PROMOTING SUSTAINABLE TNC/SME-LINKAGES

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TNC/SME-Linkages
Motivations for TNCs to develop linkages with SMEs

- TNCs focus on core activities and outsource of non-competitive activities
- Reduced transaction and factor costs for TNCs through operations with local firms
TNC/SME-Linkages
Motivations for TNCs to develop linkages with SMEs

- Increased flexibility / speed by off-loading some operations
- Productivity gains
Linkages and Spillovers between TNCs and SMEs

- Backward linkages with suppliers
- Forward linkages with customers
- Linkages with technology partners
- Other spillover effects
TNC/SME-Linkages

- TNCs increasingly tend to perceive the building up of SME supplier networks as a long-term investment.
Transnational Corporations that carry out an Corporate Supplier Development Programmes:

- Hitachi
- Intel
- Motorola
- Philips
- Toyota
- Unilever
- Anglo-American
TNC/SME-Linkages

• Linkages with transnationals have **benefits** for small and medium-sized enterprises but also some **risks**
TNC/SME-Linkages

- Technological and managerial upgrading of SMEs
TNC/SME-Linkages

**BENEFITS**

- Facilitation of other business alliances
- Transformation into internationalized SMEs
TNC/SME-Linkages

**BENEFITS**

- Market access, guaranteed outlet for production
- Information on market trends for SME strategic positioning
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- Facilitated access to credit or other financial support
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- Dynamic entrepreneurship, and specialization by SMEs
Overly dependent on the TNC customer
Caught in "cost down" market cycles imposed by TNC global players
TNC/SME-Linkages

- Exposure to constantly increasing non-trade barriers (high corporate and international quality standards)
Partnerships for Sustainable Linkages
Roles of Partners

- **Government:** vision, commitment, policies (economic incentives, skill development)
- **TNCs:** monitoring and coaching
- **SMEs:** vision, commitment, financial stability
- **Support agencies:** Global Supplier Programme
Role of Government and support institutions in linkage development

Business environment
- Re-orientation for globalization
- Political and economic stability

Financial Aids
- Incentives
- Tax exemptions

Effective Policies
- Encourage foreign investment
- Encourage local supplier development

Robust educational system
- Multi skilled and agile workforce
- Promote learning organization

Good Infrastructure
- Access/ transportation
- IT capability

Industrial Promotion
- Opportunities for linkages & networking (trade missions)
- Foreign collaboration with local industries
TNC/SME-Linkages

Best practices in terms of TNC linkage programmes

- access to TNC innovation centers and engineers/consultants
- assignment of TNC staff to SMEs, sharing of know-how
- phased upgrading from SME plant layout to technological capabilities (design capability, flexible manufacturing, ISO certifications)
TNC/SME-Linkages

Best practices in terms of TNC linkage programmes

- coaching and mentoring programmes
- periodic evaluation and benchmarking
- facilitate SME access to other business opportunities
TNC/SME-Linkages

UNCTAD’s Global Linkage Programme

This project aims at assisting SMEs in:

- stimulating vision/commitment of governments in developing countries
- identifying both potential suppliers from among SMEs and TNCs that are open to forging linkages with SME partners
TNC/SME-Linkages

UNCTAD’s Global Suppliers Programme

- providing guidance to governments on appropriate economic incentives that facilitate mutually beneficial linkages
- starting coaching programmes with TNCs to upgrade SMEs technology and management
- diffusing information on international best practices