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TRADE AND DEVELOPMENT**

**BUSINESS LINKAGES**



**ROSTER OF GOOD  
PRACTICES**



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## I. INTRODUCTION

This roster of good practices recognizes the positive impact that transnational corporations (TNCs) have in the countries in which they operate and the contribution they can make to the development of a competitive private sector in these countries by promoting business linkages between their affiliates and small and medium-sized enterprises (SMEs).

Experience shows that business linkages can offer substantial mutually beneficial opportunities to foreign affiliates and domestic firms that create and deepen their linkages activities.

Foreign affiliates benefit from linkages with domestic firms because these linkages can reduce costs, enhance access to local tangible and intangible assets, increase affiliates' specialization and flexibility, adapt technologies and products better and faster to local conditions, and facilitate "rooting" in the local setting.

TNC-SME business linkages can be one of the fastest and most effective ways of upgrading domestic enterprises, facilitating the transfer of technology, knowledge and skills, improving business and management practices, and facilitating access to finance and markets. Strong linkages can promote production efficiency, productivity growth, technological and managerial capabilities, and market diversification in local firms.<sup>1</sup>

The ability of foreign affiliates' linkage activities to contribute to domestic supplier development depends largely on the domestic markets' and local firms' capabilities. However, government interventions are essential for creating an environment conducive to sustainable business linkages through policies and regulations that support the interests of both foreign affiliates and domestic firms.

Experience shows that public-private dialogue and partnership are important to help domestic enterprises integrate into the supply chains of foreign affiliates. It also shows that special care must be taken when drawing lessons from the experiences of different countries, as some strategies only work in specific contexts, making them difficult to transpose to a different setting.

This compilation presents concrete ways in which linkages can be created and developed. It is designed as a checklist that firms can use to determine whether they have fully exploited their potential for linkages.

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<sup>1</sup> UNCTAD, *World Investment Report 2001*.

## **II. ROSTER OF GOOD PRACTICES**

As part of their normal business operations, many TNCs take various steps to develop linkages between their foreign affiliates and SMEs in host developing countries. Some affiliates provide assistance in a broad range of areas, while others may only support specific activities. The most intense relationships are those affecting the technological status of SMEs and their ability to meet the scale, quality and cost needs of the buyer.

Examples of good TNC practices worldwide include, but are not limited to, the following activities:

### **1. Encouragement, initiation and support of linkage-promoting programmes**

- Participating in programmes that support the creation of SMEs; providing policy advice on enterprise development; sharing information on projects involving enterprise creation proposals and programmes; cooperating with business development services (BDS) providers to upgrade SME partners; making public announcements about needs for suppliers and related linkage requirements (i.e. on costs and quality, ability for continuous improvement, technological capabilities and delivery);
- Providing inputs in establishing a public-private sector dialogue to promote linkages; providing policy advice on an enabling business environment; cooperating with chambers of commerce, industry federations and other parties in identifying local capabilities;
- Providing input into linkage development and strengthening: providing policy advice on linkage determinants, training, monitoring and evaluating tools and methodologies; sharing information and data on best practices on business linkages; conducting publicity campaigns and advertising through mass media.

### **2. Support of linkages activities by internal TNC systems**

- Considering nominating an in-house linkages focal point with responsibility for encouraging the formation and deepening of linkages; tracking the linkage process;
- Looking into parent company and affiliate practices in other countries specifically to get in-house assessment of their success or profitability and operational obstacles;
- Surveying local suppliers to ascertain their views on their experience and relationship with foreign affiliates;
- Surveying existing supplier networks, both domestic and foreign, with a view to benchmarking performance, assessing efficiency and highlighting entrenched problems;
- Introducing periodic open days for SMEs and current suppliers and distributors to visit and interact with specific sections of the affiliate, from production line to delivery systems. This provides social, professional and technical insights and can be educational for all participants;
- Sponsoring a business linkage unit (e.g. secondment of own human resources and/or in-kind support).

**3. Providing funding**

- Allocating a company budget for creating or upgrading linkages;
- Setting up a “linkages fund” dedicated to small-scale start-up suppliers to which all foreign affiliates participating in the project contribute – could be administered by the linkages facilitator;
- Obtaining funds from foundations of parent firms for this purpose.

**4. Providing access to markets**

- Facilitating SMEs’ access to tenders and contracts;
- Committing as much as possible to allocate markets to SMEs and to accompany them during the first two years, grant them particular attention in the execution of the contract, and respect payment terms and conditions;
- Providing information on annual purchase orders;
- Providing market information, particularly on foreign markets.

**5. Facilitating access to finance**

- Acting as guarantors for suppliers taking out loans from banks;
- Introducing special credit facilities and advance payment mechanisms in support of SMEs;
- Providing advice on the information needs of capital providers;
- Providing special or favourable pricing for SME products;
- Helping suppliers’ cash flow;
- Sharing costs of specific projects, leasing, establishment of funds for working capital or other suppliers’ needs;
- Advanced and prompt payments.

**6. Providing feedback, coaching and mentoring**

- Ensuring regular evaluation of supply chain management; conducting supplier visits and quality audits;
- Considering the use of local know-how to find solutions to supply chain problems;
- Creating feedback mechanisms offering small suppliers an opportunity to air their grievances, constraints and problems.

**7. Encouraging human development**

- Conducting training sessions with suppliers and distributors on quality control, the importance of international standards in producing for exports, management practices or spotting corrupt practices;
- Offering domestic SMEs access to internal training programmes with affiliates or abroad;
- Sending teams of experts to SME partners to provide in-plant training;
- Providing initial and continuous training of suppliers;
- Introducing apprenticeship programmes;
- Conducting literacy programmes for SME workers outside work hours (workers who can read and write are more productive for the company).

## **8. Contributing to technology transfer**

### ***8.1 In the area of product technology***

- Making available product-related technology and design specifications to help suppliers meet specifications; provide “specification sheets” to which every procured produce must conform; provide advice and technical assistance to meet such requirements by making relevant information and technology available and inspecting and auditing conformity requirements; collaborating in R&D; providing proprietary know-how;
- Offering advice, training or financial support to suppliers to upgrade supplier products and operations through the transfer of product technology, such as product know-how, design and manufacturing details, technical consultations on new technologies and feedback on product performance;
- Providing computer training and facilities for outsourcing, inventory management, and the like;
- Upgrading supplier capacity by donating computer(s) plus basic training in software applications related to specific company operations, together with enabling access to relevant operations (e.g. inventory databases);

### ***8.2 In the area of process technology***

- Transferring machine-embodied process technology by providing machinery/equipment to local SMEs;
- Providing technical support for production planning, quality management, inspection and testing to improve SME manufacturing processes, quality control and methods;
- Visiting SME premises to advise on factory layout, machinery installation, production planning and/or production problems;

### ***8.3 In the area of organization and managerial know-how***

- Assisting with inventory management and the use of just-in-time and other systems to enable SMEs to meet the continuous supply needs of foreign affiliates;
- Assisting in implementing quality assurance systems, including ISO certification;

## **9. Supporting clustering, networking and other forms of cooperation**

- Promoting local presence through cluster-focused subcontracting promotion programmes that diffuse information on infrastructure and financial facilities, combined with international seminars to attract potential foreign and domestic suppliers;
- Forming cooperation clubs to strengthen local supplier capabilities (as in the car industry) through group activities geared to diffusing information and know-how about the affiliates’ production systems, quality control mechanisms, cost efficiency, quality assurance and delivery;
- Encouraging SME partners to join business associations, participate in fairs and facilitate networking.

**10. Encouraging seeding**

- Encouraging in-house employees to set up their own small supply businesses, for which their acquired knowledge on production, process management and quality and delivery needs would be valuable. Initial financial, technical and loan guarantee support could be provided by the affiliate.

**11. Supporting exporters**

- Providing training and technological upgrading to meet requirements for export-oriented activities (in terms of standards for production, quality, packaging and delivery) as an incentive to improve efficiency, diversify production and generally familiarize suppliers with growth potential, ultimately enabling them to become global suppliers.

**12. Supporting gender balance**

- Introducing gender-oriented company policies, such as in-house or adjunct child-care units to ease the burden on women workers, improve their productivity, and free them for additional training or literacy instruction. This might encourage women employees to set up local day care centres but also create basic supply units, depending on the nature of the foreign affiliate.

**13. Supporting agricultural producers**

- Collaborating with other foreign affiliates together with domestic/local research institutes to develop new crop varieties, agricultural implements and cropping patterns to raise productivity.
- Introducing contract farming to plant and deliver crops for food processing firms, which would provide seed inputs, information on agricultural practices, crop advice and inspection. Farmers could be given the option of selling part of the contracted output on the open market.

**14. Promoting linkages with non-business entities**

- Collaborating with other entities such as universities, training centres, research and technology institutes, export promotion agencies and other official or private institutions.