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*Fellowship Topic Area:* State Capacity and the Leading Economic Sector in Post-Socialist Eastern Europe

*Project Title:* Eastern Europe Economic Transition Policy Revisited: Neo-Schumpeterian Model

## FINAL ACTIVITY REPORT

The present report describes the activities carried out during the 2<sup>nd</sup> half of the fellowship year between August 1, 2003 and March 15, 2004, as well as the follow-up activities. The activities have been devoted to the tasks as outlined in the project timetable:

1. Building database with relevant firms for interviewing. Conducting explorative interviews with the entrepreneurs from selected innovative firms. Consultations with Bulgarian mentor.

I have already prepared database and conducted some interviews with innovative entrepreneurs in the sector of *Information and Communication Technologies (ICT)* during the first half of the fellowship. There the help of *BAIT* officials I have already prepared a list of 30 relevant Bulgarian ICT firms of which 11 agreed to be studied as cases. In the second half I continued this work with the sector of *Perfumery and Cosmetics (P&C)*. These activities have been carried out between the second half of August till late September 2003.

My initial idea was to compare the entrepreneurs in ICT sector with those in *pharmaceutical industry, perfumery and cosmetics*. We began building our database with the firms in the sector and contacted relevant experts. However, it soon became clear that pharmaceutical industry on the one hand, and perfumery and cosmetics – on the other, are quite different. It appeared that they are in fact two separate sectors with differ in their internal organization, technologies used, standards and regulations, business relationships, etc. They appeared also to be two distinct business communities, each having its own branch association. Getting access and studying both of them could have gone beyond the time schedule of the project. So in mid-September 2003 I decided to focus only on perfumery & cosmetics sector.

I have established contacts with *Bulgarian National Association “Essential Oils, Perfumery, and Cosmetics” (BNAEOPC)* with headquarter in city of Plovdiv, Central South Bulgaria which appeared to be the only branch association in the sector. It unites about 60% of P&C companies in Bulgaria. With the help of *BNAEOPC* officials we prepared an extended list of firms relevant to our project – i.e. those engaged in production, with large share of original products in their list, and having R&D activities. The initial list comprised 24 innovative firms.

After two pilot interviews and consultation with experts in the sector I completed the final version of *Guide for the empirical analysis* and *Questionnaire for unstructured interview with firms’ managers*. They were sent to the 24 P&C entrepreneurs and those ICT firms we did not managed to interview in May-July 2003.

## 2. Interviews with firms' managers and economic experts in the sector. Building unified database for ICT and PC firm. Preliminary treatment of the data.

These activities took place between late September and early December 2003.

We begin interviewing the entrepreneurs from the lists since the last days of September 2003. Our work was facilitated by the fact that production firms in P&C sector were concentrated in region of South-Central Bulgaria - when discussed the list with BNAEOPC officials, it appeared that more than 90% of firms producing P&C are located there. In addition to that, practically the entire Bulgarian production of essential oils (rose, lavender, salvia oils) is located in the northern part of the same region due to its specific climate (so-called 'Valley of Roses'). All these circumstances determined our choice for conducting the fieldwork in this region.

The fieldwork was carried out with the help of my research assistants. In P&C sector the initial list comprised 24 innovative firms, of which 13 agreed to be studied as cases. In addition to that, during the interviews managers pointed out two other innovative private firms as worth to be studied (one of them in capital Sofia). With fellow managers' recommendation we easier accessed these firms, so the final list comprised 15 firms. From 30 ICT firm in the initial list, 11 entrepreneurs agreed to be studied as cases. Later, two of the case studies were not undertaken,<sup>1</sup> so we had data for 9 ICT firms. Most of them are located in capital Sofia (one of the reason was their relationships with former R&D centres of socialist electronic industry, also established in the capital).

Personal interviews with managers or head of R&D departments have been conducted. When possible, we collected some written documents about their activities (product lists, advertising materials, booklets presenting the history of the firms, etc.). We searched also some of the firm's web sites. Only one interview was done via e-mail.

Typical for the elite interviews, together with my technical assistants we met lot of difficulties in accessing our interviewees and arranging the appointments. It appeared that October was a month of international fairs, conventions and industrial exhibitions in both sectors. In later September till mid October most of P&C firms were participating in large commercial exhibition in Moscow, Russia and rejected any contacts before second half of October. ICT firms in turn had their annual forum in second half of October, so-called *BAIT-Expo* and there were similar problems, if in the lower scale (most of the interviews have been carried out previously).

So instead of late October, we managed to complete the fieldwork in December 2003. However, we were very satisfied with the data collected – the interviews with some of the entrepreneurs went beyond planned hour (in some cases we transcribed more than 20 pages of text), most of them gave us with relevant material about the history of their firms, at some places they took us in their research labs and production facilities. All this provided good bases for tracing evolution of innovation entrepreneurs during post-socialist transition and their comparative analysis.

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<sup>1</sup> After the initial friendly contacts, the *Center for Telematic Services at Bulgarian Telecom (BTC)* requested official permission from BTC as mother company, which never came. Also, after several polite talks with the first private GSM operator in Bulgaria *Mobiltel*, our proposal for case study was kindly rejected.

### 3. Data analysis and preliminary report.

The activities in this part have been carried out since November 2003 till February 2004, partly in parallel with previous activities.

There are two reasons for relative delay of these activities. *First*, the difficulties we met in interviewing P&C and ICT entrepreneurs, which expanded the time of fieldwork with more than a month. We barely managed to conduct two interviews per week, often with interruption for week or two. In the last case (one of the fast growing P&C firm recommended by BNAEOPC) the interview was carried out almost three months after the initial agreement, in early March 2004!

All interviews have been tape-recorded and transcribed. The cases, representing typical patterns of development, have been elaborated in text-boxes in English and included in the Final research paper.

*Second*, the necessity of critical reflection of the existing theoretical views on early transition period, inspired by the time-dimensional data stemming from the interviews. The new data did confirm some of our preliminary hypotheses, but also brought surprising facts - for example we have discovered that two P&C entrepreneurs have established their firms in early 1988, which was completely beyond our expectations and does not fit any of the preliminary schemes. It appeared that to explain what was going on in the early period of transition (up until the end of 1996) we need to know what was going on in the late socialist period!

The cancelling of third IPF Seminar in October 2003 and related \$ 500 cut of my budget made difficult to realize the planned additional two-weeks stay in Budapest, so I had to rely on the theoretical sources and other literature I have collected at CEU library during March in and June 2003 stays, as well as from my work at IAS-STS in Graz, Austria.

The new data were strongly in tune with Mansur Olson "bandit model" of the government's role in Eastern European transition<sup>2</sup>, which gave us additional arguments for our choice to target as main policy actor instead of Bulgarian government the branch associations as representing bottom-up interests of the entrepreneurs.

### 4. Final report with project results. Dissemination:

The results of my IPF fellowship are presented in the three texts in English (one of them published also in Bulgarian in December 2003):

- 1) *Theoretical analysis of the models of Bulgarian economic development in last decades of socialism* (special attention paid to so-called 'second networks' model), which I consider as inseparable part of IPF fellowship. The first drafts of the paper was discussed with my Austrian colleagues from IPF-STS in Graz, Austria, I was invited to their seminar at February 23-24, 2004 (I begun my IPF project last year with one month research stay there). The more elaborated version of the theoretical analysis was presented at "Tensions of Europe" conference that took place in

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<sup>2</sup> The 'bandit model' of the governments' role in East European economic transformation defines the role of politicians and bureaucracies in transition economies as 'bandits' attempting to extract maximum resources from the 'public'. This model introduces several variables in describing the process, such as the ability of the 'public' to resist, the time span of bandits' economic policy and the level of bandits' internal cohesion (Olson 1995: 437-462)

- Budapest just before IPF March 2004 seminar. PDF text is deposited in “Publications” section of my website [www.policy.hu/tchalakov](http://www.policy.hu/tchalakov). Earlier version is published in Bulgarian in the Journal *Sociological Problems*, December 2003.
- 2) *IPF Fellow Public Lecture*, given on March 23, 2004 in CEU-Budapest, in the framework of IPF March 2004 seminar. (Power Point presentation deposited in “Publications” section of my website [www.policy.hu/tchalakov](http://www.policy.hu/tchalakov))
  - 3) *The Final Research Report*, where the comparative analysis of the patterns of innovative entrepreneurship in ICT and P&C sectors was carried out. The Final Research Paper consists of 84 pages and was completed at May 6, 2004.
  - 4) *The Final Policy Paper*, which outline the policy situation innovative entrepreneurs in the two sectors are working in, and which includes their key short and long-term problems, their allies (stakeholders) and adversaries. The paper outlines the relevant policy objectives and corresponding policy instruments.

In early April 2004 a booklet with provisional title "Sectoral Economic Policy and Economic Growth: The Strategic Role of Branch Associations" was deposited at “LIK Publications” Publishing House. The final proof is expected by the end of May.

I have preliminary discussions of project results with eminent member of the board of BNAEOPC in December 2004 and recently in early April 2004. Similar discussions are under way with representative of BAIT and BASCOM. They took agreed to distribute the booklet among their members. I also have an arrangement with the Board of BNAEOPC that booklet together with my *Policy paper* will be discussed at special meeting of Branch Associations, planned for early June 2004.

April, 2004

Sofia, Bulgaria