Overcoming business weaknesses: business cooperation and the role of Public Private Partnership

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Presentation Outline

Introduction

SME Strengths and Weaknesses

How to deal with SME weaknesses

SME cooperation, a variety of experiences

Enabling and conducive environment to business development

The cooperation between small businesses and other actors

Some policy open issues
SMEs and their role in economic development

OECD

On average across the OECD area, SMEs represent a major share of all firms (99%), all employment (approximately two-thirds) and all value added (over one-half)

[SME, Entrepreneurship and Innovation, OECD, 2010]

European Union

In 2010 - EU-27
• 20.8 million SMEs - out of that 19.2 million (or 92.1 percent of all EU business) micro-firms with less than ten employees
• 87.5 million (more than two-thirds) of all employment opportunities
• in the private sector
• 58.4 percent of the total Gross-value Added (GVA) produced by private businesses was accounted for by SMEs

## SMEs, a tentative characterization

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<th><strong>Strengths</strong></th>
<th><strong>Weaknesses</strong></th>
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<td>Flexibility</td>
<td>Highly affected by the external environment</td>
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<td>Adaptability</td>
<td>Short term orientation</td>
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<td>Resilience</td>
<td>Undercapitalization and difficult access to finance</td>
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<td>Local employment generators</td>
<td>Tendency to innovate less than big companies</td>
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<td>Lower influence on policy design</td>
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SMEs distinctive features

- Not just a matter of size
- Ties with local community and high level of interaction with the local environment
- The local social capital as determining factor (externalities, tacit knowledge, hybridization of know-how, …)
- Variable and evolving intercompany organisational structure (clouds, clustering leading companies, raising hierarchy, external services providers)
SME cooperation: Networking

Networking facilitates linkages and collaborative working relationships between suppliers, customers, competitors, universities, research institutions, etc..

Trust enabling: the flow of knowledge and information between enterprises and institutions increases

*The establishment of a trustful environment is a precondition for further cooperation as a source of growth*
SME cooperation: Cluster development and “Industrial Districts”

"The basic unit of analysis for understanding the national advantage is the industrial sector. Nations succeed not in separate industrial sectors, but in aggregates or “clusters" of industries interlinked by vertical [customer / supplier] and horizontal [common customers, technology, channels] relations"

“The competitive advantage of Nations”, Michael Porter
SME cooperation: Cluster development and “Industrial Districts”

“The competitive advantage of Nations”, Michael Porter
SME cooperation: Cluster development and “Industrial Districts”

The industrial district is the system of production based on small and medium-sized companies that characterized the development of Italian economy and has been described by researches as the "Third Italy“ model, which is the alternative to production based on large-scale industry (Bagnasco, 1977).

The "industrial climate“, being established by the simultaneous and interrelated presence of knowledge widely disseminated, of capabilities and skills, and the development of subsidiary, specialized and complementary activities enable identify the district as "integrated local system."
### SME cooperation: Cluster development and “Industrial Districts”

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<th>Industrial district</th>
<th>Cluster</th>
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<td>“A district [is] a socio - territorial entity characterized by simultaneous active presence, in a defined, naturalistically and historically determined, spatial area of a community of people and a population of industrial firms”</td>
<td>“A cluster is a geographically proximate group of interconnected companies and associated institutions in a particular field, linked by commonalities and complementarities”</td>
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Giacomo Becattini  
Michael Porter
The environment and climate factor for SME cooperation

The local context matters:

- Political
- Institutional
- Social capital endowment
- Presence of facilitating agents
  - Development agencies
  - Dedicated financial tools
  - RT&I enablers
  - Public support initiatives
  …
PPP. Motivations

The public sector in general pursues PPP in order:
1. to attract private capital investment (often to either supplement public resources or release them for other public needs)
2. to increase efficiency and use available resources more effectively
3. to reform sectors through a reallocation of roles, incentives, and accountability
PPP. What is it about in our context?

Purposes

- Facilitating synergies between small businesses (and their representatives) and public sector
- Pull resources and capabilities at local level
- Improve the dialogue between public and private sector (SME)
- Foster small business cooperation and development
PPP. What is it about in our context?

Private - Private

Private - Public

Public - Public
SMEs and partnership with public sector

A critical issue:

- SME encounter difficulties in dealing with public bodies (mindset, timeframe, objectives, expectations, language)
- Intermediary and enabling bodies:
  - Technology Transfer and Innovation Centres
  - BICs and incubators
  - Regional and local agencies
  - etc.
SMEs and partnership for innovation

“The Triple Helix Model of Innovation”, Henry Etzkowitz
An example of the evolution of PPP: Italy case (1/3)

Until the late ‘60s of the past century
Industrial policy and economic development centralized at national level

The ’70s
• Establishment of the regions and development of initiatives somehow pioneers of the future development agencies.
• Development of industrial parks and other location facilities (PPP) and ’regional investment companies’
• Mutual guarantee schemes
An example of the evolution of PPP: Italy case (2/3)

End of the ‘70s and in the ‘80s

- ‘Business Service Centres’ with sectoral specialization, in Italian industrial districts
- The most successful, *de-facto*, operate as local and regional development agencies

The ‘90s

- Increasing influence of European policies
- Impulse to local and regional development policies: *negotiated programming* and *bottom-up* initiatives
- Local industrial systems start to change (globalization)
- Extensive development of RDAs and LDAs, technoparks, BICs, business incubators, innovation centres, internationalisation agencies, etc.
An example of the evolution of PPP: Italy case (3/3)

Last decade

• Further proliferation of these actors at local level
• Emerging issue how to assure the sustainability of these bodies
• 2008 downturn: reduction of resources, open challenge how to act for giving impulse to recovery and undertaking development initiatives
An example of the evolution of PPP: Italy case

*Issues:*
- Various cases of vague conception, mission, size or territorial coverage
- Self-sustainability
- Difficulty in assessing the performances combined with the difficulties to cope with fast and sharp changes in the local economies and the continuously rising of new needs and expectations among target clients
- All these factors, interacting together with specific conditions of local economies, often raise questions concerning the role, the performances, the activities and even the existence of local economic and SME development actors
Multilevel governance

**National level:**
General rule-making
Development strategy and broader macro agenda
Framework setting for policies supporting regional and local development
Allocation of national funds to the regional or local level

**Regional/local level:**
Specific micro-level analysis and prioritisation
Exploiting local assets
Resources allocated locally
Pursuing local stewardship and ownership of initiatives
Policy open issues

“Governments should target SMEs and entrepreneurship as a major potential source of new jobs in the recovery from recession. Indeed, well-designed policies may achieve two objectives at the same time: job creation from new firm start-up and SME growth and productivity improvements from increased new and small firm innovation.

To realise these benefits, governments should stress actions in four main areas:

1. Promoting conducive entrepreneurship cultures and framework conditions
2. Increasing the participation of new firms and SMEs in knowledge flows
3. Strengthening entrepreneurial human capital
4. Improving the environment for social entrepreneurship and social innovation”

“SME, Entrepreneurship and Innovation”, OECD, 2010
Thank you for your kind attention!