks of civil servants (see section 15.5) to achieve particular policy (or ad hoc structuring) outcomes.
However, as solutions of some issues of particular concern to SMEs were strictly and detailed regulated by the government (land, financial support from Structural Funds or safe food production regulations), the involved non-mandated actors frequently had to adjust to the formal goals and prescriptions. The prescriptions were not always relevant or sufficient to achieve a positive impact and even less an adequate policy. It is worth noticing therefore, that while performance by non-mandated actors or informal organising often increased assistance success by providing businesspersons with relevant knowledge, it still frequently lacked the character of adequate policies especially due to lack of access to relevant resources, but also lack of trust (see section 15.5).

The fact that in the studied transition context much of the collective *ad hoc* action was organised outside of the formal organisations can be partly explained by the inability of mandated actors to provide adequate solutions to SME needs. Policies characterised by government attempts to steer policy implementation and its outcomes via adherence by mandated organisations to formal regulations, especially in strictly regulated policy areas, were found frequently inadequate from the viewpoint of businesspersons. Such measures seldom achieved positive impact. Where the particular SME needs were on the government agenda (e.g. lack of financial means or workforce) lack of adequate policy structures signalise government inabilities to provide relevant institutions to structure the actions of the mandated actors so as to achieve a positive assistance impact in an adequate manner. In other cases, this is an indication of a gap in top decision-makers’ knowledge and/or reluctance to accept particular SME needs as challenges deserving public policies.

As we will see in section 15.5, mandated actors’ performance and utilising of discretion was a factor of major importance for policy success or failure. However, while the mixed constellation of assistance actors frequently increased general success of the assistance (structure), SME access to such non-mandated (especially private) actors was limited due to related costs or lack of trust.

Collective action outside the formal organisational boundaries, especially when excluding those organisations, is not only an indicator of lack of formal policy adequacy but as well an issue for policy accountability and legitimacy—the core stones of democratic governance. Government and mandated actors’ ability to assist societal groups in coping with new challenges according to Rothstein (2007) and Hanberger (2003), could significantly increase its legitimacy (cf. section 4.4). March and Olsen (1989) relate legitimacy to particular decision-making procedures or objectives, which is different from exploring whether the politico-administrative actors actually have the abilities to fulfil particular formally declared objectives and undertaken tasks and that is the concern of Rothstein (2007) and Hanberger (2003). It is this latter quality of democratic government (and governance) seen from the viewpoint of a societal group (SMEs) in relation to their needs that has been explored in this thesis. In this study, however, I have abstained from a deeper exploration of the relationship between policy adequacy and institutional legitimacy, although I recognise a close linkage. What this study points out is the task and the ability of a democratic regime to establish a policy linkage with the help of relevant institutions and adequate policies. The *ad hoc* character and the lack of adequacy in both types of structuration allow strong doubts of this government ability in the studied Lithuanian transition context. As certain formal institutions lacked of utilisation in SME assistance processes they also missed their
significance for adequate policy action which in turn affects the justification of such institutions (Berger & Luckman, 1967).

In sum, the evidence provided to test the two hypotheses (1 and 2) also indicates important differences in the formally prescribed assistance delivery and the de facto organising. This issue, as will be demonstrated in 15.5, tightly links to the incongruence of the SME perception of their challenges/development impediments and the government ideas of addressing them. Indeed, while prescriptions of policy implementation often demanded co-operation between formal organisations, this cooperation was either neglected or ineffective. Due to that, alternative or complementary self-organising processes evolved. The study results thus ascertain the relevance of the policy organising model (in section 3.7) and its theoretical assumptions of inter-organisational and mixed actor policy structuration also for the studied post-Soviet context. Besides, a certain duality of assistance structures was observed. The same group of mandated actors could sometimes increase chances for solution success depending on their utilisation of their discretionary powers (see section 15.5).

The answer to the study question 1 (see section 2.4) is that it was a constellation of mixed—formally mandated and non-mandated—actors that has been the most successful in organising adequate assistance to SMEs in Lithuania during the studied transition period. Indeed, both mixed and non-mandated (private) actor constellations contributed to assistance success and adequacy, although their contributions frequently (and nearly equally) were insufficient. However, as table 15.1 indicates, neither private nor mixed actor assistance was sufficient, as nearly half of the challenges remained unsolved. In fact, failed or insufficient assistance attempts exceeded the number of successful assistance cases. In fact, the mixed assistance structurations were only slightly more successful than the alternative SME attempts to self-organise solutions with the help of private non-mandated actors (including close relative networks). The assistance organised showed few indications of adequate policies as it resulted either in successful but ad hoc structuring or in inadequate policy structures.

Institutional theories provide handful of explanations to the ad hoc action as an expression of institutional transformation or new policy fields. Among those I find several explanations proposed by March and Olsen (1989, p. 58 and on) relevant and interesting for further research (although beyond the scope of this study). Ad hoc structuring may be more (SME) problem-oriented than the formally prescribed one, which is true for the studied context. Besides, ad hoc might also be a way to escape the old mistakes, to experiment the new ways of dealing with issues which is an approach Lithuanian SMEs and some mandated actors seemed to share. However, I hasten to add, that the ad hoc character of collective SME assistance action might be a sign of both mandated actors’ and government’s inability to learn from mistakes and positive experience to improve the available policy structures. Also true for some policy types was the political instability affecting the contents of formal regulations for the entire policy areas resulting in turnover of institutions (and the related changes in administrative personnel). In some policy areas (land issues) the chosen formal strategies could be abandoned for ad hoc solutions due to the crucial conflicts of interests at the policy receiving end that formal regulations evoked.

The main conclusion from the conducted empirical analysis regarding government and the formal organisation abilities to organise adequate policies is
that, regardless of the attempts of mandated and other actors, successful and adequate policies to assist manufacturing SMEs during the studied transition period were most frequently lacking. The organised assistance succeeded only occasionally (ad hoc) and that is why few tendencies to systematic and adequate assistance policies can be traced. The institutionalised assistance offered by formally mandated actors was frequently insufficient or inadequate to alleviate remaining transition period business development barriers impeded or prevented SMEs from adequately coping with their challenges. This study points, therefore, at a rather unsatisfactory situation with assistance organised to the Lithuanian manufacturing SMEs (as part of the economic society arena) negatively affecting their ability to cope successfully with transition challenges, i.e. to grow and reorganise in a desired way or pace.

The lack of adequate public SME assistance policies witnesses of the missing policy linkage between the outspoken SME assistance needs and adequate policy structures to assist them. The failure of this linkage by formally prescribed implementation induced SMEs to self-organise both by searching for solutions on their own or via non-mandated actors to alleviate the linkage.

15.5 Behavioural Factors Affecting on Policy Success and Adequacy

The undertaken implementation study intended to reveal how the particular structuring produces specific impacts on SME need solution. Having in the previous section established the relationship between structure (or ad hoc structuring) and impact in SME assistance delivery this section considers primarily behavioural factors clarifying relationship between the collective action and a particular structuring. However, considering diverse assistance adequacy factors evolving from those contexts I had to face a question of whether some of these factors should be characterised as structural or behavioural. I consider that the particular bottom-up approach ontology (see chapter 3) can provide some answers.

The structuration approach here is taken to imply that it is only when a particular structuring brings about a systematic structure with repeated pattern that we can start differentiating between the behavioural and structural policy adequacy factors. In an ad hoc structuring some factors inherent in a solid structure, such as a particular usage of resources, could be ascribed behavioural factors. Also some generalisations about organising processes in particular with regard to how different factors relate to policy success and adequacy could best be made in a higher level of structuration, i.e. in the instances of assistance structures.

Each instance of organised assistance has been scrutinised for most important explanatory factors to its success or failure. It is, however, in the repeated cases of assistance organising with same type of challenges that this study searched for similar or unique explanatory factors. In the few cases where the assistance has attained a character of a structure, both adequate and not, the study attempted to identify (also in each empirical chapter) variables conducive the success or failure of its impact, but also those conducive to the adequacy of its structure and manner from the point of view of the studied companies. However, as the identified assistance has been predominantly of ad hoc character I had to rely on this more
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Flexible and thus less patterned type of structuring in identifying some major characteristic behavioural factors. Some of the factors have been, though, common to both types of assistance structuration.

In short, in the analysed behavioural and structural factors are seen as interrelated as the behaviour of actors, their choices of other interaction actors, resources and application of rules determines the structures of their interaction. In the coming, I will specify some factors especially related to actors’ roles in different organising processes (F1-F4).

Assistance Actors’ Involvement in Solution Organising Processes

Introducing the organising approach to policy analysis and the four organising functions (F1-F4) to deconstruct policy process in policy systems—here operationalised as assistance structures—Hjern and Porter (1981), Hjern and Hull (1982) intended them also for explanatory purposes of the establishment of policy linkage here operationalised as organising of adequate policies. In this study, the four organising processes were used to identify challenge specific behavioural variables (presented at the end of each empirical chapter) but they also allowed a search for some commonalities. In the following, the four organising processes will be used to summarise some essential factors and patterns of SME assistance structuration in the studied transition context.

Hypotheses 3, 4, and 5 of the study (see section 4.6) were presented to test the relevance of some bottom-up related assertions for how implementation of adequate policies is achieved. Hypothesis 3 stated the importance of systematic organising in assisting SMEs to define their challenges, look for alternative solutions, resources and organise the most relevant ones. Besides, the hypothesis asserted a linkage between these organising processes for a systematic pattern to evolve. Hypothesis 4 asserted the importance of local assistance actors for the establishment of such linkage via their engagement in several of the organising processes. Indeed, as no adequate assistance structure can evolve without successful resource organising, the local actors were assumed to increase policy success and adequacy not only by offering their own, but also by mediating delivery of the EU and national assistance resources.

Even though the prevalent assistance structures (or ad hoc structuring) have been identified primarily with the help of F1-F3 organising processes, the fourth—assessment phase (F4)—is here seen as crucial for moving from successful ad hoc structuring to an adequate assistance structure and policy. When actors practice assessment of the impact of their assistance on SME challenge solutions they can use the acquired knowledge to learn from their success and mistakes providing a sound ground for policy learning. Hypothesis 5 assumed the importance of policy learning for actors’ abilities to increase assistance adequacy and achieve a more structured and systematic pattern of assistance as compared to ad hoc organising. Policy learning is taken here to imply actors’ willingness and abilities to assess their contributions in relation to SME problems at hand and assess the usefulness of the available formal regulations and resources for that. Below, I will sum-up evidence from the conducted empirical analysis to test the relevance of these hypotheses for the studied transition context.
Incongruence in need perception

The adopted approach to policy implementation stresses its process character and the importance of actor roles in it, here also referred to as behavioural factors. Firstly, the congruence between actors’ knowledge and understanding of the SME challenge in need of a public policy and businesspersons’ perception of the SME challenge (F1) is regarded as an important factor for policy success (Hjern and Porter, 1981; Hjern and Hull, 1982; Hjern & Hull, 1987; Johansson, 2008). To assess this relationship we have to reveal participating actors’ perception of the policy problem and assess their knowledge of the particular SME needs as well as the relevance of their ideas in assisting companies with their challenges. The major assumption is that the more congruent the actors’ knowledge in relation to businesspersons’ perception the greater are chances for an adequate assistance.

The studied cases confirmed the pivotal importance of similar problem perception for assistance adequacy. The empirical analysis demonstrated that different assistance actors sometimes had divergent perceptions of SME assistance needs and thus problems for the assistance policy. Especially local actors were found to be better informed of SME challenges and impediments than those at the political or administrative top (for example, with land issues, financial assistance from EU funds). The SME expectations of assistance policy frequently differed from those of the involved actors (possibly with an exception of lack of workforce). In at least three of the six challenge groups—acquisition of land, access to the EU finances and externally evoked technical reorganisation—differences in challenge perception between actors and SMEs contributed to frictions in the organised assistance or even to its failure.

In extremely complex challenges, such as those of land issues, some local actors showed understanding to the particular SME situation and assistance needs, but were in disagreement about the policy problem (and the assistance to be organised) with national administrators and local elected representatives. In fact, this discrepancy affected actors’ willingness to acknowledge a particular need as a problem for policy. In strictly formally regulated assistance policy areas (land issues, safety requirements in technically reorganising food companies, direct financial EU assistance) local mandated assistance actors were required compliance with the rules rather than flexible and more adequate assistance actions. These demands for compliance also affected local actors’ perception of the policy problem and significantly diminished their abilities to act more flexibly (see land issues, financial assistance form EU funds, externally evoked technical reorganising). In addition, sometimes the strict regulations were an excuse for taking greater risks and demanding high undue favours from companies for a more adequate assistance.

Even though compliance to formal regulations was quite usual among local assistance actors, some of them, who frequently were in direct contact with SMEs, realised the inadequacy of such assistance both for the sample and a broader range of companies (see e.g. sections 8.8, 9.5). In some challenges (such as workforce shortages, see section 10.10) local assistance actors understood the SME assistance needs, but did not necessarily share the SME managers’ perspective of how they should be addressed, and that affected actor abilities to make a more adequate impact. The non-mandated private assistance actors engaged by SMEs (and
sometimes representing their cause) had, in general, better understanding of SME problems and needs, but were not always capable to assist.431

The discrepancy of policy problem perception between policy organisers and receivers, or different actors is not particular for the Lithuanian context but is disclosed in a number of mature democracies (see e.g. Bostedt, 1991; Hanberger, 1997; Hjern & Gröning, 2000; Glemdal, 2008; Johansson, 2008).

In short, while sometimes actors shared SME perception of their needs, they often experienced impediments to adjust assistance measures because of demands of compliance to formal regulations. These regulations, however, often failed to provide guidance to adequate SME assistance policies. Top decision-makers and sometimes local administrators did not see some of the important SME development impediments as problems for public policies. Companies frequently identified their needs and alternative solutions on their own with no external assistance.

**Assistance alternatives: resource relevance and access**

The next process in the problem solving model—assistance to solution alternatives—refers to actors’ ability to identify relevant resources and assistance alternatives (F2). Naturally, actors’ abilities depended on their perception of the problem, what resources would be relevant for its solution as well as the availability of such resources. In fact, more often than not the alternatives identified by mandated actors were not acceptable for the companies due to the irrelevance of the formal resources offered or the anticipated outcomes i.e. expectations from companies in return for the resources (especially true for attracting and training of workforce, assistance via EU funds, ways to solve land issues, or external technical reorganisation challenge). Sometimes it was the matter of time limits, expenses or complex bureaucratic procedures with unsure outcomes.

In general, local actors’ abilities to identify adequate assistance alternatives were dependent on several factors: availability of relevant resources or measures, companies' access to these resources, local actors' discretion and flexibility in tailoring assistance to individual SME needs, their inclination to assist and the trust between companies and assistance actors. Although resource relevance has been one of the major explanatory variables in implementation research (Elmore, 1979; O’Toole, 1986; Gunn, 1978; Meshling, 1978) besides that, three particular factors prominent in the Lithuanian transition context were companies’ lack of trust in some actors’ ability to provide relevant assistance, lack of access to those actors’ resources closely related to actors utilisation of their discretion that prevented a further structuration of policy process.

Lack of trust—often caused by previous SME experiences of actors’ inability or unwillingness to assist—prevented companies from engaging available private actors or making use of the mandated ones. Lack of trust was closely related to SME insecurity of relying on actors, i.e. lack of guarantees that they would be provided assistance or the suspected (experienced) corruption in assistance delivery. Also the way SMEs were received and provided information contributed to weakening or strengthening their trust in actors. This once again indicates the

431 This discrepancy in problem perception in regard to the perception of those in policy receiving end, here SMEs, is primarily pointed out as an important explanatory factor by the referred school of bottom-up research.
importance of the assistance manner indicator. Lack of access to actors and resources offered depended mainly on two factors—acknowledgement of the need for public assistance to a particular type of SME challenge and the costs of receiving the assistance.

While aware of the limited resources available for particular SME needs, the involved mandated assistance actors not always were conscious of the irrelevance of the offered resources (e.g. external technical reorganisation, land issues, EU financial support or competence development). Occasionally, though, actors, especially at the local level, themselves deemed the available alternatives as irrelevant for the SMEs (e.g. financial EU assistance, land issues). While the involvement of non-mandated private actors theoretically increased the range of available resources, the solution alternatives/resources they offered, however, not always were acceptable or accessible to the companies. Due to the lack of relevant resources with a relatively uncomplicated access (or sometimes lack of actors to identify them), the SMEs were frequently dependent on their own abilities to identify alternative solutions.

Also lack of local actor’s flexibility—due to adherence to formal prescriptions or willingness to assist SMEs—was characteristic to the Lithuanian transition context. Interestingly, while formal prescriptions could not always provide guidance to assistance organising, local actors often indicated their lack of discretion in order to look for alternative solutions. Pressed for solutions, companies were sometimes forced in a situation where local actors demanded undue favours to compensate them for risks they undertook by taking a freedom of action.

Resource organising: lack of relevant formal resources and instruments

As noted, actors’ ability to organise resources (F3) was dependent on the availability of adequate resources and their or SMEs’ access to them. This process was linked with resource identification.

Regardless of the increased government attention to the challenges of SMEs and the industrial sector since 1999, the empirical data and the analysis conducted in chapter 14 point to the lack or irrelevance of the formal resources. The government or EU concern and formal measures intended to assist manufacturing SMEs was not necessarily a precondition for locally organised assistance (policy) success and adequacy (see also arguments presented in chapter 14).

EU financial support and influence was of importance for better assistance success especially in the case of financial assistance to SMEs via banks. However, the use of EU resources in organising direct financial assistance to SMEs was much less successful. The Lithuanian integration into the EU and adjustment to its formal regulations evoked the need to reorganise food safety control. The integration, however, did not significantly increase Lithuanian government abilities to assist food companies regardless of the increased top-decision-makers’ and administrators’ access to knowledge and transformation of the formal regulating institutions. The affected food companies did not experience better access or more adequate resources organised to cope with this particular challenge, other than indirectly via training courses offered to the inspecting agents. In any case, companies did not feel any direct positive effect of the EU support in this matter.
Assistance organised with lack of workforce or land issues neither did indicate some apparent positive impact from the EU actors or institutions. In general, companies or the involved assistance actors did not feel any significant impact or adequate assistance from the EU with any of their experienced challenges.

The Lithuanian government seemingly distanced itself from the broader spectra of specific SME needs and development impediments experienced as significant by the businesspersons. While the government could correctly identify some of the needs, it frequently failed to organise adequate assistance (policies) via mandated actors (for more in-depth analysis see chapter 14). One may wonder how was the government to reach its Lisbon Strategy attuned development goals disregarding the current SME development impediments or providing inadequate assistance.

Lack of relevant resources or lack of discretion, naturally, made it difficult for both local actors and SMEs to figure out any positive solution alternatives. Local assistance actors had difficulties in attempting to adjust the formal resources to assist particular company needs either due to the incongruence between the official SME assistance goals and SME needs, or the irrelevance of the formal measures. Inconsistency in laws, shortage of skilled specialists and other relevant resources, access to resources had severely impeded assistance success. In lack of the relevant official resources mandated local actors (vocational training schools, land use specialists and urban planners or veterinary inspectors) sometimes made attempts to organise their own resources, but were frequently limited by the macro institutional factors and unfavourable context variables (e.g. open market, outmigration, lack of land, restrictions to import cheaper workforce or external EU regulations).

As already noted, yet another group of actors, non-mandated private ones, was important in organising resources. These actors were an important linkage in the mixed type of assistance structures or ad hoc structuring (especially financial EU assistance, land use issues, technical reorganisation) by their participation in one or several of the assistance organising processes (F1-F3). Sometimes they acted quite independently of the available mixed or mandated actor assistance structures (in assisting with workforce, land or premise acquisition, financial resources). Non-mandated actors not only assisted with identifying relevant other actors and resources, but also contributed with their own resources—knowledge, skills, contacts or even finances—that were crucial in contributing to assistance success and adequacy.

In general, the involvement of non-mandated actors often compensated for lack of mandated actors’ abilities, skills or willingness to assist companies. Often these actors either increased the assistance success and adequacy of mandated policy structures (or ad hoc structuring) or offered alternative solutions via alternative assistance structuring. Also certain differences in the assistance organised via mandated and non-mandated actors were observed. The mandated actors and their resources were more accessible, but less relevant, while the non-mandated ones showed to be less accessible, but somewhat more relevant.

The linkage between the assistance organising processes

The bottom-up implementation approach is attentive to the linkage between the policy organising processes for achieving success and adequacy of policy structures. The linkage presupposes that different organising processes in an
assistance structure are glued together either by formally regulated actions of mandated actors or by actors’ self-organising (see section 3.7). Establishing this linkage requires that some of the actors participate in more than one process of the assistance organising. As mentioned (see chapter 4), reaching resource mobilising phase is essential for a coherent assistance to evolve either as a policy structure or an ad hoc structuration.

Assistance resources to SMEs in Lithuania were mobilised either due to intermediation by some assistance actors between EU or national resources and companies’ needs or self-organising actions of the companies themselves. Both when assistance actors act outside their formally prescribed roles and organisational borders and when SMEs themselves take an active part in organising solutions we have examples of self-organising. However, when companies lack contacts with actors, especially for identifying or mobilising resources, the adequacy of available assistance is questionable. In such cases the researcher may further explore reasons for why SMEs did not make use of the available actors or resources.

Was the linkage in the organised SME assistance processes in Lithuania established and how important it was for their success and adequacy? The linkage between the assistance processes was rather weak and seldom established by the mandated actors (except for the land issues where same actors participated both in identifying and organising resources (albeit with the help of non-mandated private actors). It is worth noticing that in some policy areas formal regulations ascribed mandated actors participation in several assistance phases to enable the linkage into a coherent structure. However, the problem was often that the actors were neglectful of this role or resources needed to organise assistance were lacking (such as land, premises, finances, skills or interested unemployed) or irrelevant to the particular SMEs.

It is important to note that some SME challenges were complex and policies required to address them were not linear, but consisted of several parallel or sequential assistance organising processes. To assist a company with externally evoked technical reorganising or with acquiring financial bank assistance such parallel assistance co-structures had to be put into a coherent whole, i.e. an overall assistance structure. In fact, the empirical evidence reveals that when SME assistance required various actor contributions to several challenge related issues, mandated actors seldom secured the linkage between such structuration into a coherent overall assistance structure (see e.g. financial assistance via banks or assistance with externally evoked technical reorganisation).

In policy areas where the SMEs were reliant on mandated actors’ assistance, but these actors failed in establishing a smooth link between the assistance processes, the company managers or owners themselves undertook arranging the missing link either by involving private non-mandated actors or by their own. As SMEs tended to improve the linkage by their own efforts or via hired private actors, it signals of its importance for assistance success.

By addressing the non-mandated actors (such as private experts, consultancy firms, friends, relatives) SMEs primarily sought assistance with resource organising (e.g. in financial assistance, attracting workforce, increasing knowledge, internal technical reorganisation, acquiring of land). This implies that the willingness to assist, the access and the relevance of private non-mandated actor
资源的补充或有时超过了这些由正式规定的代理人的资源。

总体而言，公司经理或所有者经常发现自己处于这种情况中，他们显著地参与了在支持组织过程中实现挑战解决方案的连续性。SMEs 承担了建立不同正式规定和非正式规定的资源组织者之间的联系，并协调他们的贡献以实现挑战解决方案（例如：银行支持的先决条件、对外部诱发的技术重组或改变土地使用目的的支持）。这些联系通常是非正式的，但有时即使是正式规定的代理人认出了他们的补充性角色，并有期望由 SMEs 安排这些联系。相似的援助案例表明了这种补充性援助的某种模式，为正式规定的代理人为避免改善其角色或组织的援助（政策）提供了借口。

尽管有 25 案例中 76 公司在没有正式规定的代理人的情况下达到了积极或至少部分的挑战解决方案，但这是我们在研究的公司中不普遍的实践。这种疏忽主要是由于增加援助成本、缺乏咨询的相关性以及缺乏信任。换句话说，它表明了缺乏相关性以及缺乏对可用援助代理人的或其资源的访问。

一般而言，地方规定的代理人通常无法将提供的援助组织成一个一致的结构，要么是由于正式资源的无关性，要么是由于正式代理人的有限可及性，或者代理人的不作为或缺乏找到相关援助替代品的意愿，以及 SME 缺乏信任。援助组织了一些挑战解决方案或在特定时间时期内并未达到资源组织阶段，为什么没有完整的援助结构和因此没有充分的政策演变（例如：土地获取、改变土地使用目的、缺乏劳动力、财务短缺）。在这种情况下，如果不是以非正式的方式通过私人网络解决，就会缺乏解决过渡期挑战的方案。

本地代理人的自由——一种过渡的难题

行使官僚的自由权被广泛认可为一个事实，既由自下而上和自上而下的实施提倡者承认（例如：Johnson & O'Connor, 1979; Elmore, 1979, 1985; Mazmanian, 1983; Wittrock et al., 1982; Rothstein, 2007）。自由权可以被视为规定规定的公共官员对法律的解释在复杂组织程序中的过程，但它也可能意味着从法规和规则中脱离，甚至可能违反它们（见第 4.4 节）。西方公共管理和政策文献经常对在人道服务机构中自由权视作必要和不可避免（Baldwin, 2000; Rothstein, 2007; Rothstein & Teorell, 2008）或积极现象，根据前者的概念化，作为将资源分配到最需要的地方的有效手段（Goodsell, 1981）。自上而下者将自由权视为一种权利，根据前者的概念化，为积极特征，因为自由权存在使它们更容易实现正式政策目标的条件。自下而上者拓宽了这种概念，允许定义新的政策目标。两种观点都证明了官僚自由权在政策中具有积极利益。
What evidence did this study present of performance versus conformance in organising SME assistance and what did it reveal of the relationship between local actors’ discretion and policy adequacy? Evidence from the present study supports the assumption that public assistance (policy) success and adequacy is dependent not only of whether but also of how the local public servants and professionals utilise their discretion in making decisions on assistance delivery.

In their role as EU or national resource intermediaries local mandated actors in organising assistance to SMEs sometimes used their discretion to interpret national (or EU) regulations. In some types of challenges (such as nationally regulated land use procedures, assistance with attracting workforce or externally imposed market regulations, or), local actors’ abilities to utilise their discretion together with increased adequacy of resources increased chances for assistance success. However, while the bottom-up approach to policy implementation ascribes local public servants’ discretion mainly a positive role in policy success, the picture revealed by the studied transition context has been more nuanced.

In Lithuania, local public servants frequently encountered problems with utilising their discretion. Indeed, transition presented a dilemma regarding the government attempts to steer implementation of various regulations and allowing local public servants a certain freedom of action. On the one hand, prevalent detailed formal regulations demanding public servants’ adherence and accountability towards centrally defined goals was expected to delimit their discretion and thus unfair treatment and corruption. In some situations, the local elected representatives have deprived civil servants and local professional of some of their discretions. However, demands of greater compliance tended to decrease the success and adequacy of local assistance.

On the other hand, when local mandated actors utilised their discretion in the studied transition context, they were often inclined to abuse it by claiming undue favours from SMEs in return for successful performance or by favouring stronger companies (see section 8.7). For that reason, even though some local assistance brought a positive impact on challenge solution, it was not organised in a manner appreciated by SMEs. However, with challenges where companies were dependent on the mandated actor assistance and were in need of favourable solutions to be able to survive and develop, they sometimes chose to disregard the abuse of discretion and “close their eyes”.432

After being forced to pay favours, companies, however, lost trust in the local assistance actors. The interviewed businessmen used the following words to describe the situation with corruption among public servants or other assistance actors: “they wait for you with open wallets” and are “ready to eat you up”, “it’s a land of Dinosaurs we are living in...” Such assistance increased the costs of challenge solution and, naturally, resulted in companies’ mistrust and disapproval. But there were positive exceptions, especially among actors aiming to assist with attracting needed labour force or even the conflict loaded land issues.

How has this negative side of public actors’ discretion been dealt with in the literature? Involvement of mandated professionals in policy implementation process in general, and in resource organising in particular, and their discretionary

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432 Interview with a district food-processing company (3d).
433 Interview with district food and wood-processing companies (4d, 12d).
Factors Conducive to Policy Adequacy in the Lithuanian Transition Context

Powers has deserved much attention in policy literature. Professionals, “those who ‘know’ and have claims to know about certain issues” (Parssons, 1995, p.154) have significant roles in policy implementation. Knowledge implies power. Professionals use the power to decide or interpret the problems and allocate available resources. This professional power is legitimated, argues Wilding (1982, p.17) by the thought advantages of technical rationality. Keiser (1999) have warned of risks with the abuse of discretion, especially in human processing areas, as it may limit access to some public benefits in general or discriminate particular groups of clients. Even though authors such as Laffin and Young (1990) believe that professionals in the western societies (in their example, Great Britain) become increasingly aware of the need to earn their credibility for having better knowledge of problems, solutions or resources than others, they also accept that changes in the attitudes of professionals are slow.

The experienced or fair abuse of discretion resulted in very low level of trust among SMEs in the assistance actors, both mandated and non-mandated private ones, except for those from the closest relative and friend networks. However, it is unfair to put all the blame for abusing their discretion on the local public servants and professionals when they sometimes had to interpret and apply conflicting and constantly changing laws on individual company situations. As noted (see section 8.7), actors had experienced lack of clear formal guidance in conflicting situations with scarce resources as a burden. In such situations actors feared that some groups would always dislike a decision.

In general, the transition evoked not only challenges to SMEs, but also local civil servants. Not only did they face new decision-situations, but the requirements on their professional behaviour and discretion also shifted, sometimes several times during the study period. Sometimes, the local elected representatives have deprived mandated actors of some of their discretions. However, actors’ inclination and possibilities to abuse their discretion indicated the factual lack of fair treatment and failure to entrench rule of law on a case-by-case basis (Rothstein, 2007).

Therefore, to increase policy adequacy in the studied transition context another approach to the rule of law values, public accountability, professional ethics and policy learning would be needed. A conclusion of the study is that for establishing of trust into assistance actors, their adherence to the rule of law is essential. At the end, without the functioning rule of law policy receivers cannot have stable expectations from assistance actors and this lack of trust prevents establishing a systematic assistance structure, without which no (adequate) policies are implemented.

In sum, while many implementation studies point out discretion of local mandated actors as positively related to implementation success, in the Lithuanian transition context it has proven to lead not necessarily to increasing of policy adequacy. Besides, concerning policy learning, lack or misuse of discretion in the studied transition context negatively affected local actors’ abilities to de-learn from
failed assistance attempts and thereby increase the adequacy of local assistance delivery.

Policy learning tendencies

The fourth process in the adopted policy organising model refers to actors’ assessment of their contributions in addressing a given societal need. Actors’ willingness and abilities to make such assessments normally indicate their intentions to learn from the experiences of the policy processes (Hjern & Hull, 1982; March & Olsen, 1989) and are seen as directly related to policy adequacy. Browne and Wildavsky (1984) maintained that without policy evaluation it would be impossible to improve policy implementation. Policy learning or rather de-learning from the mistakes is thus an important precondition for increasing its success and adequacy.

Nevertheless, regardless of significant assistance failures in the SME assistance organised in Lithuania, very few of the mandated actors showed concern in making some follow-up and assessment of their contributions concerning the challenges sample companies had addressed them for. This could be illustrated by how little concern was shown by such actors as the Labour Market Training Centre in the workforce challenge (see chapter 10), Lithuanian Economic Development Agency in administering and monitoring the financial EU assistance to SMEs, or national authorities regulating use and acquisition of manufacturing land (see chapters 8 and 9). Besides, lack of understanding of SMEs needs and especially lack of goodwill in organising assistance among local public actors have additionally obstructed policy learning.

Some indications of impact assessment attempts and willingness to learn from mistakes have been observed (for example, State Labour Exchange Agency, municipal civil servants and professionals as well as public and private financial consultants, State Food and Veterinary Agency, and banks). Several of the actors, however, because of their daily contact with SMEs not only showed awareness of the inadequacy of assistance they could offer in addressing manufacturing SME development challenges and impediments, but they also shared a feeling of helplessness and frustration (see sections 8.8, 9.5) about their inabilities to increase assistance adequacy. A general tendency was that while capable of learning local actors were often unable to make use of it in practice, especially due to the prevalent formal institutional environment. Therefore, the study conclusion is that, in general, very little policy learning or its positive effects have been identified in the study.

Common lack of willingness and abilities to learn from policy processes among local assistance actors also depended on their lack of discretion to use the acquired knowledge to improve the institutionalised ways of organising assistance. Irrelevance of formal institutions also indicate a significant lack of willingness and abilities of the actors at the political and administrative top to learn from local assistance organising experiences. The learning, when observed, was sluggish. Frequent changes in formal regulations obstructed establishment of new practices and policy learning thereof.

The identified lack of adequate policy organising, especially by and in-between mandated organisations, may well be taken to confirm the importance of adequate assessments and policy learning (unsatisfactory in the studied cases) for policy
success. There were clear indications, however, of attempts to de-learn from own or colleagues’ experiences among *businesspersons themselves and private non-mandated actors*, as they had a greatest interest in increasing assistance success.

**Conclusions: behavioural factors**

In sum, the study evidence confirms the importance of systematic organising and a linkage between policy (and ad hoc assistance) organising processes stated in study hypothesis 3 (see section 4.6). Specific to the studied transition context was that mandated actors often failed to establish this linkage. Instead, it was mainly assistance (policy) receivers, i.e. companies themselves, who attempted to secure this linkage alone or by hiring non-mandated actors. The frequent differences between the actually organised assistance as contrasted to the formally prescribed were due to local actors’ roles in assistance structuration and SMEs self-organising. Even when resources have been organised with some positive impact on challenge solution it did not always imply assistance adequacy. In general, the study conclusion regarding the hypothesis 3 on policy adequacy is that its assertions about the behavioural and structural factors should be complemented with an additional factor—policy organising manner.

As to hypothesis 4, local actors were found important for assistance success and adequacy, but in the Lithuanian context, their assistance was specific in several ways. The actions of local mandated actors were strictly regulated and as relevant formal regulations and resources were frequently lacking, this prevented local assistance success. On the other hand, in the context of contradicting or missing regulations, these actors sometimes chose to utilise their discretion but in return they demanded undue favours from companies. In short, local intermediaries’ abilities to contribute to adequate policy organising were limited. Specific to the transition context was the fact that corruption and lack of transparency impeded solutions of issues where companies were dependent on mandated actors for assistance (like land use, EU assistance, external technical reorganisation). It was not unusual, however, that mandated actors significantly increased their willingness to assist, and thus their ability to organise some relevant resources, after having received undue favours from SMEs. Such positive contributions, although indicating policy success, were insufficient to achieve assistance (policy) adequacy. The corrupted manner of such assistance indicated the lack of adherence to the rule of law principles and values—a major aspect in successful functioning of democracy and its institutions—and was not appreciated by SMEs.

While private non-mandated actors played an important role in the mixed assistance structures (e.g. in land issues) they could not always exert sufficiently positive influence to achieve a challenge solution. In strictly regulated policy areas, such as land issues or adjustment to food safety requirements, companies took to the private actor assistance also against the prevalent red tape among the mandated actors. This SMEs dependence on private non-mandated actors’ assistance induced companies significant costs. In general, the assistance from non-mandated private actors was not necessarily accepted as the optimal alternative by the SMEs due to the related expenses and distrust.

To conclude, an important observation regarding preconditions postulated in hypothesis 4 is that involvement of local (mandated and non-mandated) actors was an important but not always a sufficient precondition for adequate policy
organising. The contents or relevance of the resources offered and the assistance manner were of equal importance for assistance (policy) adequacy. Local actors’ success in organising coherent and adequate assistance structures was prevented mainly by adherence to formal regulations lacking relevance and lack of relevant formal resources, lack of access (especially by SMEs) to formal resources and lack of companies’ trust in actors. In some challenges, the existent formal regulations at periods prevented any solutions or company access to the offered resources. In addition, some public assistance actors, especially local politicians and civil servants in strategic planning positions, held a rather negative attitude towards SMEs mistrusting their fairness or need of support. Also the studied companies showed lack of trust in both types of (mandated and not) assistance actors. Protracted assistance, SME lack of access to actors’ information or resources, ignored transparency (especially information sharing with policy receivers) in the organised assistance were all indicators of the lack of adequate assistance manner specific to the Lithuanian context during the studied transition period.

Lack of SME policy success and adequacy in Lithuania coincides with an infrequent use of impact assessments by the local and national assistance actors the importance of which is stated in study hypothesis 5. However, actors in direct contact with SMEs were much more aware of the inadequacy of the offered assistance than those on the local political or national level. In fact, some local actors suggested changes, but the actors higher up in the political hierarchy did not take them into account. Therefore, while the study confirms hypothesis 5 assumptions of policy learning, it also informs us that for policy learning to occur increasing policy adequacy in the studied transition contexts, the attempts of local policy actors were seldom sufficient. This was due to central regulations prominent in some policy areas and differences in local specialists’ and politicians’ approaches to SME problems. Besides, corruption occasions (especially in some policy areas) prevented policy learning also among local actors.

15.6 Specific Context Factors

Context factors may refer to political or socio-economic factors, cultural and historical influences. Context factors may be helpful for explaining why the identified implementation structures differ in their structure and success (further discussed in chapter 17). The study interviews on the policy organising processes also helped to identify some context factors of particular importance for the specific challenge solution and policy adequacy. The factors that significantly affected the local actors’ abilities to assist and the manner and structure of the organised assistance have been presented and discussed at the end of each empirical chapter. Here, I provide a summary of those factors that were repeatedly indicated of importance for several challenge solutions.

An important factor with mainly negative effects on local actors’ abilities to organise adequate assistance policies was irrelevance of national formal regulations. These regulations did not always guide local actors in their search for solutions to the specific SME challenges. Simultaneous societal challenges requiring solutions sometimes resulted in conflicting regulations (land issues or external technical reorganising). When national regulations were in conflict with the local ones, it additionally obstructed solutions. Mandated actors frequently
lacked resources to implement assistance in accordance to the formal prescriptions, or the offered resources were irrelevant for particular SMEs needs. Frequent changes in formal national regulations prevented policies to evolve and stabilise. Also policy learning was impeded.

Another important macro level factor and an explanation to formal resource irrelevance was Lithuanian government dependency on the EU aspirations and development goals as well as other external (e.g. foreign neo-liberal experts’) influences in formulating SME and industrial policies. This, in turn, was reflected by local actors’ inability to plan for official, but particular to local contexts SME assistance and development strategies. It must be observed, though, that sometimes external actors provided positive influence and relevant resources (e.g. financial assistance to Lithuanian banks), but such adequate assistance was rare or scarce (other types of financial or knowledge assistance).

In general, integration into the EU opened the markets but also toughened the open competition, which was an underlying cause to some of the SME challenges. Assistance actors have been affected by the integration via the need to adjust national regulations to acquis communautaire. The adjustment had negatively affected local actors’ freedom of action, as now they perceived compliance requirements for example, in safe food production area as even stricter. Sometimes national government or willingness to comply totally disregarded the local Lithuanian contexts and the need of specific adjustment periods and measures (as was the case with food company adjustment).

An additional, but important contextual factor related to EU integration was local actor’s access to additional EU resources but at the same time their dependency on the strict regulations (in case of direct business support from Structural Funds) regarding their usage. It is worth noting that Lithuanian SME development needs and preconditions for coping with transition challenges differed from those in the mature market economies. Especially direct EU assistance measures could be more adequate for those needs than the prevalent practice indicated. In general, the institutional changes resulting from the compliance to or implementation of EU regulations and the way they affected policy and ad hoc collective assistance processes did not correspond to the expectations of the studied SMEs. Thus, the study found few indications of the western experiences significantly alleviating adequate policy organising to Lithuanian SMEs.

Another important context factor was the shadow economy, i.e. illegal employment and wage system, typical for post-Soviet transition. This, together with extensive emigration of workforce lasting for the last decade, especially negatively affected local actors’ abilities to assist SMEs to re-skill and attract needed workforce. Regarding SMEs, it impeded also fair competition on the market.

A particular context factor was the mutual mistrust culture between different groups of actors: politicians mistrusted civil servants and vice versa, local level actors mistrusted those of the national level, assistance actors showed mistrust towards SMEs, and SMEs the actors. This mistrust was so intrinsic to the Lithuanian context and reasons to that so multiple that each negative assistance experience simply had a cumulative effect. Sometimes, mistrust in assistance actors was not even related to some particular assistance experience of a company, it was enough to trust the picture presented in mass media or by close private networks.
In this unfavourable chain of mistrust, assistance actors sometimes found themselves in a situation where they either had to establish loyalty to and trust by the central (or local) government actors or their clients, i.e. SMEs. In their attempts to perform more adequately from the point of view of SMEs, local actors felt unfairly mistrusted by either the government or the other clients or interest groups.

In short, very few sample companies indicated trust in the assistance actors and public assistance policies in general. Distrust was an important reason why companies chose to organise alternative solutions disregarding the available assistance structures or ad hoc structuring.

15.7 A Summary: Variables Conducive to Policy Success in the Lithuanian Transition

All the three types of variables—context, behavioural and structural—have proved important both to the achievement of adequate policies to assist manufacturing SME to develop and survive in the Lithuanian transition context and a frequent lack of such policies. Although two geographic areas were selected to test for variations especially in behavioural and structural variables during the same time period, seldom important differences were observed. More significant differences in policy structuring and outcomes were noted among the types of SME challenges, i.e. policy problem areas. In some policy areas, certain changes in structuration have been noted even during the studied period. Besides, the variety of cases, their relatively small number and the fact that analysis was based mainly on ad hoc structuring allows presenting only certain insights into collective action tendencies. Therefore, study suggested variables of policy adequacy need to be tested by additional research on post-Soviet transition.

The applied bottom-up methodology and the empirical study of policy organising for a particular societal group—SMEs—allowed to identify the specific variables characteristic for policy organising in the Lithuanian transition context. These variables (table 15.3) have been found persistently important (to either cases of assistance adequacy or its failure) in all the analysed types of challenges. It was their different—regarding the behavioural variables often opposite—values that were found as crucial for explaining policy success and adequacy or its failure. Although the policy areas, contexts and actors differed, several of the variables affecting policy adequacy were identified as major in each group:
Table 15.3 Major identified assistance (policy) adequacy factors

<table>
<thead>
<tr>
<th>Variable groups</th>
<th>Major variables in the Lithuanian transition context</th>
</tr>
</thead>
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| 1. Context      | Integration into the EU/open competition in the EU markets;  
|                 | Relevance of formal macro (national/EU) regulations and resources;  
|                 | Type of SME challenge; (Prevalent informal institutions, e.g. shadow economy); Mutual trust culture; Adherence to the rule of law. |
| 2. Behavioural  | Congruence of policy problem perceptions; Access to resources; Relevance of (local) resources; Performance/discretion employment by local actors; The manner of assistance (transparency, willingness to assist); Trust; Linkage between organising processes; Self-organising by SMEs and non-mandated actors; Use of policy impact assessments (policy learning). |
| 3. Structural   | Type of actor constellations |
|                 | Level of structuring |

EU membership preparations and the early membership period with the resulting exposure of the Lithuanian SMEs to the open competition on the common market and the addition of a supranational level of governance was an important context variable. Not only was it essential for evoking some of the challenges experienced by the Lithuanian companies, but it also affected the structuration of the assistance and policies for their solution. In some policy areas (such as financial support to SMEs via the Structural Funds and safe food production regulations) it added new formal institutions or altered the content of the existent ones thereby affecting local and national actors’ abilities to organise adequate policies. In some policy areas (financial assistance via banks or resources for technical reorganisation) the regulations and especially the resources offered by the EU (European Commission) were a positive contribution in organising policies. However, these resources and the formal regulations were insufficient for organising successful and adequate policies to the challenges experienced by our studied SMEs. In general, characteristic to the context in which assistance to SME challenge solutions was organised was lack of formal institutional and resource relevance. In other words, local assistance actors could seldom make use of the available formal resources and regulations (including those of the EU) in addressing the particular SME needs which affected the ad hoc structuring of the collective action around a policy problem. This also indicates lack of top decision-makers’ knowledge of important SME needs or ignorance towards them and/or lack of mutual trust between policy organisers and receivers.

The type of challenge has also affected the assistance (policy) outcomes as some challenges had somewhat greater percentage of successful and adequate solutions than others. In fact, the most successful assistance (policies) was organised where SMEs were not entirely reliant on mandated actors and the strictly formally...
regulated solutions for their challenges. Possibilities to include non-mandated actors in the structurings/structures organised via the mandated ones or organise alternative solutions by SME self-organising significantly increased assistance (policy) success. The general context of the perceived rather frequent local civil servants’ and private actors’ lack of adherence to the rule of law principles affected SMEs willingness to look for (additional) solutions to their challenges via the mandated actors and the available formal structures. This lack of trust and positive experience strongly contributed to evoking new types of organising and eventually policy structuring.

A number of behavioural variables showed repeated importance for assistance (policy) adequacy in the studied contexts (see table 15.3). Most of the identified behavioural factors, however, indicated negative values: frequent lack of congruence in the SME perception of their needs and actors’ perception of policy problem, or lack of congruence in policy problem perception between different actor groups; lack of access to national or EU resources, lack of resource relevance (offered by EU, nationally or locally) and lack of trust. Besides, addressed actors’ response to SMEs, companies’ access to information, actors and resources and local resource relevance, assistance manner (e.g. protracted procedures or not), actors’ ability to cooperate and link assistance organising processes were revealed as major factors conducive for an increased assistance (policy) adequacy. Importantly, without the linkage between the organising processes we could not even talk of policy existence. How and by whom this linkage was arranged also had significance to policy success and adequacy. Active participation of assistance (policy) receivers, i.e. SMEs, in policy process by self-organising the missing linkages was often crucial to success. Local actors’ ability and willingness to perform individual solutions by applying discretion rather than confirming to formal rules also showed to increase positive impact, but not necessarily assistance adequacy. Therefore, the manner by which assistance was delivered was essential for its adequacy. On the other hand, confirming to the current formal regulations could bring negative impact on both policy success and its adequacy.

As noted, the opposite values of most of the behavioural factors significantly affected policy organising processes either towards their success and adequacy or failure. Many of these factors, indeed, were mutually interdependent and cumulative in their effect. For example, when actors had adequate or congruent perception of the challenge they tended to offer more relevant solution alternatives and resources, which also increased SME trust in them. When resources were adequate and accessible, it was easier to establish linkages between the assistance processes. This decreased the assistance needs from additional non-mandated actors (and subsequently the need to self-organise solutions). Policy impact assessment and eventually learning, in turn, increased chances for more adequate solutions. Utilising local actors’ discretion, albeit problematic in its broader sense (see discussion in section 4.4), combined with unselfish inclination to assist could at least increase SME trust, and at best policy adequacy. In addition, assistance with each challenge was influenced by specific transition context factors, also affecting actors’ abilities to come up with successful solutions.

It is also interesting that sometimes same factors—such as self-organising efforts by SMEs or the relevance of formal resources—that led to organising of an assistance structure also were conducive (in combination with others) to its success and adequacy. Next section concludes on organisational complexity in
implementing assistance (policies) in the Lithuanian transition context emanating from either adherence to formal regulations or its lack.

Relevancy of formal institutions

In general, lacking indications of systematic policy (i.e. repeated structure) prevent a full-fledged policy analysis. The analysis of assistance adequacy builds on the conclusions drawn from the \textit{ad hoc} assistance structuring. However, in the studied transition context it was in particular this less systematic or enduring SME assistance structuring that proved to be the most successful form of assistance organising. Therefore, characteristic to the Lithuanian transition during the studied period was that adequate organisational forms were still under formation while the formal regulations, even though frequently applied, did not prove their relevance to the SME needs.

Not only did the formal institutions frequently show lack of relevance in organising assistance policies to the studied SME needs, but also mandated actors seldom were capable of performing on their own to achieve successful and adequate assistance (policy). Therefore, the constellations of actors that succeeded best in assistance (policy) organising were either mixed ones, where besides mandated actors also non-mandated ones were drawn in, or an alternative ones consisting only of non-mandated actors. It is important to note that many of the challenges were solved without the involvement of any mandated actors, entirely by the efforts of SMEs, regardless of their assistance attempts. In lack of assessments of actors’ assistance impact, one might wonder whether this factor is reflected in the policy analysis that reaches top decision-makers or are the formally institutionalised assistance ways granted the honour also for those solutions companies achieve regardless of this assistance?

In general, characteristic to the organised assistance structurations was a weak or insufficient linkage between different organising processes (F1-F3), and coexistence of several types of assistance structures—or mostly \textit{ad hoc} structuring (private as well as mixed)—for the same type of SME challenges, i.e. policy problems.

Policy and ad hoc assistance outcomes

Returning to the model presented in figure 4.2, the empirical analysis allows following observations. The fact that both the assistance impact and the eventual challenge solution are regarded as policy outcomes in policy evaluation literature (see section 4.8) has an implication when solution of a particular SME challenge is a complex process requiring positive impact from several assistance structures. Depending on the character of the policy problem sometimes establishment of a particular policy structure is an important but not a sufficient factor for achieving successful and adequate policy problem solution which requires a combination of several such structures.

To solve the given policy problem, a positive impact from the evolving structure is required. However, a positive impact from one type of actor constellation or assistance structuring might not result in a positive challenge solution, since the character of the challenge sometimes requires positive impact from several
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assistance structures. The presented model for policy impact analysis (see figure 4.2) and especially conceptualisation of outcomes has therefore to be additionally nuanced. The conclusion is that in organising welfare policies to multiple need groups, such as SMEs, positive impact of some assistance structure may not lead to positive assistance outcomes. Therefore, assistance policy adequacy may be dependent on adequacy and impact of several assistance structures.

Transition specific policy adequacy variables?

A curious reader might wonder whether this study has been able to identify some transition-specific variables of policy adequacy? My answer is that it is not so much the particular variables, but rather their combinations and values that could be said to be specific for the Lithuanian transition context. Especially negative variable values have been prominent which are here taken as important explanation to lack of adequate policies.

Many of the identified variables were found in previous implementation studies as significant for policy implementation success. Variables that are possibly less well analysed in the western contexts in relation to policy adequacy are those related to “soft” (indeed behavioural) factors, such as actors’ willingness to assist or inclination to misuse discretion, disregard the rule of law and claim undue favours also resulting in lack of trust (by SMEs) in their ability or willingness to assist (see also section 16.3). Also contextual variables, such as legislative, regulatory, political influences from the EU (or neo-liberal proponents at the World Bank and the IMF), simultaneity of several complex problems to be solved (land reform and territorial planning), outmigration of workforce and similar significantly affected actors’ capacity and willingness to act. In addition, Soviet legacies of lack of adherence to the rule of law were, arguably, significant factors of policy failure.

Policy impact and adequate manner

In this study it was argued that positive policy impact while an important indicator of policy adequacy had to be complemented by adequate (acceptable, appreciated by SMEs) policy manner. In other words, actors’ abilities to organise relevant resources that repeatedly bring sufficient positive impact on solving the SME challenge (need) at hand might not suffice for policy (or ad hoc assistance) to be characterised as adequate. It also and always requires a particular manner of assistance (policy) organising. In the Lithuanian case this manner was regarded as non-adequate when the processes were protracted, actors lacked inclination to assist, demanded undue favours or at least prevented process transparency towards policy receivers. Due to those factors, companies actually often felt forced to hire non-mandated actors (private consultants) to assist them in coping with such mandated actors behaviour to promote organising success in the policy processes F1-F3/F4. But inadequate assistance manner, especially claims of undue favours, was not quite uncommon among some non-mandated actors (private consultants) either.

In sum, not all policy organising may result into adequate assistance structures and thus, policies. In addition, while adequate policy implies policy success,
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(somewhat paradoxically) successful policy problem solution results may not necessarily be an outcome of policies or be sufficient to indicate policy adequacy. Adequate policy requires a patterned assistance structure, positive impact and satisfactory assistance manner. If instead of a structure we find indicators of ad hoc structuring, given the other two factors, we can talk of only occasional assistance adequacy.

Suggested hypothesis

In his overview of the implementation field deLeon noted in 1999 (p.329): “...We should be satisfied (although not content) for the moment to understand—to explain without necessarily predicting—implementation.” Although bottom-up policy research is not predicting policy processes it can nevertheless be useful for developing hypothesis about factors conducive to its success. I find the explanatory factors that were identified by the empirical research of the study also useful for suggesting additional hypothesis on factors conducive to policy adequacy especially for transition contexts similar to the Lithuanian one.

Hypothesis 6: Adherence to the rule of law in policy processes increases trust between policy organisers and receivers and thereby local actors’ abilities to organise more successful and adequate policies.

15.8 Conclusions

In general, the study confirmed the assertions of the five hypotheses underlying the bottom-up approach to policy organising. Besides, the empirical study has proven the importance of the three initially asserted factor groups—context, behavioural and structural—for the positive assistance (policy) impact and adequacy. It was demonstrated that besides the widely acknowledged policy success (more often addressed as effectiveness) indicators—particular structures and impact—an additional one, i.e. policy manner, is essential for identifying adequate policies. In fact, without considering the manner factor, certain systematic collective action or policies may mistakenly be regarded as adequate while the positive impact might be achieved in an unacceptable manner indicating clear shortages in policy process.

In response to the first research question, empirical evidence clearly indicates that the Lithuanian government and its mandated actors’ efforts in organising adequate SME assistance policies were not that successful. Not only were the adequate public polices frequently missing, but actors with formal mandate seldom were capable even of organising adequate ad hoc solutions to SME transition period needs, mainly due to the irrelevance of formal institutions or the available resources.

This study does not cover the complete spectra of individually-based explanations to why such SME assistance succeeded, but it focused on the major interaction-based behavioural, structural and context variables prominent in the Lithuanian transition context. In response to the second study question, a major explanation to the relatively frequent success of the organised ad hoc collective actions was the active self-organising of SMEs and company abilities to involve
private-non-mandated actors to improve the policy linkage with additional resources.

The lack of adequate policies could best be explained by the combination of shortcomings on both local and national (macro) level. Mostly the same variables albeit with other (positive) values were found conducive also to policy success. On the macro level, irrelevance of the formal institutions, government inclination to detailed regulate the actions of local assistance actors and delimit their discretion closely related to mistrust in actors’ as well as lack of relevant resources, limited access to the more relevant ones and insufficient interest in policy learning could be mentioned. On the local level, behavioural factors were found of major importance: the roles of actors in assistance organising processes, actor abilities and resources. Particularly significant was the infrequent adherence by local bureaucrats and mandated professionals to the more general values inherent in rule of law (see section 4.4) that complicated actor abilities to utilise their discretion not only to increase chances of positive policy impact but also to achieve the overall policy adequacy.

Formal institutions were found insufficiently relevant for adequate policy organising processes, but still were frequently referred to, i.e. enacted, either due to local actors’ lack of knowledge, insufficient inclination to look for problem-oriented solutions, or due to compliance demands from the political centre. The fact that the structures or \textit{ad hoc} structuring to assist SMEs with their challenge solutions organised by mandated actors alone or in constellation with others were frequently inadequate should be viewed as a post-Soviet transition characteristic phenomenon, possibly of relevance for similar contexts. Indications of the lacking policy linkage provided by this study raise further concerns pertaining to good governance, i.e. justification of inadequate policies or irrelevant institutions and preconditions to increase the success and adequacy of policies and programmes being delivered.

**15.9 Usefulness of the Adopted Methodological Approach**

Implementation research has been since the start of its development searching for answers to, depending on the approach, implementation of official government programmes or policy organising success. Although authors like O’Toole Jr. (1986, 2004) made repeated inquiries into the vast policy implementation research about a more systematic, cumulative knowledge of what major factors could be instrumental to policy success, the agreement about the variables was found lacking.

The task for implementation research—to strive for systematic knowledge about its success (also usable in practice)—was admitted to be very demanding as the subject of implementation research contains much nuance and complexity and, besides, is dynamic (O’Toole Jr, 2004). It is therefore arguably difficult to get clear, general and practically usable answers from a theory focused implementation research. It was found that practically oriented implementation research was useful for highlighting particular problems of policy processes and sensitising others to it as well as “calling attention to persistently-important clusters of variables and
relationships” (O’Toole Jr, 1986, p. 203). Still, policy implementation research is expected to be able to respond to the challenge of its contextuality (Wittrock, 1985).

Implementation research has been criticised for its focus on the lack of success stories (not necessarily among the bottom-uppers, see Lin, 1996). Others, in contrast (deLeon, 1999) find many government programmes still capable of achieving some positive result. A suggestion for improving implementation research concerns adjustment of its methodological tools to be able not only to explain patterns in existing data, but as well to be able to assist decision-makers in the policy process. An example of such attempts could be insight of “how success stories differ from standard cases or failures” (O’Toole Jr, 2004, p. 319), i.e. what variables or their combinations are outstanding.

The empirical analysis of the study was concerned with patterns and factors of policy adequacy in the Lithuanian transition contexts. It was intended as cumulative knowledge in the sense of testing whether the study findings could support any of the bottom-up assumptions of policy organising and its success (effectiveness) that served as potential explanations. The study also intended to develop the bottom-up assumptions for the post-Soviet transition contexts. Therefore, it explored SME assistance policy organising with the focus primarily on structured assistance cases. The distinction was attempted as to what type of actors and under what circumstances succeed in adequate policy organising (implementation).

How did the adopted methodological approach assist in the task of revealing assistance (policy) patterns and important factors of success? The adopted methodology allowed the study to identify the actual as contrasted to formally prescribed practices in creating the policy linkage. The study found that more success is achieved not by mandated actors the formally prescribed way, but when besides mandated actors companies organise other actors to assist them. In other words, missing to explore assistance processes according to the adopted bottom-up approach would risk giving more credit to mandated actors and formalised assistance ways than they actually deserve.

In addition, although the study revealed little indications of policy adequacy, the conducted analysis did not delimit itself to searching for policy failure, but was equally much preoccupied with exploring and explaining ad hoc and more systematic assistance (policy) success. The chosen methodological approach, therefore, not only helped to reveal patterns and factors of failed or insufficient assistance attempts, but also occasions and factors of successful although more ad hoc assistance organised in practice.

In analysing complex challenge solutions and assistance processes it was necessary to identify the contributions of all relevant actor constellations and assistance structures structuring) involved in each case to establish their individual impact and eventual policies. Snowballing and in-depth interviews based on organising variables ideally fit this type of analysis and this would be impossible if, for example, using questionnaires.

The adopted methodology allowed not only to provide relevant data for testing the existent bottom-up assumptions, but it also allowed identifying additional or specific to the studied transition context variable combinations and values. This is a contribution to a possible contingency theory the implementation linkage and adequate policy organising in post-Soviet transition contexts.
Did this approach help to discover more policy success than it would have been possible the top-down way? The study results supports the argument that part of the failure to see policy solutions in complicated situations might be found in the choice of approaches to the policy process and its analysis. The argument here is that if a top-down approach and methodology would have been adopted to the solution of the SME assistance needs identified in this study, less indications of successful assistance would be revealed (the adequacy definition applied here is employed mainly by the bottom-up approach). Besides, if policy is mistakenly understood as equivalent to governmental programmes or official strategies, such as those for SME support, few indications of programme success would allow doubts of policy necessity.

However, the applied bottom-up approach and methodology allowed revealing occasions of the actual policy and ad hoc structuring success not necessarily as a result of action by complying to the formal prescriptions, or not only thanks to them. Therefore, the study would not adjoin the argument that public policies for particular outspoken needs of a strategically important group might be unnecessary. The argument is rather that sometimes certain formal programmes are unnecessary due to the lack of their relevance for the groups (here SMEs) in need. Policies, contrary to the formal programmes, are organised precisely in interaction with policy problems in specific often local contexts by actors familiar with the problem and capable of coping with it, be it in a formal or less formal/informal way. This assumption, however, does not mean that policies always evolve or are easy to achieve. The ad hoc structuring characteristic to the studied context supports the arguments of institutional change and the related difficulties in finding and institutionalising optimal solutions, mainly due to the lack of assessments and policy learning, in Lithuania also prevented by the lack of trust and lack of rule of law.

The adopted methodological approach and methods employed in the study are relevant in providing answers to the study research questions. The approach enabled identifying who, when and how best succeed to assist important actors of market economy—SMEs—during the transition as well as some major factors conducive to assistance (policy) success and adequacy or their failure. Moreover, the adopted approach also allowed specifying the relation between policy manner, its structural characteristics and impact—the major indicators of policy adequacy and policy linkage.
16 Policy Analysis Indicators of Transition Success

This study has been preoccupied with the post-Soviet transition process and, especially, successful adjustment of public policies and formal institutions to societal needs under the transition, here exemplified by manufacturing SME challenges in Lithuania. In general, the study has assessed the adequacy of the evolving organisational, both formal and informal, forms for the (selected) transition needs of Lithuanian small and medium-sized businesses, and also highlighted important explanatory factors of the organised assistance success or failure.

The approach of this study is to see the transition process as a phenomenon both affecting society members—in this case SME entrepreneurs—in their daily activities and policy processes themselves. In the preceding empirical chapters 9-13 SME transition was operationalised in terms of their major everyday challenges to develop or survive. On the politico-administrative arena, the study explored collective (policy) action in form of organisational solutions practiced to assist SMEs. In that process, it tried to identify the role of the involved actors and the contributions of the established institutions in dealing with assistance to different types of challenges.

In chapter 14, some major formal regulations and official instruments were analysed in terms of their impact or relevance in organising adequate SME assistance policies. The preceding chapter 15 outlined factors specific to policy adequacy in the studied post-Soviet transition context.

This chapter discusses whether and, if so, how policy analysis and instruments used to assess policy adequacy could be used to assess transition success. Before that, to clarify further the context to which my assessments and explanations relate, the official Lithuanian transition goals will be presented.

16.1 Lithuanian Transition Objectives

One of the aims of the study is to provide complementary indicators to assess transition success of countries undergoing the post-Soviet transition. However, until now little attention was devoted to the overall formal Lithuanian transition aspirations and goals important for assessing its transition success, especially in the area of economic development.

This study especially draws attention to particular aspects of transition—the transformation of Lithuanian economy as well as formal politico-administrative institutions and policies. In the empirical chapters, the study has analysed transition as experienced by a sample of Lithuanian manufacturing SMEs and actors participating in collective action to address them. This section presents the transition goals of the Lithuanian government.

Since the restoration of state independence, Lithuania had to cope with numerous political and economic challenges including restructuring of its economy, political, administrative and judicial institutions. The Lithuanian
economy during the time of Soviet republic was structured around large processing industries that served the needs of a much larger region than Lithuania and was highly dependent on imported raw materials. Lithuania was in that sense dependent on the Soviet and East European markets. At the end of the perestroika period, i.e. in the latter part of 1990, the economic crisis in both Lithuania and the Soviet Union was a fact. Outdated machinery could no longer produce goods of sufficient benefit (added value) and was largely uncompetitive. How did the Lithuanian government identify the problems of transition and its destination?

The first Lithuanian Government after the restored independence stated in its programme of 1990 the apparent need to reorganise the Lithuanian economy and proclaimed the planned stages of that reform. The initial stage had to focus on the stabilisation of the Lithuanian economy by such general measures as entrenchment of the Lithuanian independence, economic border protection and introduction of own national currency. Further, the essence of the economic reform in Lithuania was transformation of the Soviet model into a “modestly state regulated socially oriented market economy” (Lietuvos Respublikos Vyriausybė, 1990, p.33). The first government programme also indicated that Lithuanian economic model uses the experiences of other countries, but is preconditioned by the particular Lithuanian context.

The model was to be based on the western market experiences and acknowledged the necessity of the following preconditions: a) a variety of ownership forms and relations; b) all types of market (capital, goods, services and labour), c) strong currency, and d) a democratic political system with rule of law. Among the tasks the national government ascribed itself was creating preconditions for the market economy and restructuring of the Lithuanian economy. Democratic structures of the political system and favourable attitude in the society towards the reform were identified as necessary general preconditions for its success.

To give the reader some clue of the planned pace and the optimism of the reform at such an early stage I refer to the stages of the reform intended by the first government of Lithuania after having re-gained its independency in 1990:

1) 1988-1990—creation of legal basis for the reform and internal preconditions;
2) 1991-1992—creation of the basis for market economy;
3) 1993-1997—completion of the reform. Modestly regulated socially oriented market is established and increasing entrepreneurship is achieved (Lietuvos Respublikos Vyriausybė, 1990).

The objectives with the Lithuanian reform should also be viewed from a broader foreign and economic policy perspective. Already at that time there was an intention to “return to Europe” partly by establishing cooperation with Western European countries, but as well by “entering the already existing integrated structures of Western Europe” (Lietuvos Respublikos Vyriausybė, 1990).

As the Lithuanian economy kept deteriorating, the sixth Lithuanian government in its programme of 1994 declared not only its intention to stop the economic decline, but also the need to prompt the Lithuanian integration into the western political and economic structures and to the cultural and technological space to enable restructuring of its economy.
The next significant step in the transition of Lithuania was taken on 12 June 1995 when the EU has signed *Europe Agreement with Lithuania* in which an association between the two parts was established with the purpose to prepare Lithuania for its future membership in the EU. In fact, a double commitment was undertaken: on the one part, Lithuania promised to continue with its political and economic reform towards a market democracy according to a coherent programme, on the other part EU Member States undertook “to contribute to the implementation of the reforms and to assist Lithuania in facing the economic and social consequences of structural adjustment” (*Europe Agreement with Lithuania*, 1995). The EU Member States referred to that mutual commitment as an “appropriate framework for the gradual integration of Lithuania” (ibid.) For the Lithuanian part, this commitment implied fulfilling the necessary requirements of the association treaty.

In short, integration into the EU has shaped Lithuanian economic transition goals and approaches in important ways. The latter national programme for the adoption of the Acquis stated in 2000:

“The goal of the industrial policy in Lithuania is sustained industrial development and stable growth of industrial competitiveness in conformity with the principles of market economy. Industrial policy is defined and implemented taking into consideration the Commission’s recommendations as well as the specific situation of economy in transition.”

(Lithuania’s EU Accession Programme, 2001)

The level of aspirations of Lithuanian transition has increased considerably when regard was taken to the Lisbon Strategy. In 2001 in drafting a long term (ca 15 years) strategy for Lithuanian transition government stated:

“Within a decade, Lithuania will completely adapt itself to EU economic order with a smoothly operating system of market mechanisms. Legal acts on the establishment, operation and liquidation of enterprises, competition, supervision of monopolies, execution of contracts, proprietary issues, labour market, crediting and the issues relating with the functioning of the economy, as well as their practical implementation will have only slight differences from those applied in the countries of Western Europe.”


EU influences were traceable in such government declaration as “economy based on knowledge is becoming one of Lithuania’s priorities,”(ibid.) stated just a few years after the significant difficulties with market restructuring and backslashes. The intended economic goals were noted impossible to achieve without “good administration and transparent activities of the government” that were meant to “substantially decrease the level of corruption and the influence of the criminal world on business” (ibid.).

Interestingly, while the mainstream economists arguably lacked theories for how successful transition can be achieved (Tomer, 2002, p. 427), since the start of the transition representatives of this school have been active with their advice via the International Monetary Fund (IMF) in the CEE countries. The essence of their advice was to replace the important so-called “hard features”, especially the
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(formal) political, organisational and legal structures of socialism with those of capitalism at a rapid pace. The imagined endpoint of the transition of CEE countries, according to the mainstream economists was “their model of ideal capitalism” (Murell, 1993, p 122).

Formal institutions and public policies are seen as instruments in alleviating social and economic transition. As was demonstrated, in different time periods and due to neo-liberal or EU model influences, the goals of the Lithuanian transition shifted. How does that affect possibilities to assess transition success of actors and institutions on its different arenas, especially the political and administrative ones? The next section elaborates more on the problem.

16.2 Conceptualising Transition Process and its Success

The study’s concern with actors’ abilities to provide adequate policies to alleviate transition relates closely to a more general issue, i.e. the ways transition success can be assessed and the role assessment of policy adequacy can play in that task.

Discussions on transition success are inevitably related to ideas of its endpoint (see previous discussion in chapter 2). In discussing transition processes two interrelated concepts are applied, that of transition and consolidation, but their contents are further debated. Transition to democracy and its success has preoccupied many political scientists especially in the sub-discipline of comparative politics (Rustow, 1970; Etzioni, 1991; Linz, 1996; Tommer, 2002; Ekman, 2006).

In political science, a special attention is devoted to transition of politico-administrative institutions. New branches of political science evolved with focus on transition processes to a democratic regime and consolidation of democracy (see e.g. Schmitter and Linn, 1994). In general, transition to democracy, even though accepted as not necessarily a linear process is understood by some of the initiators of transition research (O’Donnell & Schmitter, 1986) as a process that starts with the fall of the non-democratic regime and ends when the new democratic regime has been installed (as a result of fair and free elections). Also some more specific definitions of a completed transition have been attempted (Linz & Stepan, 1996, p.3), such as: “(...)When sufficient agreement has been reached about political procedures to produce an elected government, when a government comes to power, when government de facto has the authority to generate new policies” and when a de jure separation of powers is achieved.

However, these definitions focus, for the one, on the more tangible, “hard”, i.e. institutional factors and primarily the “input” or formal decision-making side in governing the state. Thus, transition is commonly understood as achieved when free and fair elections have been held and a new constitution establishing some political power balance is produced. After that follows a consolidation process which takes into account more “soft” factors.

Also in the economic sphere (arena) transition is frequently perceived as a replacement of one set of economic institutions by another set of institutions of proven efficiency (Grabher & Stark, 1997). However, Grabher and Stark (1997) argue that economic transition of the post-Socialist countries should not only be
viewed as promoted according to a worked out western model that functioned well in the West, but rather allow for more institutional diversity in promoting adaptability of the actors to the changing conditions. Building on new findings in the evolution theory, Grabher and Stark (1997) claim that introduction of most fit uniformous institutions from other contexts would not necessarily provide best tools for transition. Instead, institutional fitness is context based and changes during the course of time. Thus, an organisational variety would only be an advantage in the transition context. Same applies in the politico-administrative sphere where the relevance of the new institutions for societal problems is yet to be proven.

According to Linz and Stepan’s definition, Lithuanian transition during the study period 2000-2006 would seem to be completed, given the government has the authority (recognised by rules, legislation) to “generate policies”, although the authors do not elaborate on what is implied by it. It is unclear if they refer to pure formal decision making where policies imply aspirations or ascribe polices a broader meaning close to the one adopted in this study. If the latter applies, the government faces a greater challenge. However, the authors do not raise the question whether the government also has the ability to deliver successful and adequate policies. In this transition definition, little concern is shown for the role of the bureaucracy, the “output” side of the political process and the success and adequacy of the delivered policies. In general, discussions of the adequacy of collective public action (and not only formally mandated organisations) in implementing political goals to serve the societal transition needs have not yet gained ground in the transition and consolidation literature.

It should be mentioned though that some authors have noticed the need to take into account also the so-called “soft features” such as attitudes, behavioural orientations, values and beliefs important for successful socio-economic performance (Tomer, 2002) of the transition countries. Tomer warned that the neo-liberal (economic) transition strategy propagating a prompt replacement of the hard features—political, organisational and legal structures—undermines the various soft features and informal structures. The results of this study indicate that distinction between hard and soft transition preconditions is both relevant and necessary not only as preconditions for transition success in the economic arena, but also on other transition arenas, especially the political and administrative arena with regard to institutional relevance and actors’ abilities to organising adequate policies (see section 15.7). Besides the replacement of particular institutions and thus policy organising structures also certain behavioural/soft characteristics are requires to increase the probability of policy success and adequacy.

Is it, then, still relevant to talk of transition in Lithuania (and the rest of Central and Eastern Europe) as an uncompleted process, now nearly 18 years after it has “officially” started? If we use the Stepan and Linz (1996) definition of transition, Lithuania met the “hard” preconditions of a completed transition and was then, accordingly, in a consolidation phase. However, when the soft features of democracy are considered such as democracy being “the only game in town” behaviourally, attitudinally and constitutionally (Linz & Stepan, 1996, p.5), strong doubts remain as to whether consolidation is the right assessment of the Lithuanian situation. Consolidation is understood by others as “internalization of democracy rules and procedures and dissemination of democratic values” (Pridham & Lewis, 1996, p. 2). Malfunctioning of public sector organisations and formal institutions
resulting in corruption and mutual distrust between actors evident from the policy processes studied allow to raise doubts of the very de facto functioning of democratic institutions and the effectiveness as well as adequacy of public policy.

The consolidation of democracy and market economy may be a long and demanding process that affects civil, economic and mass society in more significant ways than the transition understood as an introduction of new regime (Linz & Stepan, 1996; Linde, 2004). Even though, as Linde (2004) notices, most definitions of consolidation are specific to a chosen research topic, many of those definitions contain the aspects of stabilisation, routinisation, institutionalisation and legitimisation. Thus, scholars of consolidation have turned to applying a more in-depth approach to consolidation towards political actors and institutional frameworks (Linde, 2004). Maldini (2007) includes consolidation process in a broader concept of transition (see section 2.5). Indeed, Joseph Stiglitz, chief economist of the World Bank and Nobel prise winner has remarked in 1997 (Stiglitz, 1997) that many of the CEE countries still had a long way to go to until the transition is over.

In the Lithuanian case, we speak of a transition from the Soviet regime to a new one. In practice, the endpoint (target) of this transition could be an object of discussion, as could be seen from the official government goals and arguments by some Lithuanian scholars (Rudskis & Titova, 2006; Rakauskiene, 2007). In any case, Lithuania seems to be heading towards a model of representative democracy, political pluralism and a market economy somewhat vaguely defined as that practiced in the EU (see also section 1.6).

Transition on the political arena is often discussed in terms of consolidation of democracy. Liberal democracy was thought of by its inventors to provide a fair and effective mechanism to represent the needs of the people of a certain society. The elected representatives were expected to be competent and capable of discerning the true interest of their country (Held, 1993). R.Dahl ascribed “the continuing responsiveness of the government to the preferences of its citizens, considered as political equals” as the key characteristics of a democracy (Dahl, 1971, p.1) even though admitting this ideal responsiveness to the needs of as many citizens as possible as hardly possible. The ability of political institutions to define what is relevant for meeting the prioritised goals of society and organise (via administrative institutions) their achievement, at least according to the liberal democratic theory, creates legitimacy (approval) and trust of these institutions in a democratic society and is characteristic of a consolidated market democracy.

This study argues that consolidation (as a second part of the transition process) could also be understood as securing a de facto policy linkage in a democratic context. However, even though broader in their perception of transition, consolidation theories, similarly to the transition theories, also focus primarily on the establishment and maintenance of new institutions and the role of the political society, civil society and the rule of law in this process. Linz and Stepan (1996) call these three arenas the main prerequisites for the consolidation of democracy. I claim that two issues are insufficiently attended in these theories. Firstly, functioning bureaucracy and economic society are seen as supporting, but not major arenas in the process of consolidation. This approach fails to recognise the performing role of actors from public bureaucracy and economic arenas in policy process and in achieving greater adequacy of policies (especially policy structures and eventually institutions). In transition theories, the administrative agencies are
treated as some neutral executors of elected representatives’ decisions in policy processes that, at best, reflect the “will of the people”. Lack of the focus on the relevance of these institutions for organising policies that are adequate to the transition needs supports the top-down perspective on policy process and government steering. Besides, lacking is a broader perspective on transition of policy structures and formal institutions as a process that possibly includes or is driven by actors from varying arenas. And secondly, while transition is about replacing irrelevant institutions, I could, however, find little concern with the assessments of institutional relevance in terms of their abilities to structure adequate policies as an indicator of transition success in the reviewed transition and consolidation literature. The study argues, therefore, that insufficient attention is paid in those theories to the role of policy process in highlighting important indicators of transition (consolidation) success regarding both hard and soft factors and preconditions for achieving it.

**Implications in assessing transition success**

As noted, focusing on formal political institutions in mature democracies may not correctly reflect how policies responding to the societal needs are organised in practice. Top-political and formally mandated administrative actors not always are the only ones possessing power to organise solutions to increasingly multiple, context dependent social group (here SME) needs in an ever more networked society. However, both the traditional democracy theories and transition theories still tend to stress the focus on formal (political) institutions and the role of government and mandated actors especially in the post-Soviet transition contexts. Nevertheless, the focus on the formal institutions and primarily the input side of the political processes provides an incomplete transition assessment.

In this study policy organising approach allowed assessing both the ability of the government and other actors to respond to societal (SME) needs with adequate policies. By exploring whether collective actions adequate for addressing particular societal needs during transition were institutionalised (have a structure and a pattern) it also researched a particular aspect of consolidation, or in the broader sense, transition success.

Several factors complicate both transition success and its assessment in such post-Soviet societies as Lithuania. Firstly, the fact that transition takes place on several interdependent arenas (see chapter 2)—1) civil society; 2) political society, 3) rule of law, 4) usable state bureaucracy, and 5) economic society (Linz and Stepan, 1996, p. 9)—should also taken into account when assessing the success in any of them. This means that assessments of transition on one arena, such as Lithuanian SME abilities to cope with the transition challenges on the economic society arena, are interrelated with the transition success of the others.

Besides, the assessment of the post-Soviet transformation processes is further complicated by the fact that the new type of the society is yet evolving and the final model is not readily given. The domestic preconditions and the path dependency are important factors determining the shape of the evolving society and its ways of democratic governance.

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436 As was noted in Chapter 1, at least during the first transition decade the Lithuanian government hesitated between the new liberal and the welfare model of democracy.
An additional dimension in discussing transition success is the level of indicators, macro or micro, to be used. Marie Lavigne (Lavigne, 1999), has noticed that, for example, economic transition should be discussed and assessed not only in terms of macro (economic) level exemplified by privatisation and structural reforms, but especially as micro phenomenon through case studies. She views enterprises as the core unit of transition analysis in the economic sphere. Some others (Grabher & Stark, 1997, p. 534) agree with the micro-level approach, but propose the proper unit of analysis instead to be micro-interactions such as “networks that link firms and connect persons across them.”

These authors also view such microstructures that are under transformation as agents of the restructuring. This view clearly supports the approach to policy organising and structuration in this study and the suggested assessments of transition success on the political and bureaucracy arenas. In short, transition success can thus be assessed in terms of micro level interactions. Their diversity and lack of unitary forms may be even favourable in a transition period (Grabher & Stark, 1997) as it would provide more solution alternatives and thus increase chances of success.

**Interdependence between transition arenas**

Economic society is one of the transition arenas the development of which significantly affects post-Soviet transition success of the other arenas. Robert Dahl, for example, argued that evolvement of pluralistic politics and democracy is preconditioned on existence of decentralised and competitive economy (Dahl, 1971). Moreover, economic transformation and development in itself is preconditioned by the development in other transition arenas. This is especially true of SME dependency on public assistance policies.

It is not thus a totally free market that is required to sustain a strong democracy. The involvement of the state and its regulatory role in the economic sphere has been an important aspect of a consolidated democracy (Hull & Hjern, 1983; Tomer, 2002). Such are democracies of the old EU Member States, a model towards which Lithuania and most CEE countries seem to be striving.

In short, there is a mutual interdependence between the political and market arenas in both consolidated democracies and transition societies. Transition of the economic society is related to certain social values, such as that a sound economic development and the level of living in a society is in large based on the development of SMEs. The development of SMEs is dependent on state involvement and particular policies, especially in the post-Soviet transition contexts where SME as actors were frequently non-existent. However, SME assistance policy organising in Lithuania analysed in this study is but an example demonstrating the dependency of the economic arena on the political, rule of law, state bureaucracy and civil society arenas.

From the arguments in this section it follows that some complementary stockyards are necessary to address the transition success of post-Soviet countries. In the following, I will elaborate on how Lithuanian transition success can be accessed via micro interactions and policy processes. I will consider different ways to assess the success of economic arena and the relation between SME success in adapting to market changes and the transition success of policy organising actors.
16.3 Assessing Transition Success of the Economic Arena

EU membership has changed the legal forms of social life, but it could not change the collected knowledge and societal experiences as the new ones are not created over night. This study explores how companies together with diverse actors (formal mandated and others) handled the contexts that have changed with the help of formal institutions, legislations and decision-ways that also were under transformation.

A primary interest of this study was in assessing transition success of actors participating in organising assistance (policies) to SMEs in coping with their transition challenges, especially related to the political and administrative (“usable bureaucracy”). The empirical focus of the study was primarily on those SME challenges (or development impediments) that SMEs were in need of assistance especially from public actors in local government administrations. Actually, some of the SME development impediments required contribution from mandated actors (e.g. land, external technical reorganisation).

SME abilities to cope with transition period challenges in itself is an indicator for transition success, but without a detailed scrutinising of assistance SME received, favourable solutions of their challenges cannot per se serve as indicators of either formal political, administrative institutions or public policies. Neither can, for example, economic macro level factors (especially institutions) provide a sufficient basis for assessing of a country’s economic transition success. The next sections could be taken to illustrate these arguments.

Macroeconomic indicators

In general, often measures used to access success of the economic transition are of a macroeconomic character, such as the increasing growth of GDP per capita, especially practiced by the neo-liberal school of economists, and replacement of one set of economic institutions by another of proven efficiency. Such physical attributes as, financial relationships, ownership, organisational structure are called hard factors. They are relatively tangible and capable to be expressed. There are, though, divergent opinions on the meaningfulness of such assessment, as the measurement differs depending on the transition destination (e.g. Grabher & Stark, 1997; Tomer, 2002). Especially some socio-economic theorists (e.g. Tomer, 2002) suggest using besides those narrow macro level aspects for assessing economic transition broader measurements, called soft factors.

To the category of soft characteristics belong “attributes of the people and social relationships”, for example, attitudes, values, enthusiasm, commitment, and more (Tomer, 2002, p. 422). Soft factors can be seen as features of micro level interactions, but may also be attributed to social systems in terms of social capital (an issue I will return to in chapter 17). “Socio-economic systems work best if their hard and soft elements are aligned or at least compatible, and they work least well when there is a tension or conflict between them” (ibid., p. 422). Thus, it is not enough simply to replace the hard attributes of the socio-economic system; without coherence with the soft ones, it will not work optimally. Transition, according to
the latter, is assessed by whether the hard and soft attributes of a socio-economic structure are in place.

It is common to assess economic transition (arena 5) in Lithuania by macro level and hard factors. Indeed, many macro-economic factors pointed to a favourable and strong economic development in Lithuania during the study period (see table 16.1). Statistically, the GDP per capita kept increasing from 3.4 % of the EU (15) average in 2000 to 56.1% of the EU (27) average at the end of the study period in 2006. There were also favourable indications of increasing labour productivity. In fact, during the first years of the EU membership since 2004, Lithuania, together with Latvia and Estonia, have stood out in the union as the countries with a very strong economic growth. In Lithuania the economic growth rate during the period studied averaged ca 7.8%. It exceeded the EU average 4.6 times allowing Lithuania together with the two other Baltic States to occupy the top three positions as compared to the other EU Member States (Rudskis & Titova, 2006).

Table 16.1 Indices of competitive economy priorities in Lithuania

<table>
<thead>
<tr>
<th>Indices of competitive economy priorities</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP per capita (by standards of purchasing power), ES-27 = 100</td>
<td>39.4</td>
<td>41.6</td>
<td>44.1</td>
<td>49.1</td>
<td>50.5</td>
<td>53.1</td>
<td>56.1</td>
</tr>
<tr>
<td>Labour productivity per capita EU-27 = 100</td>
<td>42.7</td>
<td>46.9</td>
<td>48</td>
<td>51.9</td>
<td>53.3</td>
<td>54.6</td>
<td>57.1</td>
</tr>
</tbody>
</table>

Source: Lithuanian Department of Statistics

The Lithuanian industry, although strongly affected by the Russian economic crisis in 1999, during the period studied regained its strength of early 1990s with the annual growth of industrial value added averaging 10.6% (and even higher in 2006) mainly due to the expanded relations with the EU market and direct foreign investment (Rudskis & Titova, 2006).

In the context of continuous economic growth and replacement of hard institutional factors (privatisation, own currency, company laws and bankruptcy procedures, to name a few) analysis of SME assistance policy and its impact conducted in this study provides some complementary information on the individual companies’ abilities to cope with the transition challenges.

Micro economic indicators

This study found SME development and, especially, their abilities to cope with transition challenges significantly affected by the success and adequacy of the organised assistance structures and ad hoc structuring. In slightly more than half of the analysed challenge solution cases (36 of 76 or 47%) sample companies have been dependent and drew advantage of external actors’ assistance and the role of mandated actors was crucial for assistance success (see table 15.1). In the absence of successful assistance, though, SMEs sometimes (in 14 cases of 76 or 18%) succeeded in organising solutions on their own or without involvement of formally mandated actors (via private networks).
The percentage of unsolved and only partially solved impediments (in total 55%), however, indicates not only insufficient success by the mandated actors, but also SME dependency on them for solutions. In general, the number of cases with unsolved major SME challenges (22 or 29%) signals of important impediments to SME success in coping with their transition period challenges. Two of the 31 studied companies did not survive the challenges and had to face bankruptcy. As all the studied SMEs were concerned of finding ways to cope with their challenges in order to survive and develop further, their failed success also indicates flaws and inadequacy in the assistance policy and the new institutions.

A need of SME assistance policies?

In order for Lithuanian SMEs to successfully cope with the transition challenges they were in need of adequate assistance policies. These policies, at least for some of the major (most frequent) challenges manufacturing SME faced according to the study conclusions were lacking or there were very weak indicators of their existence. Instead, assistance was organised in a rather ad hoc manner and succeeded mainly due to the self-organising efforts of assistance (policy) receivers themselves—i.e. SMEs.

Lithuanian SME transition period needs were more successfully solved in a less systematic ways demanding active involvement of other than formally mandated actors and resources. The provided SME assistance was better in achieving a positive impact than adhering to the rule of law thereby often failing in policy adequacy. These indications should be taken into account when assessing Lithuanian transition success or its lack. Even though structuration normally foregoes a systematic structure indicating policy existence there are doubts as to whether the identified ad hoc ways of SME assistance organising in Lithuania can be expected to evolve into adequate policies from the point of view of SMEs. Thus, a need of adequate policies remains.

To conclude, the study of the Lithuanian transition context indicated significant government inability to provide adequate formal institutions and resources to cope with some important challenges of the vital economic group—SMEs. This inability should be related to a context where the traditional government approach to bureaucracy and hierarchies—as part of an inter-organisational policy process—prevails.

While transition challenges required particular instruments focused on easing company adjustment neither the Lithuanian government institutions (their individual actors) nor the EU were, at least initially, able to offer successful and adequate assistance. Lack of attentiveness to their needs, lack of timely support, irrelevant resources, and lack of discretion and adherence to the rule of law among other things decreased SME chances to successfully adjust and make use of the EU experiences in the field. The results of the study can, in general, be taken to support the importance not only of macro level conditions for SME development (such as legislation) in the post-Soviet transition context (Smallbone & Welter, 2001) but also those of micro level (the structure and the manner of local assistance policy organising). I therefore argue that besides the rather commonly accepted indicators of transition success, the existence of adequate policies is a fully adequate complementary aspect of transition success.
With reference to the study results one might wonder at what political or interaction level and with what instruments would there be possible to achieve more adequate policies to assist SMEs in Lithuania? Answers to similar questions remain a seemingly important task for further studies in policy analysis especially in post-Soviet transition contexts. Experiences from other transition countries could be of help in addressing these and similar issues.

16.4 Assessing Transition Success via Policy Processes

This study focuses not only on the transition success on the economic society arena, but also, and especially, on that of the government and formal institutions. In a transition context, both formal institutions and policy organising structures intended to assist the society to cope with the various transition challenges are under transformation themselves. Policy actors encounter new conditions, new phenomena (such as evolvement of SMEs, changes in the economic sector structure of the country) that lead to new type of societal needs and policy problems.

In general, in assessing consolidation of democracy often criteria referred to (see e.g. Linz & Stepan, 1996) are applicable to strengthening the already existing democracies. A major reference point is the mainstream democratic political theories that frequently build on the political system model according to Easton. Such democratisation theories ascribe certain expectations in consolidating democracy but also for its further successful functioning primarily to political, administrative, but also, more indirectly, judicial institutions (rule of law). In the politico-administrative relations such models stress, as do Linz and Stepan (1996), state capacity in implementing policy decisions via skilled, but neutral and complying bureaucracy.

However, the power and the capacity of the central government to control and steer distribution of values/goods and the ability to create societal unity by insuring top-down control and providing maintenance of societal stability have been challenged (Andersen et al., 1999, see also sections 2.1, 3.7). Therefore, these criteria may no longer retain their position in assessing the transition success of the political and administrative institutions. Instead, new alternative and more suitable success criteria have been suggested, such as room for difference in policy processes, local autonomy, and government/policy actors’ preparedness to rearrange and adapt organisational forms to societal needs. These criteria may well apply for societies under transformation. Chapter 15 summarised transformation success of formal institutions and the government (mandated actors) in terms of their adjustment and relevance from the perspective of SMEs.

Policy adequacy and transition success

Although the study does not in particular discuss or assess the democratisation aspect of transition (and consolidation), it is preoccupied with the establishment of a policy linkage that is a characteristics of democracies. The transition success may be related to achievement and consolidation of certain level of democratization, but
I suggest it may also be assessed in terms of a policy linkage. Therefore, the study does not see transition success assessments as necessarily confined to the prevalent democratisation assessments. It sees a problem in applying only the narrow definitions of consolidation in assessing developments in the post-Soviet societies. Traditional political system based theories become somewhat problematic when applied in assessing post-Soviet state (and societal) transition success. If government capacity via usable bureaucracy to implement top decision-makers’ decisions is taken as a stockyard in assessing their transition success it would not necessarily provide a satisfactory explanation to the way societal needs are satisfied and public policies organised. In other words, such approach would not necessarily reveal how policy linkage is secured in various welfare delivery areas and assess the eventual contributions of the government and formal institutions.

Using the bottom up-approach to policy process, this study contends that it is in the so-called “output” side of the political system (action of local civil servants and professionals) that the actual adjustment processes to transition needs take place. As the adopted approach erases the distinction between policy making and implementation it allows identifying policy organising as interactions of actors from more than “usable bureaucracy arena”. Therefore, assessments of transition success are to be based on the performance of actors and institutions from several related arenas.

The adequacy of the collective public (policy) action normally implies the transition success of policy actors (possibly also the government) and significantly increases the transition success (ability to cope with transition challenges) of the policy receivers (e.g. SMEs). Studying both micro level interactions and the relevance of existent formal instruments and institutions not only contributes to the development of policy implementation theory for transition contexts, but it also provides complementary indicators for assessing the transition success of the government and other actors.

**Complementary transition success indicators**

Exploring the establishment of adequate policy structures provides evidence on whether a particular democratic government has achieved one of its major tasks: linking outspoken societal aspirations with their successful and adequate realisation via the body political. Government (and mandated actors’) abilities and institutional adequacy at a particular transition period seen from the societal point of view—rather than assessing implementation success of some pre-defined formal objectives—could be seen as important complementary indicator of transition success.

How well is the policy linkage able to reflect transition success of several arenas? Policy adequacy indicators employed in this study—structures, manner and impact—relate primarily to the transition arenas “usable bureaucracy” and “economic society” if we use the classification by Linz and Stepan (1996), but they are also closely linked to the remaining three arenas. The success and adequacy of SME assistance polices and *ad hoc* collective action was reached thanks to the contributions from private networks and actors from economic society, but also due to actors’ discretion and adherence to the broad concept of rule of law on case, often on case-by-case basis. The role of political society issuing formal guidelines, regulations and supplying resources was of primary importance for policy.
adequacy. The civil society arena has not been touched so much in this study, but its relevance can be demonstrated by the awareness of collective non-profit business organisation and their abilities to influence on policy organising (structural and behavioural characteristics).

The adopted policy analysis approach clearly indicated interconnections between the different transition arenas in local policy organising. In fact, the bottom-up approach increased researcher’s abilities to see those interconnections. Therefore, it would be difficult to assess transition success on one particular arena without taking into regard the situation in the remaining ones. In regard to this, there are clear limitations in Linz and Stepan’s approach to, for example, decision making seen as taking place mainly in “political society” arena as policy goals shift and are adjusted by “usable bureaucracy” sometimes with actors from other arenas in implementation processes. Put differently, the bottom-up policy analysis indicates instead that policy organising (and thus politics) takes place in-between several arenas and is affected by developments in several of them.

In short, my argument here is that bottom-up studies of public policy processes allow identifying important policy success and adequacy indicators related to several or all (as in case of SME assistance policies) transition arenas and reveal important aspects of transition (consolidation) success. The policy “structure” indicator inform on the government and other actors’ abilities to provide systematic structure (institutions) and resources to respond to societal needs. The repeated and systematic policy pattern applied in practice (as contrasted to formally regulated) reveals higher level of structuration, i.e. institutionalisation that indicates certain institutional stability and certain indications of optimal solutions. The constellation of actors in policy structures reveals more of the role of government and the relevance of the formal regulations in organising an adequate response.

The policy “manner” indicator refers to certain values and principles embedded in the adopted conception of the rule of law (see section 4.4) and, therefore, is an assessment of actors’ adherence to it. Finally, the policy “impact” indicator relates to success of policy measures and government or other actors abilities to alleviate transition challenges, i.e. respond to societal needs.

These are important complementary indicators alongside with the existing measures to assess transition success of government and formal institutions. In addition, they also reveal important aspects of actor and eventually institutional adjustment and abilities to cope with the transition challenges in other arenas. In short, these indicators are not delimited to some particular transition arena and by allowing to assess the policy linkage they complement the received transition success concepts and provide some practical tools to encompass some of the hard and soft transition indicators.

Completed transition, at least temporarily, should indicate the ability of the government and the society and to adjust to the changes on several arenas—political, socio-economic and other. This study argued that it should signal not only the establishment of some democratic procedures, but also a substantial government or rather public sphere actors’ capacity to adequately respond to some outspoken societal needs (demands for services) with positive impact achieved in an acceptable/adequate manner. Besides, assessing transition success on one arena (such as economic society) is interrelated with success on the other related arenas. Frequent policy failures indicate insufficient institutional adjustment impeding on the abilities (or unwillingness) of the policy actors (both mandated and not) to cope
with the changing transition context. Nevertheless, actors might find new ways of structuring to create patterns and gradually institutional arrangements more fit to deal with transition needs. Such assessment of transition is quite independent of the concrete model of democratic market economy but adheres to its major principles—the government responsiveness to societal needs, rule of law and its certain involvement in the market.

The results of the study call for further explanations to the manifestation of certain behavioural variables. Therefore, before presenting a final summary of the study findings I will present some ideas for further search of policy adequacy and transition success explanations.
17 Attempts to Explain Some Factors of Policy Adequacy and Transition Success

Collective action in inter-organisational networks in the literature of inter-organisational cooperation and implementation\(^{437}\) (Scharpf, 1978; Marin & Mayntz, 1991; O’Toole Jr, 1986, 1993, 2000; Hanf & O’Toole, 1992, Hjern & Hull 1982; 1983; Kettunen, 1994; Hill & Hupe, 2009) is frequently regarded as an ever more significant mode of governance. It provides opportunities for tackling the so-called “wicked policy problems” (see Rittel & Webber, 1973; Koppenjan & Klijn, 2004) that are often differently perceived by different actors and the contents of which is shifting in different circumstances and time periods. Such action also plays an increasing role in regulatory policy fields with no overarching political authority or as a new way of breaking policy deadlocks. Inter-organisational networks are also regarded as facilitating policy innovation and learning. The referred theoretical bottom-up approach to implementation treats inter-organisational policy processes as a modern policy phenomenon facilitating the policy linkage. The present study revealed, however, that even though inter-organisational interactions and cooperation in organising assistance (policies) prevailed in Lithuania, it frequently lacked success or adequacy for the SME challenges. With reference to this, the present chapter intends to briefly look into what might be possible explanations to the identified factors of the lack of policy success and adequacy, and, subsequently, transition success of the Lithuanian government and formal institutions.

By now the study has established that government or other organisational actors’ capacity to provide adequate policies is a clear (albeit only complementary) indicator of their transition success. The study foundlings, however, revealed that the Lithuanian government and the formally mandated actors often lacked capacities to organise adequate policies. The study has identified a mixture of particular context, behavioural and structural factors as conducive to policy adequacy (see table 15.3). Several of the factors are essential to explore further to increase our understanding of preconditions to policy adequacy and country’s transition success. Of special concern here is a search for explanations to the frequently negative values of the major behavioural variables. As this ambitious task is outside the initial intentions and the scope of the study, here I only attempt to provide some threads for possible explanations and tracks or eventual future

\(^{437}\) Some of this literature goes under the name of “policy networks” and “network governance” (see Ansell, 2000), “collaborative governance” or “social-political governance” (Kooiman, 2007). These approaches to networks or inter-organisational cooperation (implementation) differ in their perception of the role of government and its official programmes or laws in the implementation process and the characteristics of such action structures. Much of network literature lacks of interest in implementation in terms of “realization or non realization of hierarchically determined goals, but treats or explores it rather as “embedded in a wider policy process negotiated through networks” (Hill & Hupe, 2009, p. 68).
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research. I will not therefore undertake some lengthier in-depth analysis which is necessary to better comprehend the particular combination of variables.

Since the studied processes of adequate policy organising have mainly reached the very initial or ad hoc structuration phase, I abstain from categorically ascribing the specific explanatory factors to either of the structure-action (structural or behavioural) category. Some of the factors characteristic to policy organising in the Lithuanian context were, however, more intangible or “soft” ones and could be treated as behavioural.

17.1 Several “Soft” Factors

The theoretical bottom-up approach assumes that the discretionary powers of local government officials and professionals may considerably increase policy success and adequacy. In the studied context, local actors mandated implementation tasks by the government, however, enjoyed quite limited discretionary powers in performing assistance. Besides, lack of formal legality and lack of values and norms of conduct pertaining to rule of law among the local bureaucrats and mandated professionals (but also some non-mandated actors) turned their performance into inadequate policy behaviour. This created mistrust in actors.

The opposite, detailed central regulations of various assistance policy areas with strict demands of adherence and lack of discretion demonstrated government’s mistrust in local policy actors and their abilities to secure just and successful policy organising locally. However, in the studied policy areas important aspects of formal legality were missing. Lack of formal rules for particular situations, detailed but contradicting or unclear legal regulations were of little guidance to local administrators in organising adequate policies. Besides, the study findings indicate that actors’ willingness or abilities to assess their impact on policy problem solution (and assistance organising manner) were an essential factor that, when employed, positively affected their policy learning and policy adjustment to the particular SME challenges. These and other factors, such as lack of relevant resources, delimited local actors’ abilities to adequately respond to the SME challenges which reinforced the inherited mistrust in formal institutions among policy receivers.

In sum, the combination of particular variable values—lack of rule of law, lack of relevant resources, attempts of detailed regulation and central steering together with lack of local actors’ discretion and/or inclination to assist and lack of policy learning—has been found characteristic to the studied transition context and conducive to policy inadequacy. It deserves, therefore, a special attention. In the following, I will seek to illuminate some linkages between the particular variables (and their values) and attempt to provide some possible explanations to their manifestation in the studied transition context.
17.2 Searching for Explanations in a Complex Social World

Before taking any further steps in the search for explanations for the specific variable values and their combination, I will relate to Robert A. Gorman’s ideas on how explanations in social sciences should be sought.

Robert A. Gorman (1976) argued, that frequent attempts by political scientists to fraction or chop society into manageable parts by delimiting borders of what is perceived as pertaining to the political deprive political science of more coherent explanations of the social world. Therefore, enhancing our understanding of the society also implies taking into consideration not only what is often perceived as purely political, distinct from other levels, but also a broader social world. Besides, each society at a given time period is not isolated from its past or future. Accordingly, collective action—delimited by a particular policy perception—and its results in focus of this study cannot be meaningfully explained without the account for the dynamics of the particular society and its relation to the past experiences and the future expectations. Gorman (ibid.) maintains that to be able to explain the studied world or social reality the boundaries of a single discipline are thus too narrow and a more interdisciplinary approach could be of greater assistance.

Explanations to policy adequacy and successful institutional transition should, therefore, be searched among the variety of theoretical approaches, including institutional, transition and other theories. Linz & Stepan (1996), for example, extend the search for explanations to several arenas. Indeed, the study of policy processes and institutional adjustment in Lithuania reveals interrelations between different arenas of social reality. The complexity of the phenomenon, however, is too broad to encompass here and my intention is to provide the reader with at least some relevant approaches of help in explaining the particular characteristics of collective (policy) action in the transition context.

17.3 Attempts to Explain Some Factors of Policy Adequacy and Transition Success

Policy adequacy variables identified in this study are seen as related to transition success and in particular, the pertaining institutional adjustment. As mentioned (see section 16.2), discussion of a successful transition into democracy in the transition literature has long circled around the proper formal institutions. They were also frequently found easiest and of primary importance to replace. However, post-Soviet transition debate gradually started pointing out the importance of “soft” intangible factors in supporting the role of both formal and informal institutions. I find the role of soft factors especially important in the context of insufficient institutional adjustment and policy adequacy.

Several authors broadened the perspective by introducing sets of variables constituting important preconditions for transition success. These variables could be seen as complementary (e.g. Etzioni, 1993) when the proper formal institutions are in place but also conducive (e.g. Tomer, 2002) for the evolvement of relevant formal or informal institutions and thus policy structuration.
17. Attempts to Explain Some Factors of Policy Adequacy and Transition Success

Etzioni (1993) distinguished important so-called “friction factors” that tend to slow down transition processes and affect their success. Among these are the following: 1) human factors (like work habits, entrepreneurial skills); 2) capital (non-transferability of communist assets); 3) infrastructure (among them—supportive financial and legal institutions, communication, but also assets as land could be attributed); 4) lack of labour mobility,\(^4\) and 5) values (social values not easily compatible with capitalism). Here we can see that some of the factors refer to the hard (institutional) factors while others refer to the soft ones. Also, these factors refer to different transition arenas.

Tomer (2002) identified two groups of variables useful in explaining medium-term transition success: a) the conditions existing in the country at the beginning of the transition, and b) the transition policy measures implemented subsequently. To the first group (a) he ascribed social, cultural, psychological variables as well as country’s history, economic and geographic conditions and even variables pertaining to the status of the socialist system. Most of those variables were path dependent. The second group (b) also encompasses political conditions, such as the support and consensus on the transition destination and measures (Tomer, 2002, p. 431 and on).

In fact, the hard and soft variables affecting transition success are mutually interdependent. Also development of institutions on certain transition arena requires adequate development on the other arenas. To illustrate, Tomer (ibid.) claims that transition policy measures propagated by new-liberal economists in the post-Soviet countries that focused on macroeconomic stabilisation and privatisation also needed adequate legal framework and social safety net. In addition, the successful functioning of these institutions required measures by policy makers to encourage the change of the soft factors such as trust and particular values.

While the vast literature of transition research is concerned with the establishment of (formal) institutions congruent with the goals of a democratic state and market economy, there are fewer suggestions on how to also achieve institutions adequate to the needs of a particular society. It is argued that the available transition paths and the tasks for the governments during the transition are partly determined by the type of the previous regime (Linz & Stepan, 1996; Tomer, 2002). In discussing this dependency Linz and Stepan, however, focus mainly on its effect on the reversibility of the undemocratic governance and devote little attention to its implications to the quality of the newly established governance.

Tomer (2002) especially acknowledged the importance of what he calls “strategy characteristics” influencing on the success of transition, namely: 1) the degree of democracy in the transition process, 2) the degree of creativity “in blending the new system’s features with the nation’s legacy from the past”; 3) the speed and sequencing of policy changes. This approach relates to the legitimising the establishment of a new regime but it can also be useful in looking for explanations to the adequacy and institutionalisation of public policies. However, while pointing out the importance of the soft factors for transition success, Tomer abstained from clarifying the linkage between such factors and the institutions structuring transition policies.

\(^4\) Although we have seen that the increased non-domestic labour mobility is a negative factor.

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There are yet additional arguments that multicultural or even multinational polities have much greater difficulties in consolidating democracies (Linz & Stepan, 1996) that might be of relevance for the establishment of the policy linkage. However, as the focus of this study is only on a particular aspect of consolidation, namely policy adequacy, the multicultural dimension is not in particular explored here. Besides, this dimension did not gain importance in the studied policy contexts as neither the SME challenges nor their solution ways were found significantly affected by the multicultural factor. But this aspect might certainly show to be of importance in a more general context of formal institutional building on macro level in new democracies such as Lithuania.

In sum, both hard and soft factors are important for policy and, in more general terms, transition success. To the hard factors could be ascribed, for example, relevant laws, regulations—the formal legality aspect of the rule of law, but also relevant resources (including infrastructure, capital and level of education). Soft factors, such as trust, inclination to assist and good will or other values, also diverse self-organising or innovative, creative skills are less tangible ones and more difficult to grasp. These factors are both complementary and conducive to the institutional (structural) ones.

The study revealed that the transition of Lithuanian institutions on the political arena resulted in lack successful and adequate policies in the SME assistance policy context. Due to the mutual interrelation between actions (behaviour) and structures underlying the bottom-up approach to implementation, behavioural or “soft” factors (together with contextual factors) gain special importance in the early stage of policy organising for structuring it. Lack of systematic policies and frequent policy inadequacy, therefore, urges a search for possible explanations to the role of these factors and their relation to transition success.

“Soft” factors of social capital and policy processes

The mentioned factors of policy success and adequacy—trust, inclination to assist, information sharing (transparency) in the collective action and the broader application of rule of law (impartiality) through discretion—can be subsumed under a larger category of social capital. The reason for introducing this concept here is that it is frequently found in literature when addressing the mentioned features of social interaction (Partis, 2004). Social capital has been conceptualised as a multidimensional, both a horizontal and a vertical, phenomenon, including relations between individuals and state via its system of government, rule of law, effective administration and similar (Meier, 2002). Social capital stresses especially the importance of values, beliefs and attitudes, such as trust and rule of law, characteristic to relationships (and institutions) in particular contexts. The World Bank defines social capital as the institutions, social relationships, networks and norms shaping the quality and quantity of a society’s social interactions (World Bank, 2003).

Social capital has also been conceptualised as having both micro and macro dimensions. The micro level refers to individual beliefs, values and attitudes, while the macro applies to government’s social capital—rule of law, contract enforcement and absence of corruption (Meier, 2002). Both of these dimensions encompass important explanatory factors of collective SME assistance action identified in the Lithuanian context. For example, the macro level secures formal
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... while the incentives (inclination) to choose appropriate action, share information and utilise actors’ discretion in applying rule of law pertain to the micro level.

In addition, social capital could be both positive and negative. Meier (2002) talks of a positive social capital government embodies in the absence of corruption, presence of rule of law and an efficient and effective (applies also to adequate) governance system. On the other hand, inadequate institutions (and policies), lack of rule of law and lack of trust are negative features of social capital predominant in the studied transition context.

Also other research points out the importance of social capital variables on the economic development, but also, in my point of view, policy process since most of these activities are embedded in a network of social relations. In fact, several recent studies indicate that social capital affects the smoothness of social and economic transition (see for example, Rodrik, 1999; Evans, 1996). Business persons’ abilities to use social relations to fulfil the (economic) goals could have either a positive or a negative effect on the economic development at the level of society.

**Attempts to explain social capital**

Social capital is a complex phenomenon and it has not been easy to explain why its constituent variables obtain particular negative or positive values. Social capital, though, is not something a government or a social system inhibits by itself, but is a feature created (also recreated, transformed) via social interactions (Parts, 2003) based on certain values. It could be argued, that a positive or negative social capital is structured and institutionalised by certain type of micro interactions (co-operation, collaboration), but it could also be regarded as their output.

Institutional legacies, mentality and the like are features of the social capital (Tomer, 2002; Grabber & Strak, 1997) in particular contexts. Some scholars talk of the existence of anti-modern social capital in post-Soviet countries that are expressed by grey/black economy (Rose & Mishler, 1998; Rose, 1999), i.e. interaction or exchange networks outside the formal legal system. Litwack (1991), for example, points out to a “virtual absence of economic legality”, i.e. a mutual consistent set of laws and a belief by the population in the stability and enforcement of these laws in the Soviet-type economic system. In addition, this system was characterised by a lack of trust in leaders and an ideology against private entrepreneurs and “speculants” (see also Tomer, 2002). Soviet legacy, therefore, is frequently referred to mistrust, lack of rule of law, corruption, lack of transparency—the negative values of social capital (Linz & Stepan, 1996; Parts, 2003). In other words, values pertaining social capital in particular contexts and time periods tend to be used to explain the quality of its pertaining institutions.

Interestingly enough, even though the grey networks existed in Lithuania during the Soviet times they were under the control of the party functionaries. Besides, in Soviet societies informal social networks and informal institutions were created to “get things done” as a compensation for state policy failures. However, while such networks and sometimes institutionalised practices provided alternative structures for solving societal problems they were characterised by undue favours, lack of transparency, withholding of information and lack of rule of law. As a result, this type of social capital embedded a deeply rooted lack of trust in formal institutions.
that in turn, impeded Lithuania’s transition to a consolidated democracy with rule of law and well functioning market economy.

The prevalence of grey/black networks in the transition period, however, should not be interpreted one-sidedly. On the one hand, the lack of rule of law and tendencies to corruption among public (local) administrators are the features of social capital with some negative implications (especially costs, delays) for the economic, and, in particular, SME development. On the other hand, as we have also seen from the study, businesspersons frequently took to self-organising solutions via informal networks and corrupted practices to advance their development or secure their survival. However, this type of structuration had a positive value only in the absence of formal institutions to structure successful and adequate public policies.

Trust and rule of law are normally regarded as important indicators of the social capital quality. Corruption, lack of rule of law and low levels of trust are interrelated. The less inhabitants trust their government institutions the more corrupted they show to be (Paldam, 2001). In Lithuania, corruption, according to a study from Freedom House (2002), was perceived to be the highest among the new EU accession countries which presupposes low level of trust but also low adherence to the rule of law principles.

What are possible explanations for how to break this vicious circle of lack of rule of law, corruption and low level of trust?

Re-creation of positive social capital in micro interactions

In the contemporary research of economic development, the predominant view is that local contexts do not matter as much as, for example, national (Scott, 1996), thus making national policies and institutions stand out as most important in organising policies for economic development. However, some scholars argue (e.g. Grabher and Stark, 1997; Gorzelak, 1995; Smith, 2005) that localities are the primary sites of (economic) transformation. New (inter)organisational networks are shaped by local knowledge, local networks and local culture (Scott, 1996).

Trust is found important for economic development (e.g. Sabel, 1992; Welter & Smallbone, 2006). An important issue is how trust is (re)created in the contexts of institutional discontinuities characteristic to post-Soviet transition contexts? Trust is a value that can be created both exogenously (passed over by socialisation) and endogenously (via experiences in the social interactions) (Mishler & Rose, 2001). As the former source of trust is difficult to achieve due to path dependency, an important role of localities or local interactions is that trust relations are first developed or recreated there. Thus, properties of the localities themselves can explain much of economic development.

In general, interdependence of various actors in local contexts is conducive to cooperative strategies also favouring firms’ development (Sabel, 1992). However, contacts may not always be co-operative as trust might not be established yet. Sometimes, actors participating in same networks or interactions share experiences of mistrust in the past that impedes present development (Kemény, 1996). Thus, Grabher and Strak (1997) suggest the possibility of recreating trust and common identities via co-operative present relations. It was found that the more co-operative networks in localities between different organisations are the more positive effect they had on regional reconstructing (Housner, Kudtacz, & Szlachta, 1996).
However, interestingly, Eve Parts (Parts, 2003, p.14.) argues that in the post-Soviet Europe trust in the existing authoritative (what I call formal political and administrative) institutions is found not correlating with the economic development. This must be explained by the fact that economic actors bend rules and go around the established system finding their own ways to survive and develop, as has been proven in this study by alternative self-organised assistance structures. I found trust important for increasing policy success and adequacy, especially where it relied on SME self-organisation and involvement of other private actors in the de facto policy structuration.

**Micro and macro contributions to policy adequacy**

Social capital can be viewed as a broader frame of values and relationships encompassing particular policy processes. It inhibits past experiences and present interactions. Particular public policies and collective action in a broader sense are influenced by a particular social capital but also capable of altering it via practiced behavioural and structural patterns. This study holds that the more positive the social capital is at a given time period the better are the preconditions for policy actor’s abilities to organise relevant and successful policies. It is both the micro (local) and macro (national, EU) level that has an important role in creating the preconditions for policy success and adequacy and negative social capital obstructs but does not prevent this process.

In other words, the inadequacy of public policies and institutions in the post-Soviet Lithuanian context should be seen as both influenced by a weak social capital due to Soviet legacies, but also as a result of daily policy actions recreating its negative value. On the other hand, collective (policy) action in various localities, such as ad hoc adequate assistance organising can serve to gradually recreate rule of law and trust. Trust serves to increase stable expectations and systematic policy structuring. Of major importance for policy adequacy is public servants’ abilities to apply rule of law principles in policy practice. Actors’ discretion and inclination to apply rule of law increases chances for policy learning and policy adequacy. At issue here is how these values could be released and how could the government contribute.

In advancing policy adequacy actors’ willingness to de-learn from mistakes is essential. Here again, to be able to put the knowledge from policy (de)learning in practice trust between government and local actors is essential. To be able to adhere to the rule of law public servants must be entrusted certain discretion, and to be trusted by policy receivers they must be willing and able to apply the rule of law (impartiality) on a case-by-case basis and possess relevant resources.

Due to the lack of space and practical limitations this study abstains from more in-depth explanations to the emergence of the particular policy success or failure variables, but it finds a continued enquiry of interest in other contexts.

In sum, creation of adequate local policy structures is dependent on both formal institutional and other tangible factors, but equally much also on soft variables. Soft variables in turn, have an effect on both formal and informal institutional variables. For the evolving ad hoc structuration in coping with transition challenges to achieve success and adequacy the functioning rule of law and the locally recreated trust, good will and cooperation values are essential. Their existence
provides conditions for the optimal organising of public collective action and its gradual institutionalisation into policies.

17.4 General Conclusions

Lithuania is undergoing a transition from a regime where the state has been involved in the majority of spheres of human life to a system of government (governance) with democratic qualities. After a short period of independence and having joined the EU in 2004, it faced an issue of the role and adequacy of both state and the supranational institutions for fulfilling development needs of the local society. These developments significantly affected the design and quality of the Lithuanian formal institutions.

The study explored whether the transformation of institutions in a post-Soviet context enabled an adequate response to specific needs of the Lithuanian society, the so-called policy linkage by exploring collective public action to assist SMEs with their major transition challenges. The underlying assumption was that public policies to support SMEs require relevant institutions structuring the collective action to achieve their adequacy.

Institutional adjustment to societal transition needs was assessed in terms of their ability to cope with those needs i.e. establish a policy linkage in assisting small and medium businesses with their development impediments. Assessments of policy adequacy were based on three indicators—its structure, manner and impact (outcomes).

In societies undergoing transformation to democracy, exploring the role of the state in governance processes is equally vital as in most mature democracies. At issue in this study was the role and ability of the Lithuanian government to form adequate formal political and administrative institutions that would alleviate organising of adequate policies to some outspoken societal needs. Thus firstly, by analysing the structure of adequate policy action the study could explore the relevance of the hierarchic politico-administrative model with implementation delimited to authoritatively mandated actors in the studied policy areas. The study questioned the role of the government in providing relevant organisational structures (mandated actors) and resources to enable delivery of adequate policies.

The adopted bottom-up approach to policy analysis allowed exploring also the contributions of other than formally mandated actors. Thus, secondly, while asserting the importance of the government in creating or transforming of formal institutions the study at the same time questioned their relevance in the undertaken inter-organisational policy action with mixed constellation of actors with regard to policy adequacy.

The study was not to provide specific prescriptions for policy success and adequacy but rather to illuminate general measures to assess them and by using these measures identify what factors manifest themselves as important/conducive to policy success/adequacy or failure in the post-Soviet context. The adopted methodology was fruitful for revealing what agents, institutions and how affect policy process in a transition context and thus contribute to fill this gap in implementation studies outlined in sections 2.3 and 2.5.

The major conclusion of this study is that the collective public action to assist SMEs, especially when enacting the available formal institutions, achieved little
success and adequacy. The action was found to take place mostly in-between or outside formal organisations often involving also non-mandated actors. In policy structures or ad hoc structuration where actors from mandated organisations were involved these actors often enjoyed relatively more decision-making power in the policy organising processes but they frequently depended on non-mandated actors for policy adequacy. The study also revealed that both macro and micro level factors (actors and their resources and structures) had been of importance in producing particular outcomes. Local actors were established as the most important group of actors in increasing policy success and adequacy. However, for this to be achieved not only did they rely on goals, resources and formal institutions of the macro level but also on particular context and local behavioural factors.

Creating favourable preconditions for adequate policies raised several issues of concern. One of those issues pertains to the performance and conformance aspects in policy process referred to in section 4.4. It is tightly linked to the importance of the compatibility of the perception of the policy problem between top decision-makers, local policy organising actors and policy receivers. In general, many of the major SME development challenges in Lithuania required solving certain issues that were also targets of formal government strategies and the achievement of which was strictly steered by the government. However, the detailed formal regulations and various SME assistance resources made available by the government were frequently incompatible with local actors’ perceptions of policy problems needs. In general, the formal instruments failed to cover the complexity of the SME needs. Therefore local actors’ (both mandated and not) attempts to organise collective action referring to these instruments did not result in adequate structures and often lacked of positive impact.

In the studied context, neither the compliance nor performance in assistance (policy) delivery could be taken to secure policy adequacy. However, utilising actors’ discretion often resulted in more positive outcomes. While abstaining from examining the individual reasons for particular policy behaviour, the analysis revealed that the results of actor interactions frequently suffered from an inappropriate manner of collective action organising. This entails a policy dilemma of concern for top decision-makers. In fact, while local civil servants often enjoyed very limited discretionary powers to perform more adequately to the local needs companies had an interest in affecting the actions of these civil servants and that, in turn, escalated corrupted practices. One of the reasons to this limited discretion was said to be government attempts to prevent corruption.

Because of the lack of adequate public policies, an SME need-oriented ad hoc type of collective action emerged and was predominant in the studied policy areas. It engaged a variety of actors across and outside mandated organisations providing support for some of the theoretical assertions of implementation in multi-organisational society (see section 3.7). The study also confirmed the importance and the ability of informal institutions and ad hoc structuring to enhance the performance of the formal organisations (see section 3.1). By that, it also testifies of the ability of the adopted bottom-up approach to reveal more policy success than it would have been possible the top-down way.

The study empirical findings on the prevalence of ad hoc type of collective action via SME self-organising rather than patterned policy structures invite questions on the relevance of the formal institutions for structuring adequate public policies in the multi-organisational society. Not only did the formal institutions lacked of
relevance but they also often were changed. This instability of the institutional environment during the transition increased the probability of the ad hoc local SME assistance actions. The position of this study is that while solutions of certain societal (here SME) problems may gain from self-organising such *ad hoc* solutions only partially based on formal institutions (sometimes without reference to them) taking place across the formal organisational borders or outside them have implications for policy learning. Lack of systematic policy structure pattern prevents policy learning to achieve more adequate policy structures. Positive solution organising experiences gained by individual SMEs or non-mandated actors engaged in the process cannot always be applied for addressing a similar need experienced by another company as the actor constellations change. However, the experience of the companies and non-mandated actors is a tacit knowledge that may be communicated further. Especially the non-mandated actors may need to repeatedly apply the gained knowledge as they tended to specialise in particular problem solving. At issue is whether the mandated actors and the top-politicians are willing to learn from this ad hoc type of structuring.

The empirical findings support the observations by other transition research that the establishment of formal institutions is important but insufficient precondition for successful and adequate policies and thus country’s transition success (on political, administrative, economic arenas) in a broader sense (see section 2.5). For the institutional solutions to be adequate in coping with various transition needs also particular soft factors are of great importance.

In sum, the findings of the study, in general, call for a more extensive analysis of the relevance of formal institutions in increasing the abilities of the Lithuanian government and other actors to deal with the multiplicity of important transition period needs of society. But it should also bring relevant top decision-makers’ attention to and encourage more studies on the adequacy of collective action and *de facto* policy practices—both those more in line with formal prescriptions and those more diverging—in order to take advantage of policy (de-) learning.

**17.5 Possibilities to Use Study Findings in Policy Processes**

Earlier studies of Lithuanian policy processes (Nakrošis, 2008) have revealed the increasing government focus on performance management, an aspect of new public management (NPM) meaning that performance of public programmes or actors are monitored closely and their funding is based upon the results of their performance (Bouckaert & Halligan, 2008). The ultimate purpose with the performance management is an improved quality of public services which also is a major issue in the discussed theoretical bottom-up approach to implementation.

Even though the concept “new public management (NPM)” may have different connotations (see e.g. Hood, 1991) there is still enough agreement that the focus on NPM entails a more flexible approach to policy targets and especially the actual internal control and performance of mandated policy actors (Peters, 2008). Regardless of the introduction of NPM principles in public administration in Lithuania, it is still unusual to conduct an ex-post type of policy analysis based on performance rather than adherence to the rules (Nakrošis, 2008). Much of the
policy analytical work in Lithuania is still related to the efficiency and top-down defined effectiveness criteria and much less if at all concerned with policy receivers' perspective of policy success and adequacy discussed in this study. However, performance management perspective encourages more attention to the impacts of policies and citizen satisfaction.

Regardless of the widespread focus on the NPM especially in formal policy decisions in Lithuania policies fail in efficiency and effectiveness as assessed also from the performance management perspective (Peters, 2008; Nakrošis, 2008). Policy learning was found to be unsatisfactory. An additional impediment to improving policy process is also difficulties to change national budget allocations based on the information from the actual policy process. Besides, ministries and other key budgeted organisations (appropriation managers) resist a more performance based actions of their subordinate mandated actors.

Lithuanian government retains its traditional approach to public administration based on execution of laws and rules with ex-ante controls and allowing little flexibility for performance by administrators and local civil servants (ibid). While a more flexible approach to policy performance has been adopted by the right wing governments during 1999-2000, the latter coalition governments dominated by the Social democratic party during 2002-2006 did not advance these goals.

Although the new coalition government (in power from 2009) has declared a greater interest in “results-based government” (ibid.) doubts remain as to how serious this commitment will be and whether there will be interest in policy impact and adequacy based analysis results. Nevertheless, there is a continuing external interest from the EU, NATO, World Bank and other international actors in improved policy results in Lithuania. That may open-up for insights from bottom-up policy analysis. In addition, while the legislative government is slow in taking note of such analysis, the executive branch is argued (ibid.) to be much more aware and interested in sharing such information.
References

Books and articles


Attempts to Explain Some Factors of Policy Adequacy and Transition Success


17. Attempts to Explain Some Factors of Policy Adequacy and Transition Success


17. Attempts to Explain Some Factors of Policy Adequacy and Transition Success


From the Soviet to the European Union: A Policy Study of the SME Assistance Organising in Lithuania


17. Attempts to Explain Some Factors of Policy Adequacy and Transition Success


Other references: legal materials, official documents and similar


Gairės Pareiškejams. Verslumo, verslo ir investicijų plėtros skatinimas siekiant gauti Europos Sąjungos Struktūrinių Fondų financinę paramą pagal Lietuvos 2004-2006m. Bendrajų Programavimo Dokumentą (Guidelines for applicants from ES Structural funds 2004-2006.) Received at the interview with the LBSA representative. 


Attempts to Explain Some Factors of Policy Adequacy and Transition Success


From the Soviet to the European Union: a Policy Study of the SME Assistance Organising in Lithuania


LR Seimas (2007) Pilietybės nuosavybės teisių išskirus nekilnojamai turtą atkūrimo įstatymo įgyvendinimo administravimo Vilniaus ir Kauno miestuose Parlamentinio
tyrimo išvada (The Parliament resume: Regarding the administration of the law on the restoration of citizens’ rights to the remaining real estate in Kaunas and Vilnius cities), patvirtinta Seimo Valstybės valdymo ir savivaldybių komiteto 2007 m. gegužės 30 d. sprendimu Nr. 14.


17. Attempts to Explain Some Factors of Policy Adequacy and Transition Success


Appendix 1

Semi-Structured Interview Template

Introduction

1. Short introduction of the study and my person.
2. Short introduction of the interview person and his/her affiliation to the company studied.

Questions to SME owners or managers

F1 Identifying the challenge

1. What major challenges did your company face the past 3-4 years?
2. How did you perceive the challenge your company has been facing? With whom did you discuss and analyse it? Was it you or someone else (if so, who?) that took notice of it?
3. Has your perception of the major challenge changed during the period?

F2 Identifying solution and resource alternatives

1. What ways did you plan to solve the challenge? What did you want to achieve?
2. What alternatives did you consider and did any of them seem more important to pursue?
3. Did you discuss and apply alternative solutions with somebody (if so, whom)?
4. How do you view the alternatives chosen or suggested in regard to your company needs and situation?
5. How would you describe and assess the assistance suggested/received when searching for solution alternatives? How did the actors perceive the company situation?

F3 Carrying out particular solution alternative

1. What was the solution to the major company challenge? What was the way it was carried out? Did you receive some assistance and from whom?
2. Why was the particular solution chosen?
3. How would you assess the choice and the assistance received in carrying out the solution?

F4 Assessment of the overall assistance

1. How do you assess the choice of the solution to the major needs of you company at that time?
2. How do you assess the overall assistance impact?
Appendix 2A

Interviewed companies:

Kaunas district

<table>
<thead>
<tr>
<th>Interview date</th>
<th>Food-processing industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>20050523</td>
<td>Saldoga</td>
</tr>
<tr>
<td>20050524</td>
<td>Rugiadaunis</td>
</tr>
<tr>
<td>20050527</td>
<td>Augutis</td>
</tr>
<tr>
<td>20050531</td>
<td>Meskėnas</td>
</tr>
<tr>
<td>20050601</td>
<td>Cukrainis</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Interview date</th>
<th>Wood-processing industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>20050526</td>
<td>Vilmos Sternbergienės personal company</td>
</tr>
<tr>
<td>20050525</td>
<td>Alkamenas</td>
</tr>
<tr>
<td>20050526</td>
<td>Trilogija</td>
</tr>
<tr>
<td>20050530</td>
<td>Agnapolio dvaras</td>
</tr>
<tr>
<td>20050602</td>
<td>Fornestas</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Interview date</th>
<th>Furniture manufacturing industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>20050525</td>
<td>Vaičiūčio personal company</td>
</tr>
<tr>
<td>20050525</td>
<td>Stalita</td>
</tr>
<tr>
<td>20050527</td>
<td>Domeikavos aitra</td>
</tr>
<tr>
<td>20050601</td>
<td>Bilijardai</td>
</tr>
<tr>
<td>20050601</td>
<td>Holta</td>
</tr>
</tbody>
</table>

Kaunas city

<table>
<thead>
<tr>
<th>Interview date</th>
<th>Sewing industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>20040823</td>
<td>Svičas</td>
</tr>
<tr>
<td>20040823</td>
<td>Poplinas</td>
</tr>
<tr>
<td>20040823</td>
<td>Vilarga</td>
</tr>
<tr>
<td>20040824</td>
<td>Jakona</td>
</tr>
<tr>
<td>20040830</td>
<td>Angliškas Stilius</td>
</tr>
<tr>
<td>2004 0831</td>
<td>Tamašauksienes personal company (textile)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Interview date</th>
<th>Food-processing industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>20040826</td>
<td>Juratės Gulbinienės personal company</td>
</tr>
<tr>
<td>20040827</td>
<td>Nijolės pyragai</td>
</tr>
<tr>
<td>20040831</td>
<td>Kvietainis</td>
</tr>
<tr>
<td>20040831</td>
<td>Marijona</td>
</tr>
<tr>
<td>20040901</td>
<td>Müsų Maistas</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Interview date</th>
<th>Wood-processing industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>20040901</td>
<td>Dalikta</td>
</tr>
<tr>
<td>20040902</td>
<td>Ažuoliukas</td>
</tr>
<tr>
<td>20040902</td>
<td>Osvaldo Jaro personal company</td>
</tr>
<tr>
<td>20050602</td>
<td>Guodros medis</td>
</tr>
<tr>
<td>20050603</td>
<td>Kauno Platanas</td>
</tr>
</tbody>
</table>
Appendix 2B

Interviews with assistance actors

1. Private consultancy firm dealing with detailed planning, ARCHOMA, H.B., 2007 03 01.
2. Kaunas City Municipality, urban planning specialist N.V., 2007 03 08.
4. The Kaunas County Governor’s Administration, land use department, land specialist V. Z., 2007 05 03.
7. Training Centre for Construction Workers, VTS (Statybininkų rengimo centras, medienos apdirbimo ir statybos skyrius), J.M., 2006 12 07.
8. Vocational Training School for Construction Workers (Kauno statybininkų mokykla), R.S., 2006 10 27.
16. The Kaunas County Governor’s Administration, a regional planning specialist, P.V., 2007 05 17.
17. The Kaunas County Governor’s Administration, a specialist at regional planning department, I.Z., 2007 06 19.
22. Kaunas City Municipality, Department for strategic planning (Strateginio planavimo skyrius), S. L., 2007 08 28.
25. SME association for Kaunas region (Kauno regiono smulkių ir vidutinių verslininkų asociacija), A. M., 2007 08 23.

¹ Most actors wished for anonymity and therefore their names are not indicated in the list but are known to the author.
32. Lithuanian Bakery Association (Lietuvos kepėjų asociacija) B.R., 2007 02 09.
33. The State Food and Veterinary Service (SFVS) office for Kaunas city (Valstybinė maisto ir veterinarijos tarnyba, Kauno miesto maisto skyrius ), P. T., 2007 03 10.
34. A Lithuanian attaché in Brussels and a national expert of adjustment to safe food production regulations J. B., 2007 02 29.
35. State Food and Veterinary Service, agency for Kaunas region (Kauno apskričės Valstybinė maisto ir veterinarijos tarnyba ), G.V., 2007-02-01, 2007 03 17.
36. State Food and Veterinary Service, agency for Kaunas region (Kauno apskričės Valstybinė maisto ir veterinarijos tarnyba), L. J., 2007 03 18.
37. Kaunas University of Technology, expert on good hygiene practice, P. V. 2007 08 24.
38. State Food and Veterinary Service, central office (Valstybinės maisto ir veterinarijos tarnybos maisto skyrius Vilniuje) A. I., 2007 02 29.
40. The National Nutrition Centre (Respublikinis Mitybos Centras), A. K., 2007 02 27.
Appendix 3

An Overview of Sample SME Challenges and Development Impediments by Type of Industry

<table>
<thead>
<tr>
<th>CHALLENGE</th>
<th>TYPE OF INDUSTRY</th>
<th>TOTAL NO. OF SME CASES</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sewing industry city</td>
<td>Food industry city</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of finances</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Technical reorganising, modernising</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Lack of workforce</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>Land and premise issues</td>
<td>1 (land)</td>
<td>2 (land)</td>
</tr>
<tr>
<td>Sales</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Lack of knowledge</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>New establishments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Imports of raw materials</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Transport restrictions</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Structural challenges</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>(taxes, currency re-pegging laws)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Appendix 4

**Assistance success among the sample companies by type of challenge**

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Nr of cases</th>
<th>Partial Solution via</th>
<th>Solution</th>
<th>No solution</th>
<th>% of successful assistance - via mandated and non-mandated actors within a policy area</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>mandated A</td>
<td>private A</td>
<td>Via Mandated/mixed A</td>
<td>Without mandated A</td>
</tr>
<tr>
<td>Land issues (acquisition)</td>
<td>8</td>
<td>1</td>
<td>2 together with private A</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Land issues (land use)</td>
<td>5</td>
<td>0</td>
<td>3 together with private A</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Lack of work force</td>
<td>14</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Financial assistance</td>
<td>25</td>
<td>3</td>
<td>3</td>
<td>9</td>
<td>3 at least 8</td>
</tr>
<tr>
<td>Technical reorganisation</td>
<td>17</td>
<td>1</td>
<td>3</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Total: 24</td>
<td></td>
<td></td>
<td></td>
<td>6</td>
<td>2</td>
</tr>
</tbody>
</table>

**Explanations:**

* Financial assistance has been attempted in 25 cases, in many of which the attempts were made via several actors: banks, EU, national fund administrators or private.
Establishment of a policy linkage between particular outspoken societal needs and their realisation via the body political is critical for recently democratised polities. In Lithuania, a former Soviet bloc country undergoing a complex transition, an urge from various societal groups for successful and adequate policies exemplify the importance of this linkage. The study inquires into its establishment during the transition from the Soviet to the EU by exploring collective action to assist Lithuanian SMEs - a new group of economic actors - with their transition period needs. Policy linkage is operationalised in terms of successful and adequate policies.

Methodologically, the study examines the usefulness of bottom-up approach to policy organising for revealing policy process in the transition context. Theoretically, the study tests the explanatory power of the major bottom-up assumptions regarding the preconditions for policy linkage in the Lithuanian transition. Especially the role of the government and formal political administrative institutions is explored.

The study findings indicate very limited government, EU and mandated actors’ success in organising adequate SME assistance policies. Ad hoc collective actions with mixed types of actors and alternative structurations were found to frequently supplement for the policy linkage. Useful explanations to this were provided by the employed context, structural and behavioural factors. Active self-organising of policy receivers was a precondition significantly increasing the adequacy of the collective assistance action. Also adherence to the rule of law principles in policy process should not be undermined to increase chances of policy adequacy. Especially a combination of behavioural factors characteristic of social capital in the localities studied was found important to consider further. Policy learning is yet underestimated as a factor structuring policy action and enabling policy linkage. Lack of policy structures has implications for policy learning. The study also proposes policy adequacy as a complimentary indicator of transition success.