

**BLACK SEA
ECONOMIC
COOPERATION**

**KONRAD
ADENAUER
FOUNDATION**

**UN ECONOMIC
COMMISSION
FOR EUROPE**

**WORKSHOP ON
SMEs AS SUPPLIERS OF BIG INTERNATIONAL COMPANIES**

Kyiv, 23-24 September 2002

Summary Proceedings

1. The Workshop titled “SMEs as Suppliers of Big International Companies” was held in Kyiv, Ukraine, on 23-24 September 2002. It was organized by the Organization of the Black Sea Economic Cooperation (BSEC) and the Representation of the Konrad Adenauer Foundation (KAF) to Turkey, in cooperation with the State Committee of Ukraine for Regulatory Policy and Entrepreneurship, and the Ukrainian Association for Quality. The United Nations Economic Commission for Europe (UNECE) provided expertise and technical support to the Workshop.

2. Welcoming statements were delivered by Dr. Wulf SCHÖNBOHM, Representative of the KAF to Turkey; H.E. Tanış BLEDÄ, Ambassador, First Deputy Secretary General of the Permanent International Secretariat of the BSEC; Dr. Antal SZÄBO, Regional Adviser on Entrepreneurship and SMEs, UNECE; Dr. Manfred LOHMANN, Representative of the KAF to Ukraine, Ms. Oleksandra V. KUZHEL, Chairman of the State Committee of Ukraine for Regulatory Policy and Entrepreneurship; and Dr. Petro Y. KALYTA, President of Ukrainian Association for Quality, Member of the Board and General Assembly of the European Organization for Quality.

2.1. Dr. W. SCHÖNBOHM welcomed the Participants of the Workshop on behalf of the KAF. He stated that SMEs constitute the backbone of the economy. The subject of this Workshop is complex and sophisticated. In expanding globalization competition is increasing. One of the important tasks is to promote the cooperation between the SMEs and international corporations.

2.2. Ambassador T. BLEDÄ pointed out that with the acceleration of the globalization process the big international companies try to respond to the changing environment by arranging subcontracting agreements with SMEs. This linkage helps the big companies to lower production cost and their requirements on quality and standards, helps the SMEs to acquire new technologies and knowledge making them more partnership-ready.

2.3. Dr. A. SZÄBO drew attention of the Participants that to the important phenomenon taking place in the ECE region: i) enlargement of the EC; ii) providing

Market Economy Status for the Russian Federation and development of a Common European Economic Space; and iii) the accelerating process of globalization. Globalization of economy has dual impact on SMEs: for some it provides new opportunities for expansion; for majority however, it means intense competition. Promoting linkages could contribute to economic growth.

2.4. Dr. M. LOHMANN presented information on the activities of the Konrad Adenauer Foundation to Ukraine, with special emphasis on economic development including SMEs. He highlighted the low share of the SME sector in Ukraine accounted only at 10% in GDP, while it amounts 46% of GDP in Germany. In Ukraine SMEs face many problems, such as high shadow economy, unrealistic high taxes, bureaucracy and corruption.

2.5. Ms. O. KUZHEL welcomed the Participants of the Workshop on behalf of the Ukrainian Government and briefed them about the development phases on entrepreneurship following the Government policies on SMEs.

2.6. Dr. P. KALYTA presented the activities of the Ukrainian Association for Quality (UAQ), a professional public organization, established in 1990. UAQ joins 450 enterprises and more than 1000 experts.

3. The Workshop was co-chaired in rotation by Messrs. SCHÖNBOHM, KALYTA, SZABO and BLEDA.

4. The Workshop was attended by the representatives of the following BSEC Member States:

Republic of Armenia
Republic of Azerbaijan
Republic of Bulgaria
Georgia
Hellenic Republic
Republic of Moldova
Romania
Russian Federation
Republic of Turkey
Ukraine

5. The representative of the BSEC Business Council (BC) also attended the Workshop as a BSEC Related Body.

6. The representative from Germany also attended the Workshop as a Guest speaker.

The list of participants is attached as Annex I and the Program of the Workshop is attached as Annex II.

7. Ms. Oleksandra KUZHEL; Dr. Petro KALYTA; Dr. Antal SZABO; Dr. Costas MASMANIDIS, Secretary General of the BSEC Business Council; Mr. Rolf SCHUMACHER, Consultant (Germany); Mr. Mikhail KOLOTUSHA, Director, Chairman of the Board of the “Kyiv Plant of Carbon dioxide”; and Mr. Viktor EIDEMILLER, Country Purchasing Manager of McDonald’s - Ukraine addressed the Workshop as lead speakers.

7.1. Ms. O. KUZHEL emphasized that the main achievement of the Ukrainian Government in supporting SMEs is the creation of a system of regulatory policy in entrepreneurship. The State Committee for Regulatory Policy and Entrepreneurship has the right to stop implementation of any legislative measures which are not in line with the Presidential Decree on SME Support. She invited the Participants of the BSEC to develop closer relationship in the field of regulatory policy and conclude cooperation agreement on this issue.

7.2. Dr. P. KALYTA compared the behaviors of the deficit market with the saturated one. He confessed his belief concerning the new philosophy of quality and permanent improvement based on the bottom up approach. The main source of any quality improvement based on citizens and companies which are interested in quality improvement . finally he presented the development of the process of quality consciousness of Ukrainian enterprises, which led to being the finalists of the European Quality Award.

7.3. Dr. A. SZABO presented the relation of FDI, Government policy and promotion of linkages. Backward linkages with suppliers have been seen as the main vehicle to promote technological spillover from transnational corporations. The role of Government in TNC - SME relation is very important in the following activities:

- (i) to formulate and adopt adequate laws and incentives;
- (ii) to set up an appropriate institutional framework;
- (iii) to develop and provide support measures; and
- (iv) to provide policy coherence.

He presented the programmes of the UNECE, ITC and UNIDO in supporting SMEs to be suppliers. He also presented the key tasks of a linkage promotion programme.

7.4. Dr. C. MASMANIDIS gave a presentation on “SME – Multinational Linkages” (attached as Annex III).

7.5. Mr. R. SCHUMACHER provided information about the EC definition of SMEs. He presented the target markets which SMEs. On the example of the automotive industry of value chain and outsourcing, he presented the market situation, strategies and reaction of suppliers. He also presented the advantages of large companies to cooperate with SMEs as suppliers, as well as advantages for SMEs being suppliers for large companies.

Last but not least, he called the SMEs to the importance of marketing, focus on the customer's requirements.

7.6. Mr. M. KOLOTUSHA made a presentation on practices of SME suppliers in Ukraine based on the "Kyiv Plant of Carbon dioxide". This company became as one of the finalists of the Ukrainian Quality Award. The company developed its quality system in accordance with the ISO 9,000 series of standards. A leading SME supplier has to be ecology-oriented also. However, SMEs should learn from big TNCs to be flexible. There is also a growing need to develop an internal level of self-satisfaction.

7.7. Mr. V. EIDEMILLER presented the activities of the McDonald's – Ukraine in developing small firms to be their suppliers. During the last six years the Ukrainian supply linkages increased from 4% to more than 40%. Suppliers undertook training abroad on how to make waffle cups, lettuces, mixed dairy and other components. The issue of safety and quality, especially GMP and HACCP, commitment to high QSC standards are of high importance for local suppliers. This field is the greatest challenge for the company. McDonald's contributes the SME to expand its business and enter other markets. McDonald's requires that the suppliers have to be honest and transparent. The capability towards initiative is a stimulus for the future. In Ukraine there are excellent suppliers. If McDonald's provides European quantity, they could also expand their products.

8. Presentations by National Experts were delivered. Issues addressed included: i) Legal basis for subcontracting, franchising, etc; ii) Requirements and standards for SMEs as suppliers to big companies; iii) Data on the situation of SMEs, who are suppliers to big companies; iv) Advantages for big companies to have SMEs as suppliers; v) advantages for SMEs to supply to big companies; vi) conditions, risks for an SME to become a supplier; vii) examples to SMEs as suppliers to big companies including the experience gained.

Question and answer session was held after each presentation.

9. On the second day of the Workshop, presentations of the BSEC Member States continued.

10. The Participants of the Workshop made the following conclusions:

1. The accelerating process of globalization and economic liberalizations have led to the evaluation of new production and new market for enterprises. It has expanded the prospect for technological advantages and for an effective integration into the world market economy.
2. SMEs are deeply affected by globalization. They have to be prepared to meet the challenges of the opening markets and the risks associated with it.
3. Globalization has dual impact on SMEs. For some, it provides new opportunities

for expansion and growth. However, growing globalization means intensive competition with foreign enterprises, so this brings threats and challenges.

4. The global expansion of investment flows in the world is driven by nearly 65,000 TNCs with 850,000 foreign affiliates. It is promising that some large enterprises from CEE become TNCs and contribute to expansion of the world economic growth, too.
5. The trend in international purchasing has been changes and is characterized by the following.
 - concentration by TNCs on core competitiveness;
 - outsourcing of the internationally less effective activities;
 - increasing demand in subcontracting;
 - drastically limiting the number of suppliers;
 - providing preferences for global suppliers;
 - increasing implementation of the e-commerce;
 - establishing of strategic partnership with suppliers;
 - emphasis on quality and quality management systems;
 - emphasis on just-in-time logistic systems;
 - training of suppliers;
 - joint products development;
 - linking logistic systems through EDI and Internet; and
 - improving environmental and ethical standards.
6. While SME linkages have plenty benefits for TNCs, SMEs should be beware of:
 - overdependence on sole customer;
 - squeezing profit due to providing large discount;
 - being constantly by on their toes;
 - having highly professional, care-minded managers; and
 - constantly looking at global competition.
7. The quality represents a new strategic philosophy of enterprise management and is an integral part of international competitiveness worldwide. While developing linkages between SMEs and TNCs quality is the most determining key success for SMEs being suppliers of large companies.
8. In majority of the countries of the CIS, there are no Government policies in supporting linkages between SMEs and TNCs.
9. The major problems in having weak SME-TNC linkages consist of lack of entrepreneurial behaviors of SMEs. All functions of the entrepreneurship should be present to start a linkage relationship.

10. There is lack of information on how to deal with large TNCs with high bargaining power.
11. There is lack of information on the technology and way of working with franchising.
12. There is a big debate on who to promote development of clusters. One delegate argued on the need to create a support system to develop clusters. Others emphasized the importance of natural concentrations of the companies in a certain region.
13. There is a need to develop social partnership with TNCs and preferring investment in a longer term providing sustainable profit growth and at the same time to contribute to local and regional development.
14. The role of Government in SME-TNC relation is very important because of the following factors:
 - formulating and adopting adequate laws, regulatory policy and incentives;
 - setting up an appropriate institutional framework and support infrastructure; and
 - providing with policy coherence.

11. The Workshop made the following recommendations:

1. Governments should encourage the creation of linkages in local capacity building, in providing access to technology and finance;
2. The key elements of a successful linkage promotion program should include the following:
 - i) setting up the policy objectives of promotion of a supply programme;
 - ii) identifying the target of the programme;
 - iii) identifying specific measures to be implemented, especially concerning training, information, matchmaking, technology, provision of finance;
 - iv) setting up institutional and administrative framework to implement and monitor the programme.
3. The Participants suggested that the BSEC countries should undertake steps for the establishment of national network providing information on partnership opportunities through creation of a data base on potential SMEs which can be suppliers for foreign companies.
4. There is a need to promote direct FDI in the BSEC countries based on the Black Sea Investment Initiative elaborated in partnership with the OECD.

5. The Participants suggested to collect best practices on how to promote linkages and disseminate them including new trends and requirements in order to create awareness among SMEs.
 6. Training on entrepreneurship is of paramount importance to upgrade and acquire competitiveness.
 7. The Participants recommended to carry out detailed analyses on SME-TNC relationship in selected regions of the BSEC countries.
 8. In order to improve the quality consciousness and competitiveness of SMEs, Participants suggested to support any kind of development of national quality movement in the BSEC countries.
 9. Participants are encouraged to develop their enterprise purchasing and supply chain. Bulgaria and Ukraine are invited to participate in a special programme offered by the International Trade Center to acquire international purchase and supply management modular learning system. Other BSEC countries are welcome to join this programme later.
 10. As a follow-up of this Workshop, the Participants are invited to take part at the UNECE Expert Meeting on “How to become suppliers of large national enterprises and TNCs “ to be held on 20-21 March 2003 in Geneva.
 11. There is a need to develop methodology and tools for facilitating activities of subcontractors and suppliers. The UNECE, jointly with the BSEC Business Council, other international organizations and experts from advanced market economies, and associated countries are suggested to investigate the possibility of elaborating a more comprehensive guideline on this issue.
- 12.** Later on the Participants had the opportunity to visit a supplier SME and an international big company with SMEs as suppliers.
- 13.** The Participants expressed their sincere appreciation and thanks to the Ukrainian Association for Quality, the Representation of KAF to Ukraine and the State Committee of Ukraine for Regulatory Policy and Entrepreneurship for the help of organizing the Workshop in Kyiv.
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