

Round Table: “E-Business challenges and opportunities”

**Etta Carignani
Secretary General FCEM**

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The title of the workshop is very stimulating, because the concept of “business alliance” contains three different aspects of the activity of a company: internal re-organization, external relations, integrated development. Strategic alliances and cooperative behaviours have emerged as new business models for the future that are attracting the interest of public policy makers.

Business alliances imply a wider meaning of growth-oriented small companies, interested not only in their own success but also in an integrated and shared development. The problems are related to the size of the companies and their resources, because as we speak of SMEs, we have to acknowledge that there are a lot of self-employed and very small family companies. Few little companies and even fewer of the self-employed are seriously interested in growth. A lot of the self-employed notwithstanding that many of them are extremely energetic and inventive, function as self-employed individuals with no employees and never developing into more complex organisations. Their main business challenges are usually connected with survival.

By contrast, successful small businesses more likely want to face challenges in the efficient management of social relations of scarce or costly physical resources and in their ability to resolve business problems effectively. It appears that the organisational complexities associated with growth and innovation, plus the non-economic personal motivations of many SME owner-managers may pose real external and internal psychological barriers to the development of innovations in small companies or the introduction of innovations from other companies.

The fact that business is a social process suggests that well-developed social skills are of prime entrepreneurial importance. Most definitions of the entrepreneur stress the ability to organise and combine as the key distinguishing features. This conclusion is supported by the influential management writer Peter Drucker who maintains that innovation no longer results from chance activities but needs to be managed - whether in a big or small company - as an organised and systematic process.

However, there is some evidence from the management literature that entrepreneurs do not feel the need to seek help for organisational problems while they are open to receive outside specialist help for marketing or financial problems. There still appears to be a suspicion toward the 'outsider'. The concentrated poles of inter-related SMEs into 'business alliances' or, even better, into 'industrial clusters' within regions, with special reference to the Italian case, has been a successful experience of industrial organization in many areas, but it has not become a more significant feature of Europe's economy.

This kind of industrial organization could be supported by the partnership between Technology Centre and SMEs, because there are some signs that the use of ICT in specific areas may yet be a catalyst to bring something like these interactive agglomerations about. Thus, the era of the highly individual entrepreneur as a key economic actor may have declined as more cooperative or social forms of enterprise emerge. Indeed, there is a growing body of evidence that modern entrepreneurial businesses succeed because of their social skills not only in obtaining a high performance from their employees inside the company but also in networking externally with other companies.

The role of ICTs in this process, and their role more generally in the different forms of innovation, is still to be determined, but there is increasing interest in the innovative use of new technologies by SMEs. Moreover, Technology Centres can be incubators both for new companies and for new processes of business networking, giving a great contribute not only in innovations of products but also in innovation of organization and relationships.

I think that we have to imagine an alliance between Technology Centres and SMEs having in mind the core concept of industrial clusters organization. Also economic literature linking SMEs networking and innovation traces its roots back to Marshall and his concept of 'industrial clusters'. This concept has envisaged independent companies and workers linked together through their shared specialisations which they traded, almost as commodities, regionally, nationally and often internationally. Successful industrial clusters are characterised by their capacity to transmit, exchange and react to new information extremely rapidly, through different forms of cooperation, some formal and some outside formal contractual relations. In economic development terms this has the effect of ensuring that the industrial clusters has a networking role in promoting inter-linked chains of production and distribution, which tend to be linear, leading to more value being added and retained locally.

Nevertheless, it appears that smaller companies across the EU often tend not to enter into longer term contractual arrangements. This fits in with the dominance of a 'need for independence' motivation among small company owners, which suggests that small company involvement in supply-chain networks is likely to be informal rather than formal. This may have the effect of actually increasing dependence but it also leaves small companies more free to compete, especially where they enjoy some competitive advantage. Indeed, if the role of small companies in supply-chains is to introduce innovation and flexibility rather than just specified inputs, then a degree of independence may be a necessary ingredient. If the main purpose, however, is to stimulate innovation and to spread it, then a dependent relationship may be necessary to maximise efficiency but this loss of independence should be compensated, for instance, by access to investment capital.

This is why the broader concept of 'industrial cluster', as business alliance or 'as communities of interest', is a more useful focal points of analysis for economic development theory than linear supply chains. The development of certain local districts, or even entire regions, developing as poles for linked industries and the specialised labour markets based on the new technologies and skills required for global competition represent the new form of industrial organisation.

To this model is central the development of new forms of alliance of SMEs which are seen as a necessary ingredient in providing flexibility in processes, supplies of goods and services and working practices.

The main function of these new kind of alliance lies in its capacity to generate, sustain and diffuse innovation. According to Schumpeter (who has been a strong influence on both SME and innovation theory), there are five main types of innovation:

1. The introduction of new products or services;
2. New methods of production;
3. Developing new markets;
4. Identifying new sources of supply;
5. New forms of organisation.

SME based strategic alliances may take many forms ranging from very informal information sharing cooperatives to extremely formalized joint ventures. The goals and purposes of the alliance can also be quite varied. More specifically, these exchange relationships exist between SMEs and other SMEs as well as large enterprises and often, but not necessarily, stretch across geographical regions and international borders. Some authors fell the types of cooperative forms can be arranged based upon 5 goal-driven dimensions: planned life span of the alliance, ownership, perceived risk, desired control, and expected return on investment. Numerous sources have pointed out that the creation of a critical mass among small and medium size private businesses is essential for the success, mostly of countries in economic transition.

Nowadays, new methods of gathering market information, financing and distribution would also be regarded as innovative, especially those making ICT use. The central feature of Schumpeter's development theory is that the entrepreneur is the vehicle for the diffusion of technology through innovation. Business alliance for SME and Technology Centres suggests an even closer link between innovation and a company's competitiveness and strategy. Innovation has to be considered also a new way to look to the future, implementing the concept of 'foresight' that ICS-UNIDO has already promoted in its programmes. Technology innovation has to be considered also as a new method of fulfilling the mission of the organisation', a competitive advantage for the company's special ability to attract and satisfy customer, a strategy in the selection of goals to gain.

Particular emphasis has to be put on defining feature of successful innovation as the company's capacity to scope products or projects for the future and planning in advance their investment in them. The most powerful innovations are building inter-organisational linkages'.

All these features of the innovative company and innovative alliances require well above average management skills, especially in marketing and human resource management. As well as external networking, innovative SMEs also need to develop effective internal networking. The features of innovative SME include an increased use of ICT, an increase use of 'outsourcing' of non core activities and greatly increased adoption of human resource management including management development.

The importance of alliances for SMEs and Technology Centres lies in the different opportunities in stimulating innovations and development: pushed by technological discoveries, pulled by market or consumer demand as an interactive process of both technological push and market pull, as an integrated management process and finally as a networked management approach and cooperation making use of the benefits of ICT. By implication, successful innovation in small companies has moved from relying on individual technical skills to the social use of broad management knowledge. It seems

clear that effective use of ICT will be an essential element in this process, certainly for SMEs that wish to develop their role in the economy.

The rapidly increasing scope and usage of ICT and access worldwide communication by companies of all sizes across Europe has already led to incredible changes to the business environment and economic development policy in Europe. Many SME policy initiatives in the EU are now aimed at using ICT to promote and strengthen networking among SMEs and between them and larger organisations. Regional development policy is concentrating increasingly on enhancing regional value chains through a focus on networks and inter-organisational communications and cooperation rather than on individual enterprises.

At the level of SME policy this has often taken the form of promoting technology-based SMEs, technology transfer programmes, science parks and business innovation centres (BICs) as well as supporting a variety of ICT-based, EU-wide networks. The focus is now on increasing SME utilisation of ICT which should facilitate more and better information sharing and coordination between SMEs and create new opportunities for 'phasic' and 'on line' support environments.

The Internet should also allow SMEs to participate in useful networks or to pursue commercial and industrial linkages without a strong need for spatial proximity. However, there is evidence that there is a mutually strengthening effect between ICT-mediated and physical contact between companies, between companies and institutions, between people and companies.

In the European context, there is also a relationship between usage and size: for instance, the larger the company, the more likely is the use of email. Generally speaking, SMEs use ICT for four distinct activities: administration, operations, electronic communications and small company information systems. In a general sense the level of use was again related to the size of the company, larger companies used ICTs for more functions than other companies. However, it transpired that the implementation of ICTs was also dependent on the type of owner manager and their attitude, the more enthusiastic owners adopting ICTs to a higher extent. However, it is already clear that the vast majority of SMEs, whatever their driving motivations and business expectations, are becoming part of the wider ICT revolution to the business environment. The role of the Technology Centres can be now not just to support innovative processes, but also to help SMEs in their challenge which is how to use effectively the new technologies.

According to some experts, one of the most important constraint on SME's growth and networking lies in the career motivations and personal expectations of individual small company owner and manager. Many decisions are based on non-business criteria. Generally speaking, women and younger SME- owners seem to be more self-confident about taking risks and expect to build their businesses in the longer term. They are less concerned about the need to preserve independence which implies a stronger propensity to work with other companies. This has enormous implications for growth prospects of the sector and attitudes towards innovation, ICT use and networking.

Women are more flexible and ready to deal with changes, and this is a very good attitude in the uncertainty under which most SMEs operate. It is this uncertainty that is often the biggest barrier to SME participation in networks and longer term collaborative ventures.

It seems reasonable to conclude that younger SME owners appear to be more prepared to work collaboratively and seem to be more keen to embrace ICT to help them achieve their goals. This opens up more possibilities for collaborative working with like minded or like motivated SMEs and innovative organizations.

In addition to potentially negative attitudes, another concern is the lack of reciprocal knowledge between small businesses in different countries, even more between European Eastern and Western economies. While Western people do not know enough about the Eastern situation or needs and opportunities in Eastern countries, experts and entrepreneurs in Eastern Europe do not possess a thorough knowledge of Western experiences. Stemming from this knowledge and experience gap one might expect to find a corresponding difference in the entrepreneurial orientation of SME owners. The implications of such a gap could include the retarding of economic growth, particularly that of the small business sector.

One approach for Europe to develop a SME policy is to begin an "international SME alliance program," which would generate and transfer information and intellectual capital from both Eastern and Western countries. Successful efforts in some countries are just some of the programs that could be used to develop a "best practices" model for Europe. By sharing information on creating the alliance model, it should be possible for SMEs to increase opportunities and reduce the structural risks of entrepreneurial development. As a result, involved countries could experience increased jobs, wealth and economic stability from this cooperation and from the transfer of intellectual capital of the alliance partners. Furthermore, the potential for changes in multi-country alliance efforts could lead to a change in both the perceived role of SMEs and in the SME owners' confidence in the services provided to them.

The changes that have occurred in the SME sectors in many countries have given a result of a more educated owner, an increased likelihood of starting a technology based company, a positive view of growth rather than subsistence, and a willingness to seek assistance to implement more modern organizational and management practices. This reinforces the idea that cultural and market acceptance increases the potential for success of an SME alliance.

In addition, companies begin to think more strategically and globally and this increases the options available to them thus leading to more growth. Successful SME development efforts look to facilitate a more international orientation and to make use of networks, alliances, and clusters. Alliances with other kind of organizations, like Technology Centres, research centres and academic institutions, are strategic for sharing knowledge and development.

From a public policy perspective, two basic strategies can be employed to facilitate SME and alliance development. The first is the classic push approach. With a push approach, governments and educational institutions put resources into creating ways for people to enter business, set their goals, finance their ventures, create jobs, and support the sectors.

The second approach is the pull strategy with which associations, non-governmental organizations, entrepreneurs, and the media highlight opportunities and profile successes to stimulate people into the SME sector. The SME becomes attractive to the public, and thus people are encouraged to use their intellectual capital, their families, the support networks, and simple work to create their own business.

There is a general recognition that governments cannot force development, but can play a supportive and facilitative role. Some specific steps to aid in the development of a policy to promote SMEs and alliances are the following:

- **Encourage SME development and cooperation through alliance mechanisms:** encouragement of SME development and cooperation could be a combined, multi-sector approach that recognizes the need for a strong SME sector and shows it with public recognition efforts and financial support.
- **Provide information to reduce uncertainty:** information is essential to development. Government and education sources are often the basic sources of

information provided at no or low cost to other service providers, SMEs, and associations. Information linked to other countries or web sites is feasible and could be expanded to a regional or full international-based site in the future. Essential information concerning credit, production capacity, distribution, and similar topics could be given to companies about potential alliance partners. Another way information can be provided is through a database that would facilitate the normally random search process that SMEs use to find alliance partners.

- **Develop SME assistance centers within associations or universities:** centers to promote SMEs, counsel and facilitate SME interactions with larger companies, and help procure advanced technology should be developed. This is one way to rapidly expand expertise and growth using existing models.
- **Create financing mechanisms.** Most countries have found the need to create loan funds, tax credits, job creation credits, or similar devices, to permit initial access to capital for SMEs.
- **Reduce barriers and regulations.** The removal of barriers such as negative tax policy, restrictions on the flow of funds, required ownership percentages, and similar measures that keep investors out of a country or out of international alliances are needed to attract potential partners. Because incentives do not eliminate the barriers that keep significant numbers of people from becoming independent business owners, they are considered less useful than the reduction of barriers. For example, Ireland gave a tax credit for installing new technology, and Ireland is now one of the major technology countries in Europe.
- **Training for the selection and maintenance of alliance partners.** Just as SMEs need training in the traditional business functions, they need to learn about how to make their alliance succeed.

The excellent experiences in some countries (as Italian cluster concept, Dutch technology centers, U.S. incubators, and India micro loan programs) are all examples of institutionalized efforts to promote alliances and SME growth. Identifying highly entrepreneurial oriented owners, growth sectors, required supports, and barriers that should be eliminated is a process that requires patience and future visions.