

Co-operation of German SMEs in global value chains

Challenges, advantages and policy recommendations

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1. Legal structure:

- Established in 1957 as a foundation of private law
- Founders: Federal Republic of Germany and the Federal State of Northrhine-Westphalia
- Tasks: (1) Analysing the status-quo, development and problems of family enterprises/SMEs, (2) distributing the research results to the general public and (3) assisting and advising the founders in SME policy-making

2. Main Research Fields

- Compilation and analysis of SME statistics
- Analysis of and recommendations for SME policies
- Enterprise life cycle
- Strategic enterprise management

→ 42 employees, thereof 24 researchers

Structure of the research project

1. Literature review:

- Analysis of academic theories on global networks/value chains
- SME-specific advantages and challenges
- Trends and impacts of ICT

2. Expert interviews:

- Half-standardised telephone interviews
- 7 enterprises and 9 supplier-relevant business associations

3. Conclusions/policy recommendations

Interview topics

- Importance of enterprise culture
- Economic power / dependencies
- Contractual issues
- Required standardisation and certification
- Protection of intellectual property
- Internationalisation pressures
- Dynamic aspects of co-operation
- Advantages of participation in global value chains
- Current trends and developments
- Policy recommendations

Diverging enterprise cultures

- Market conditions and ownership structures of lead enterprises have a direct impact on suppliers
- Stock-exchange listed corporations are under pressure from the financial markets and want to achieve quick, short-term profits and cost reductions
- Family enterprises and SMEs as lead enterprises prefer a more trustful, long-term oriented and partnership-based co-operation with their suppliers

Forms of economic power in global value chains

- Unfair contractual (re)negotiations
- Cost pressure
- Innovation pressure
- Unilateral acquisition of intellectual property
- Internationalisation pressure

Internationalisation pressure

- Installation of new production capacities abroad at the direct instigation of the lead enterprise (“follow-your-customer”)
- Internationalisation partly also on suppliers' own initiative (→ but: certain minimum capacity utilisation required)
- Differing degree of assistance from lead enterprises
- Reinforcement of concentration tendencies

Main determinants of economic power and dependencies in global value chains

- Purchase quantities, transaction value
- Frequency and length of co-operation
- Degree of diversification
(→ number of purchasers, sector distribution)
- Innovation-/technology intensity of products
- Degree of differentiation advantages for lead enterprise
- Specificity of products, plants/tools

Advantages of participation in global value chains

- Participation in growth and profit opportunities
 - Specialisation leads to cost and innovation advantages
 - Planning security (to some extent), follow-up orders
 - Innovation impulses
 - Acquisition of new technological and procedural knowledge
 - Opportunities for co-operation with other network partners
 - Information about market trends and (end) customer needs
 - Assistance in establishing production units abroad (in part)
- Long-term partnership-based and innovation-oriented co-operation with lead enterprise or key suppliers

Selected trends and developments

- Increasing globalisation
- Acceleration of all (management and market) processes
- Consolidation and concentration tendencies
- More complex products enriched by ICT-elements
- Increased co-operation with external (ICT-) knowledge providers or their integration into the own company
- Potential redistribution of value added to new players
- Decisive competitive factor in the future:
→ knowledge, data, networks

Strategies for suppliers to reduce dependencies

- Continuous innovation orientation
- Diversification
- Refrain from insufficiently remunerated contracts
(if possible)
- Increase production of modular-designed products
- Take over additional (co-ordination-) functions/upgrading
- Achieve growth/size advantages
- Co-operate and bundle resources with other suppliers

Policy recommendations – Policy makers

- Promote free trade, reduce protectionism
- Harmonise international licensing procedures and standards
- Provide technical and legal IT-infrastructure
- Sensitise SMEs for data-based business models and digitisation
- Adapt education and training system
- Promote entrepreneurship education in the entire education system
- Create positive framework conditions for innovation
- Review legal framework for co-operation in global value chains

Policy recommendations – Business community

- Consider additional dispute settlement mechanisms
- Achieve greater standardisation of certification and auditing requirements for participation in value chains
- Create co-operation- and marketing platforms for suppliers

Thank you for your attention!

Contact

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Contractual issues

- Trade-off between flexibility and planning security
 - Purchase prices basically fixed for the whole contract period
 - Purchase quantities specified through framework contracts (→ non-binding annual forecasts, delivery calls/call-offs, safety stocks)
- “Renegotiation” of existing contracts, additional price reductions
- Arguments usually settled bilaterally and out-of-court
- Lack of High Court case law