

# **BUSINESS TRAINING MARKET ANALYSIS AND NEED ASSESSMENT in Khabarovsk Krai**

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Provided by Winrock International, Counterpart International, Center for Investment and Support (Prognoz), Sakhalin Association of Business People, Counterpart Enterprise Fund

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## **OVERVIEW**

The Enhanced SME Development Project (ESD), funded by USAID/Russia, aims to strengthen small-and medium-sized enterprises (SMEs) in the Russian Far East through improved access to credit, advanced and sector-specific business skills training, and an improved regulatory environment. ESD supports the development of more sustainable SMEs and business associations through technical assistance and training.

In November and December 2003, rapid assessments were conducted to assess the current state of business training markets in six regions: Amurskaya Oblast, the Republic of Buryatia, Khabarovsk Krai, Primorski Krai, the Republic of Sakha, and Sakhalin Oblast.

Business Training Market Analysis and Needs Assessment Reports were prepared for each region (see below).

## **METHODS**

The assessments used an integrated approach combining quantitative and qualitative research. Qualitative open-ended interviews were used to gather input from training service providers, the regional administrations – departments supporting businesses, banks, and SMEs. A quantitative written survey was used to gather additional input from a wider sample of stakeholders.

ESD staff, partners, and consultants identified agencies, organizations, and individuals to include in the market analysis. Interviews were chosen as the primary data collection strategy for the market analysis because they are a good method for gathering in-depth information. Top management of training organizations and agencies, local government officials and representatives of business support institutions (BSIs) were interviewed. Interviews provided the data for the organizational assessment of current training provided and training capabilities. Categories and issues identified by the service providers and Winrock staff and consultants were then used to develop the needs assessment. In-depth interviews and a survey questionnaire were used to conduct the needs assessments in each region.

Topics covered included:

- Business issues facing the region
- Training and outreach needs, with the special emphasis on:
  - a. Identification of training needs of SMEs in advanced business skills
  - b. Sector-specific training required
  - c. Business and sector-specific associations in the region
  - d. Price that SMEs would be willing to pay for training
  - e. Training providers in the region

## **ANALYSIS OF KHABAROVSKY KRAI MARKET**

### **Background**

In Khabarovsk Krai, Winrock staff and consultants identified 20 business community decision-makers, including four representatives of local administration, two bankers, and 12 business owners and top managers from Khabarovsk for in-depth interviews. A questionnaire was also mailed or personally delivered to 70 business decision-makers in Khabarovsk Krai. Twenty-two usable surveys were returned for a response rate of 31%. Respondents represented a cross-section of the target audience, including small business owners, managers of financial institutions, representatives of business support institutions, managers of existing training centers, and municipal officials.

### **Results**

The following barriers for the development of SMEs were identified as major during the current research:

- **Administrative Barriers**. Administrative resources and connections are widely used in squeezing the newcomers out of the market, when mature companies, which have strong support at the administration, use their connections to put pressure on landlords and force a new competitor to move out of their premises. Administrative resources are also used in organizing unplanned inspections of non-loyal or competing businesses.
- **Premises**. There is a lack of commercial real estate, resulting in expensive lease rates and high business risks, because building owners can change lease agreements, for example, increasing the rent 3-4 times during a lease period.
- **Customs**. Especially for small businesses it is hard to prove their rights at customs, as small business owners possess fewer resources to protect their interests.

- **Licensing**. It is difficult for SMEs to obtain licenses for trade operations, and permits from fire and sanitary inspectors, due to corruption at some government agencies.
- **Availability of Financial Resources**. The market of financial products and services in the Russian Far East is five to seven years behind the market in Central and Western Russia. Financial services are represented by local Far Eastern banks, which lack financial resources and thus are not able to diversify services and products. The underdeveloped competition allows banks to maintain high interest rates (up to 5% per day) on commercial loans, with the minimum annual interest rate of 30%. In some cases, annual rates are as high as 45%. Collateral presents another problem for small businesses, particularly for those involved in production. These factors present serious constraints for the development of industries where SMEs are the key players, such as small bakeries, dairy processing and other food production and catering, where the return on the investment is medium, and long-term low-interest loans are required. Other types of financial services, such as leasing, are also underdeveloped. Existing banks have their own leasing companies, serving the banks' own large clients. Banks are not interested in working with small businesses, as the screening process is costly, while producing low profits for the bank. There are only two active leasing companies, Deltalease- Far East and SALCO (Sakhalin Leasing Company, representative office in Khabarovsk) –who work with SMEs, and awareness within the business community on leasing is very low.
- **Lack of Business Learning Programs**. All interviewed businesses and officials representing business support institutions highlighted the importance of business education and training for entrepreneurs. There is no consistency in business support and specifically in business training for entrepreneurs. The existing program of the Russian American Education Center, rated very high by all participants, is focused on courses for start-up businesses, with plans to develop more training modules for advanced SMEs. Local business training organizations provide mainly training in finance (accounting, bookkeeping and taxation). Large representative offices of companies based in Central and Western Russia (e.g., Baltika brewery, Akvanom – distributor of German and Belgian plastic windows, Baltimor – producer of grocery products, and others) have corporate training organized by the parent company at the headquarters. The lack of local trainers and the high cost of bringing trainers and coaches from other regions makes RFE training random and inconsistent. Also, there is little advertising of the training; information is mostly distributed via mailing lists. Thus information on training courses is hard to find.
- **Barriers for the growth of core industries in the region**. Timber Processing, Fishing and Construction industries were named as the most important for regional development. In general, they face the same obstacles as other businesses. However, there are some industry-specific problems, which could be addressed through ESD. A major barrier for growth is the lack of business information and the lack of industry-specific knowledge:
  - a. Government regulations in the core industries go through frequent changes, and this information has to be available to the companies.

- b. To meet current standards of processing and production, businesses need modern equipment. For most businesses, especially in fish processing, fixed assets are obsolete and need updating. It is difficult to get the right information on equipment and production standards.
- c. Companies need training on modern processing technologies, the types of products demanded and available on world markets.
- d. The forest industry could benefit from training on the certification of wood, to make sure that wood has been legally harvested. This would help companies to increase product standards, make products legal and increase sales, as major buyers purchase only certified timber products.
- e. The NTFP (non-timber forest products) sector would benefit from knowledge of the legislation, certification, processing technologies, packaging, distribution, and export relationships.

### **Current perception of training courses among local SMEs.**

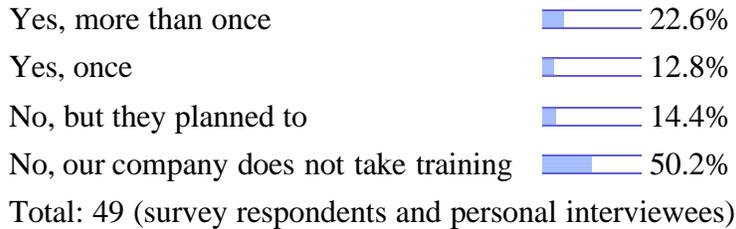
SMEs that participated in the personal interviews emphasized the influence training (especially training received at Russian American Education Center) had on the growth of their business. However, the majority found it difficult to meet identified training needs due to a number of constraints. The main barrier highlighted was the lack of local trainers and the lack of time available for training activities. Another obstacle referred to was the inflexibility of training courses in terms of the timing and location (most training courses take place in Moscow). The barriers identified above are compounded by the lack of forward planning owners/managers give to their training needs. Training within SMEs was rarely pre-planned and was either a reaction to events or based on intuition.

Prior to starting up their businesses, over half of the owners/managers did not undertake training. The two most common reasons given for this were: 1) there were no training courses available, 2) entrepreneurs felt that they had sufficient knowledge of the business already. Of those businesses that undertook training, the highest percentage of SMEs was from the Business Services sector. Conversely, Retail and Construction contained the smallest percentage of SMEs that undertook training prior to startup. The Business Plan was the most popular topic for training and Business Ethics the least popular. When training is undertaken, U.S. and Japanese Government Agencies and programs are the most commonly used of the specified sources.

During the first 12 months of operation, less than 30% of the respondents undertook training. Financial Accounting and Taxation was the training topic most identified as being needed during the first 12 months of operation, although more SMEs actually undertook training in Business Planning than in any other subject. Services and Manufacturing are the sectors in which the highest percentage of business undertook training. Training was lowest amongst those businesses from the Retail sector. The primary barrier to undertaking training was No Provider in all sectors other than Manufacturing. In this sector, Not a Priority was the most quoted reason.

After the first 12 months of operation, a higher percentage of respondents from Services undertook training than respondents from any other sector. Interestingly, Accounting and Taxation and Computer/IT overtook Business Planning as the most popular training topic amongst local SMEs. Again, No Provider was the most common barrier preventing the fulfillment of an identified training need.

Did your company ever send you to training?



### **Needs Assessment Interviews**

Six training categories surfaced during the interviews:

- Business Technologies
- Industry Specific Training
- Corporate Training
- Training for Trainers
- Regulatory Reform and Legal Aspects of Business
- Training in the establishment and operations of Business Associations

Service provider interviewees identified 28 potential training topics within the six categories listed above. Examples of the most frequently cited topics under these categories are the following:

In 2003, the role of business training in Accounting and Taxation grew substantially. Changes in the Tax Code (Chapter 25) have created specialized needs. The Tax Code includes only the general information and does not contain specific details or requirements on the implementation of Tax Accounting procedures. To be able to match the requirements of the law, companies seek specialized training on compliance with the Tax Code.

In line with Tax Accounting, interviewees prioritized specialized training regarding the optimization of tax burdens for the companies. “The tax code is undergoing changes, new taxes are being introduced. The Tax Ministry changes its methodologies, therefore companies need help in providing training and specialized information. The demand for such training is permanent, as changes in the Tax Code take place regularly, creating permanent demand for our assistance,” stated Tatiana Korobenko, “Green House Training Center”.

Next demanded, after Taxation, is training on Managerial Accounting and Organizational Structure. Many companies expand or diversify, facing changes in the managerial structure. Top managers/owners keep strategic decision-making functions for themselves and delegate operational functions to division or line managers, or the opposite – when top managers retain all functions, being afraid of losing control over the business. These companies look for assistance in designing the most efficient organizational structure.

Strategic Management Training is demanded by the top managers of successful companies, who now are looking for the strategies of further growth. How to expand the business, when managerial accounting has been set up, bookkeeping and sales are in perfect order – what to do next? How to build the right strategy?

Training on Information Technologies are requested more, as many companies already have purchased accounting software, use it successfully, and plan to go beyond that. Entrepreneurs, representing not small-, but mostly medium- sized businesses, see information systems as a way of cost reduction and minimization of business losses. The interviewees were specifically interested in training on modern logistics technologies, including warehouse logistics, purchasing and distribution systems. This direction was named by representatives of production and wholesale companies, where logistics is not the core activity.

Training on Human Resource Management is getting more popular. Businesses, especially larger ones, face the problem of finding and retaining qualified personnel, and motivation techniques to enhance productivity and increase loyalty.

Industry Specific Training was identified as a priority for the region, as the core industries play a large role in the local economy.

Interviewees were asked about advantages and disadvantages of training providers over the internal coaches working at one company:

<b>Advantages of training companies</b>	<b>Disadvantages of training companies</b>
New technologies, new topics, new ideas Guarantee of the quality of services No business or friendly relations within the company High quality manuals	Expensive services Cannot be controlled Formal approach and “mass production” Hard to find

The most highly recommended target audience for training and outreach was business owners and managers and municipal officials. “Business Education for Municipal Officials” training programs were specifically mentioned.

Collaborating with other agencies or organizations was the most frequently recommended training delivery method. The two most commonly cited collaborations were with Russian American Education Center and the Far Eastern Chamber of Commerce and Industry.

### **Needs Assessment Survey**

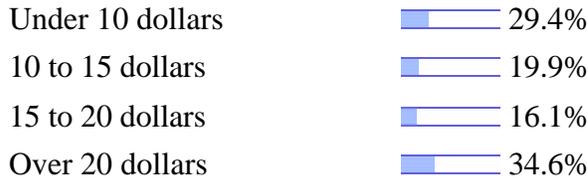
Surveys were completed by 22 entrepreneurs.

1. Survey respondents ranked the following six training topics, from a list of 22, as the most important for training in Khabarovsk. These six issues were rated as very important by more than 70% of respondents.
  - Human Resource Management (100%)
  - Art of Negotiations (81%)
  - Quality Control (76%)
  - Customer Relationship Management (71%)
  - Information Technologies (IT) in Business (71%)
  - IT as a Marketing Tool (71%)
  
2. Survey respondent wanted to learn more about such topics as:
  - Delegation, Motivation and Control
  - Managerial Accounting
  - Cost Accounting
  - Logistics and Distribution
  - Production Planning
  - Brand Management
  - Marketing and Sales
  - Business Ethics
  - Corporate Governance
  - Public Relations Techniques
  
3. The scope of business training in Khabarovsk in 2003 was characterized as:
  - No training at all – 38%
  - Not a sufficient amount of training – 43%
  - No answer – 19%
  
4. Did business training held this year in Khabarovsk match the needs of your business:
  - Yes – 4%
  - Partially – 33%
  - No – 28%

5. Fee for training courses:

Ready to pay – 72%  
Not ready to pay – 14%  
No answer – 14%

What fee are you ready to pay for 4-6 hours of training?



Total: 49 (survey respondents and personal interviewees)

## Conclusions

These recommendations were developed using the findings from the Needs Assessment and Market Analysis. Recommendations for training topics and partnerships are summarized here.

### *Priority Training Themes*

As a result of this current research, the following priority themes are recommended as the focus of training and outreach:

- Business Technologies
- Industry Specific Training
- Corporate Training
- Training for Trainers
- Regulatory Reform and Legal Aspects of Business
- Training in the establishment and operation of Business Associations

Topics and training needs related to all categories may be addressed through the partnerships with the established training providers, described below. The most frequently mentioned recommendation to the project is to use trainers from other regions of Russia, to enhance local training providers, and bring new knowledge and new training techniques to Khabarovsk region. This will result in improving the local business climate and enhancing market conditions for local SMEs.

### *Training Topics*

Potential training topics were determined by combining all sources of information:

- Most frequently mentioned topic recommendations from the audience and service provider interviews.

- The highest-ranking "business issues facing Khabarovsk" identified in the audience interviews.
- Issues that ranked in the top "most important issues" on the audience survey.
- Issues that ranked in the top "issues to learn more about" on the audience survey.

These combined results represent identified training needs and gaps. Sixteen potential training topics surfaced as the most important. These are listed below in priority order based on the results of the Market Analysis and Needs Assessment.

***Priority Training Topics for USAID's ESD Project:***

- Industry specific training for the core industries of Khabarovsk
- Financial Training on Tax and Accounting Regulations
- Managerial Accounting and Organizational Structure
- Strategic Management
- Information Technologies
- Human Resource Management
- Art of Negotiations
- Quality Control
- Customer Relationship Management
- Delegation, Motivation and Control
- Logistics and Distribution
- Operations and Production Planning
- Marketing and Sales
- Business Ethics
- Corporate Governance
- Public Relations Techniques

Recommendations arising from this project highlight the importance for business courses to be available in the region, short, flexible and targeted to SMEs. The ESD Project is currently under rapid development and will work on adding value to local training providers. This may generate new collaborative frameworks for providers that will foster a culture of cooperation and complementarities. Electronic commerce will challenge existing business practices further, demanding wide-scale implementation of information and communication technologies with a host of associated training needs.

***Partnerships***

Partnering with other agencies and organizations was highly recommended in the Market Analysis as an integral part of ESD. Three training providers could be recommended for partnerships for the initial phase of the program. American Russian Education Center, Far Eastern Chamber of Industry and Commerce and training center "Green House" were recommended by respondents as valuable local partners for implementing the program.

Promotion of learning initiatives within the Russian Far East will improve the business environment from the inside, strengthening SMEs and BSIs and creating a healthier marketplace, while inspiring changes in the procedures of government agencies.

To learn more about ESD Project, please visit: [www.esdproject.ru](http://www.esdproject.ru)