

**INTERNATIONAL CONFERENCE  
SME AND BIG COMPANIES INTERACTION**

**Moscow, Russian Federation, 7-9 June 2004**



**Asia-Pacific  
Economic Cooperation**

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**INTERNATIONAL CONFERENCE “SME AND BIG COMPANIES  
INTERACTION”**

**INTERACTION PRACTICE BETWEEN  
SMALL AND BIG BUSINESS**

**Data-analytical survey**



**Asia-Pacific  
Economic Cooperation**

**APEC Small and Medium Enterprises Working Group**

**Institute of Entrepreneurship and Investments  
Academy of Management and Marketing**

**Moscow, June 2004**

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The Survey provides the analysis of the Russian and World practice, primarily of the APEC economies, and of the interaction between small and large business. It considers general issues and trends, the role of the Government and of the cooperation between small and large businesses as well as the importance of such interaction for transferring the economy to the innovative route of development.

While preparing the present survey the official documents and materials of the Chamber of Commerce and Industry (Russian Federation), Russian Association of Manufactures and Entrepreneurs (Employers), Federal Fund of Small Entrepreneurship Support, Advisory Council of the Chamber of Commerce and Industry (Russian Federation) for Development of the Entrepreneurship, Small and Large Business, Scientific-and-Educational institution “Institute of Entrepreneurship and Investments” of the Academy of Management and Market, Venture Innovative Fund of Russia, materials of the IV and the V All-Russian Conferences for Representatives of the Small Businesses were used.

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## SPONSOR OF THE CONFERENCE

### **Vneshtorgbank**

Vneshtorgbank was established in October 1990 as a closed joint stock company aimed at servicing foreign economic relations of the Russian Federation. General license for all types of banking operations in Roubles and in hard currencies was obtained by the Bank from the Central Bank of the Russian Federation in January 1991. The Bank was transformed into an open joint stock company in January 1998.

Vneshtorgbank is one of the leading universal banks in Russia and the largest one in terms of authorized capital. As of December 31, 2003 according to IAS (consolidated, audited) its shareholders equity totalled \$2.4 billion, enabling Vneshtorgbank to meet the Basle capital adequacy requirements with a margin of safety. The Government of the Russian Federation is the major shareholder of Vneshtorgbank. It's share is 99.9%. Among the other shareholders are "Gazexport", Sberbank, "Energomashexport", "Ingosstrah", Chamber of Commerce and Industry of the Russian Federation.

Vneshtorgbank has been rated by «The Banker» magazine the 168th among the 1000 largest banks of the world by capital.

Vneshtorgbank takes one of the leading positions in financing Russian economy. The main borrowers are industrial enterprises and foreign trade companies.

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- payment for inventory (feedstock, materials, complementary parts) and tangible valuables (jobs and services) purchased on the domestic and foreign markets subject to delivery contracts and import contracts, accordingly; output, jobs, and services.

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Foreign network of the Bank is represented by five subsidiaries: in Zurich (Switzerland), in Limassol (Cyprus), in Vienna (Austria), in Luxembourg and in Erevan (Armenia), associated bank in Frankfurt-on-Main (Germany), representative offices in Milan (Italy), Beijing (China), Kiev (Ukraine) and Minsk (Belarus).

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## **Introduction**

A continuous increase of the SME market share, the improvement of the mechanisms of their interaction with large corporations, which are obliged to adequately respond to the global differentiation of the markets and the increase in the individualization of consumer demand in the age of post-industrial development can be observed in the national economies' structure of the developed countries, including the member states of APEC. In the structure of the national economies of developed countries including APEC we can observe a continuous increase of SME share, improvement of the mechanisms of their interactions with large corporations, which have to respond appropriately to the global differentiation of the markets and increase of the demand individualization in the age of the industrial development. In the market conditions the demand determines everything – volumes, range of goods, quality etc. At that time the integral efficiency of the goods production and services (costs, quality, range etc), their delivery to the consumer mostly depends on the small and big businesses interactions.

The effective use of the resource capability of the national economy, as well as of its regional and industrial sectors also depends on the rational reapportionment of large and small businesses.

Government plays a particular role setting up interactions between large and small businesses. It gives advantages to the small business making it attractive for medium and large businesses, as placing orders with small companies allows to reduce production costs. Only Government is able to stimulate large companies by giving preferences in places government orders with those, which will involve small business in carrying them out, as the majority of small industrial businesses cannot soundly operate without large and medium sized companies' orders. In all market economy countries every large industrial company co-operates with tens and even hundreds of small businesses.

In general, cooperation between small and big businesses is carried out on industrial and regional basis. Therefore, achieving of consistence in these two entrepreneurial spheres' mostly depends on local and central authorities and non-government organizations (associations, unions, etc.) coordinating the functioning of the separate groups of large, medium-sized and small companies.

In the Russian conditions, interaction between large and small businesses is of particular importance for transferring the economy to the route of innovative development, which requires continuous contacts of the innovation process participants in order to adjust scientific research, experimental developments and production process. Such interaction has

peculiar characteristics of its own, based on corporate interests, which provide innovative integration of all kinds of organizations regardless of their size.

The experience of APEC economies in assisting the maximum quantity increase of small industrial companies, in stimulating the development of interactions between SME and large industrial companies, is of great importance for the rise of the Russian economy. All this is to become part of the common policy in restructuring the Russian economy, as the entrepreneurship in general, regardless of its size, represents an indivisible and interrelated process.

## **1. Interaction between small and large business in Russia in comparison with the global practice**

All the largest foreign corporations grew from those companies which are now being called small. Nowadays large companies more and more often create small companies around themselves, including those basing on the former branches, subsidiaries, departments. Thus they increase ‘market flexibility’, get rid of unreasonable costs, reduce tax payments.

Being an essential element of the market economy, small entrepreneurship undertakes some specific functions defining its economic peculiarities, one of which is related with the coincidence of the basic entrepreneurial functions, as an activity and of the entrepreneur, as an owner. The absence of the power separation between owners and hired managers provides small business with a number of competitive advantages.

Another economic peculiarity of the small businesses is the ability to adapt quickly to the changing market conjuncture, to assimilate new types of products, to re-orientate to different clientele, and, if necessary, to carry out a complete change of the statutory activity. This market strategy model is unacceptable for large business, as it implies significant financial losses. It would also be right to say about better abilities of small business in the innovative project-making and experimental introduction of innovations.

Small entrepreneurship is being constrained by the tendency of the market monopolization by large producers. Currently most countries’ Governments realized the threat related to this tendency and pay constant attention to it. The existence of small business solves this problem using the mechanisms of de-centralized economic regulation. Only in some industries (defense, energy, heavy engineering) small business are not able to be real competitors for the corporations. In the remaining cases they can successfully compete with them in many areas (table. 1.1).

Table 1.1

### **Comparison of small companies and corporations competitive advantages.**

Competitive advantages	Small businesses	Corporations
Adequate responding to the changing market conjuncture	+	-
Overhead costs	+	-
Staff costs	+	-
Possibility of rapid technological upgrades	+	-
Speed of carrying out the innovations	+	-

Access to the targeted support	+	-
Possibility of the main funds renewal	-	+
Access to borrowing	-	+
Possibility of the systematized market research and active advertising	-	+

Small business is able to quickly fill those market niches or entire industries, in which large business is less efficient – retailing, personal services, medical and scientific services. Small entrepreneurship is a fundamental basis of the ‘middle class’ formation. In Russia, however, small business makes its contribution to the ‘middle class’ expansion only by forming the owners’ class but not the high-paid employees’ class.

A doubtless advantage of small business is a lower cost of job creation, which is being proved when realizing government social programs aimed at reducing unemployment. By creating favorable conditions for small business formation, the State may count on the creation of a large number of jobs, then by supporting other companies. For example, in the USA, companies employing less than 100 people create two out of three existing jobs.

Social restitution of additional human resources, i.e. retired and disabled people with a limited ability to work, minors, mothers of many children, etc., who most employers cannot provide with regular work, may be justly included into the number of the small business’ social functions. A number of social functions of small business include the involvement to the social reproduction of the additional human resources – minorities, invalids with limited working ability, retired, mothers having many children etc. whom the most of employers are not able to provide with the regular work. Small companies are better suited for organizing work of home-workers, students and elderly people.

In the developed countries small businesses successfully interact with representatives of the large business, viewing them as strategic partners. They include industrial, retail, transport as well as scientific-and-engineering and service corporations that use franchising, venture investments and leasing in their activities.

Franchising (large companies’ products and services promotion technique, which involves transferring the appropriate technologies and production rights to the small business under the trade mark of a large company), venture investment (creation of small companies for realization of concrete innovative projects of the large companies) and leasing (leasing of the equipment by small companies with or without the right of further redemption) are in theory profitable for the large business. However, they should also be stimulated by the State, taking into consideration limited financial abilities of small companies.

A great role on formation of the Russian model of small and large businesses’ interaction was played by the methods and economic mechanisms of small business creation. Instantly a large proportion (more than 30%) of the small companies was established as a result of large companies splitting, actually meaning the transfer of the capital from the public sector to the private.

Another group of the small businesses was formed by the creation of subsidiary businesses by large companies, their founders or one of the founders was the company itself. Usually, such firms were established for pursuing concrete aims related to the activity of the ‘host’ company.

Small companies of the third group were established as autonomous firms, which then became affiliated structures of large companies. Many small companies of this group were created as a result of privatization (full or partial) of the state property (the staff bought the general funds). Almost all of these are retail, foodstuff and other small companies.

Some companies were established as a result consolidating natural persons (some future entrepreneurs consolidated their funds for joint activity). These are small wholesale and retail trade, brokering, personal services companies.

However, small companies served as covers and ‘pocket’ structures for the large businesses, allowing to better adapt to the harsh conditions of the transitional period.

Using small subsidiary companies, large businesses accumulated capital by means of transfer prices: they bought vouchers and shares of the privatized companies through small firms etc.

Capitals accumulated by small companies were regarded as financial resources of future development not only for small but also for large production companies, postponed until the improvement of the Russian investment climate. However, in several cases these sources were used earlier, for example if a large company was declared insolvent (bankrupt) or if it tried to get hold of foreign investments by transferring funds from the “pocket” company’s account to its own in order to create a good looking picture of development. Small companies thus carried a significant load of problems of the reforming economy.

It should be noted that the “second economy” develops not only in Russia, it is highly appreciated by the Western businessmen as well. The difference of the Russian “second economy” from the Western one consists firstly in sources of investment (in Russia its initial source is the public sector), secondly, in size (the imperfect legislation allows the existence of many niches for the “second economy” activities), thirdly, in aims and goals set (for many companies and even the entire industries it is a strategy of revival in hard transitional conditions) and fourthly, in placement in its entrails of the main potential points of growth (small businesses would accumulate funds for development in post crisis period).

The second period of the interaction between small and large companies is related to the process of structural reorganization of the industry and restructuring of the companies getting rid of the complicated structure (a process of outsourcing as a way of moving outside the company those functions that are not directly related with the production cycle). This period is being characterized by a significant diversity of forms of interactions between small and large structures, which corresponds to the more mature stages of development of the business in general.

One of the factors restraining the development of SME, that decreases its efficiency, is the setback in large companies’ production. Large corporations create conditions for the functioning of the small business. However, from another point of view, large companies depend on small ones. They cannot organize large-scale production and distribution of their products and services without the participation of small and medium-sized companies. According to the American researchers John Berges and Dan Shtainhoff, every large industrial company is supported by approximately 500 small suppliers and distributors and 3000 retailers.

We believe that one should not consider the development of the small business separately from the development of the large one, and especially from the public sector industrial structures. Their optimal interrelation provides balanced economic growth. If large industrial companies represent the trunk of the ‘economic tree’ then the SME represent its crown. Therefore, if the trunk dries, the branches also die out. This happened

to the large industry when the State stopped controlling the economy, entrusting itself to the ‘invisible hand’.

Large companies of the main industries found themselves outside government control, slashed or even stopped their production completely. It worsened conditions of the small business operation. As a result of such approach, small business became separated from the real sector of the economy.

Not the least important role has been played by the fact that our economic literature, especially when describing global experience, always stressed that the SME sector is more efficient and important for the society than large companies. Specialized production is cheaper and easier to operate in small companies which results in higher returns.

However, it is not correct take for granted that small production is more efficient than the large one. Preference can be given to one or another only by taking into consideration concrete conditions and circumstances. It is clear that in Russia we should not ignore the fact that due to a number of reasons, large public-managed complexes are the main production form, splitting of which requires a comprehensively and justified approach. The power decision of their split and creation of small companies in their place in the name of the so-called ‘competitive environment’ can not be justified. Many large industrial companies represent not only a single technological complex but are the hail growth organizations. Their destruction may entail negative social consequences.

In the modern world practice, SME, keeping economic and legal independence, are in fact organic parts of large corporations. However, very often large companies owning real estate parasitize on small businesses, leasing them premises at extortionate rates. Even in Moscow, where this process is under somewhat stricter control by the city government, prices remain rather high. Despite the fact that lately one can observe the tendency of the demand slowdown for the premises leasing, their cost remains high and unbearable for most of the small entrepreneurs. For example, in Moscow the leasing cost of the offices of “A” class remains 550-700 USD per 1 sq.m., of “C” class (close to the European) from 146 USD in the South-Eastern district to 330 USD within the Garden Ring.

It is reasonable to form regional and interregional links of the small businesses based on the interaction of large, medium-sized and small regional companies. In order to develop small businesses in the industrial sector it is essential to involve them in the realization of the priority goals of the social-and-economic development in the regions and high-performance projects in the area of advanced technologies, requiring low material and financial resources and repaying within one or two years. The warranty funds created within regional funds for the small business support can be an important stimulus. The research group of the Russian Independent Institute of Social and National Problems (РНИСиНП) by request and with the coordination of Institute for Social and Economic Analyze of Entrepreneurship Development carried out research aimed at evaluating the model of the regional government and social support for the small business, including stimulating cooperation between small and large business.

## **2. The role of the government industrial policy in developing interactions between small and large business in Russia**

According to the studies by the Russian Federation Chamber of Commerce and Industry “State industrial policy in Russia: formation and realization issues” and by Russian Association of Manufactures and Entrepreneurs (Employers) “The basis of the

industrial policy in the Russian Federation”, the industrial policy will primarily define further development of Russia (Ref. [www.tpprf.ru](http://www.tpprf.ru) и [www.opec.ru](http://www.opec.ru)).

The industrial policy is a system of measures aimed at developing the national economy, new technologies and products with the high degree of processing, modern information, other services, and human resources. It will allow Russia to provide a high standard of living to its population, to preserve itself and to take worthy place of one of the World powers in the global economy.

The Government must take it to the large business’ attention that the period of super-profits from exploitation of the natural resources and speculation on the former state property is irretrievably slipping away. Even now a number of the large companies are aiming to diversify investment, to become transparent, to legitimize their property, to gain business reputation to attract investments and credits. The Government must define measures and incentives, which would make the natural resources and energy sector companies to modernize their own production and to transfer capital to the manufacturing industry: joint stock companies and holdings of the primary sector should place at least 75% of their orders for equipment with the Russian companies.

The industrial policy will allow to make the interaction between the small businesses and medium-sized, large and publicly owned companies more efficient and natural.

***Reference.** The LUCKOIL-Neftechim company declared their intention to invest 500 million USD into the project of establishing a regional network of small companies which would produce polyethylene goods, the main consumer of which will be housing and communal services. It is worth noting that they are not going to establish subsidiary companies or affiliated structures. On the contrary, the necessary condition for the small companies created within the project is their purchasing of shares that would initially have belonged to LUCKOIL-Neftechim upon achieving profitability and recoupage of the costs.*

Small science-intensive venture businesses should be especially supported. The use of their capabilities in Russia is not satisfactory, even despite the existence of the richest global experience confirming the exceptional efficiency of this sector. It is known that from 100 most significant inventions implemented in the XXth century at least 80 were made by small companies and sole genius.

The ratio of the development level of small and medium sized business as well as of the structures of the large business is the most important political issue. It is the SME sector that more often created stability in the country, while large national companies and multinationals, creating large financial resources, allowed to ensure a long-term strategic maneuver, which is very important in carrying out modernization.

## **2.1. General approaches and principles of the industrial policy**

Global experience suggests that the core principles of evaluating and carrying out of an industrial policy are:

- Forming of the industrial policy as of the most important part of the national strategy with the equitable and active participation of the Government, business, scientific and social organizations in its development and realization;
- Transition from the existing brunch industrial policy to the policy aimed at concentration of the national efforts and at the government support of the competitive companies;

- Change of priorities in choosing objects of the industrial policy in accordance with the global trends, increase of high-tech industries with a high value-added level as well as the reduction of the role of the traditional resource-capacious industries.
- Creation of the conditions for transition to the high-tech economy with the defining role of industrial production, spread and use of knowledge and information as the main factors of the sustainable economic growth.

Modern economic theories highlight two basic concepts of the state industrial policy:

- Strong government industrial policy with the predominance of the direct budget subsidizing of the industries or of separate ambitious projects based on the administrative instruments (at the early stages of the industrial development);
- Modern national industrial policy with the predominance of the indirect stimulation (financial or economic) of producing competitive goods and services.

The peculiarity of the geopolitical position and of the Russian economic development in the XXth century, do not allow moving to the second model immediately. However, the first model remains unacceptable as well, since it is known from the economic theory and practice that the ‘points of growth’ determination by the Government only, especially for long terms, very often causes deregulation of the economy and as a result undermines the realization of the projects. Russian industry policy should combine both direct and indirect methods of the government regulation taking into account the appropriate criteria.

## **2.2. Choosing the industrial policy criteria**

The transition from the industrial to the postindustrial organization of the socio-economic activity of the society and the intensive development of the IT entails that the efficiency of the modern economy, including the material production progress, is determined by the intellectual and creative potential, rather than by the traditional factors of the industrial society development.

The formation of the post-industrial economy leads to a significant change in the dependency traditional for the industrial society between the volume of production factors employed and the final result. For this reason the increase of the quantity of material benefits ceases to serve as the most appropriate economic progress measurement. Under the current circumstances, rapid economic development turns out to be possible even with the relatively low increase of the material production volumes. Moreover, traditional indicators can no longer show the quality aspect of the economic dynamics, while a simple economic growth can no longer change a country’s position in the world system of labor division and ensure its stable and complex development.

The increase of the influence of the IT over economic growth is being reflected by the introduction of the index of prospective competitiveness along with the traditional index of the current competitiveness:

- index of the current competitiveness evaluates a country’s economy at a certain period of time and depends on the volume, the weight and the growth rates of the GDP;

- index of perspective competitiveness is determined by the use of new technologies in the economy, the quality of the state and social institutes, as well as by the macroeconomic climate

Under these circumstances the main criteria for the successful activity of the modern industrial companies is the growth rate of the value added produced (the value added to the goods by the production cycle), which reflects the improvement of the companies' industrial structure from the simplest forms of production (with a minimal human resources contribution and a high rent from the natural resources) to more complex forms, which are, in fact, one of the main aims of the industrial policy.

Other criteria showing that a company's activity corresponds to the general principles of the industrial policy can be defines as follows:

- profitability and assets structure;
- increase of the inner cash flow transparency;
- job creation;
- timely payments to the budgets of all levels;
- other innovative activity and social usability of research-and-production activity indicators.

### **2.3. Subjects of the industrial policy**

Due to historical circumstances there are two main agents of modernization in Russia:

- Government initiating economic reforms;
- Large business created as a result of and during socio-economic transformations in the country.

In the modern Russian circumstances these participants can not yet be equal in rights, as the business-society has not formed yet as a single force (the right to represent the Russian business interests is claimed by the Russian Association of Manufacturers and Entrepreneurs and The Russian Association of Commodity Producers and the Chamber of Commerce and Industry of the Russian Federation).

Western experience suggests that the participation of the trade unions in developing and implementing the industrial policy is crucial. In Russia, trade unions are only just forming; however, their participation is still worthwhile as it will contribute to their transformation.

### **2.4. The State**

Today, the political status of the modern states is mostly determined by the competitiveness of their high tech products, rather than by their military power. Therefore, issues related to the necessary technological provision of the national demand become the high priority task for the Government. Scientific-and-technological development requires an increasingly higher concentration of the national resources, as the strengthening of the intellectual, professional and organizational potentials of a country is impossible in isolation from the community and its cultural base. Government participation in the innovation process takes such scale that in the USA the term "semipublic economy" was



introduced, which reflects strengthening of the interactions between private companies and state bodies. Presently, national competitive advantages formation depends not only on foreign investments and company activity but mostly on the consistent national and foreign policy of the Government.

Under the circumstances when the government almost stopped purchasing industrial goods, when the economic borders were opened without national commodity producers being ready for competitive struggle with strong foreign companies and when the society on the whole went through the financial crisis and destruction of the old economy, the government support is of significant importance and exceptional necessity. Currently the issue of competitive advantages of the national companies cannot be considered and successfully solved without the national government participation. The industrial policy aimed at the innovation support is impossible without the appropriate social policy aimed at forming of creative and result-oriented people, which is the main resource of the modern economy. Responsible governments cannot rely and do not rely on the automatic functioning of the market principles.

## **2.5. Integrated business groups**

In Russia integrated business groups (IBG), growing out of the energy and raw material production companies, in fact have not managed to survive 1998 crisis but also turned out to be economic subjects capable of accumulating financial resources necessary for investment.

The formation of the multi-industrial holdings in Russia takes place is on the already existent large-scale industrial platform (as opposed to the developing countries), which in many ways predetermines the creation of large corporate structures. Currently only they are able to take technological and financial risks of innovations and to solve the uncountable for a planned economy to introduce them. The IBG are capable of creating and supporting innovative and industrial small business environment around them, for which they are a source of the solvent demand. In Russia, as in many countries with developing market (India, Brazil, Malaysia and others), diversified companies play a role of the absent standard institutional and financial structures that operate in developed countries, which may be created in Russia only in 10 to 30 years (accordance different estimates).

On development of national large industrial companies, their role in the country's modernization will increase, because only in IBG, the resources of the national development are being concentrated. They are: professional human resources, managing experience, modern technology and financial resources. Besides, IBG successfully manage to join globalization processes, gaining experience of the national competitiveness in the world markets

## **2.6. Social forces of the new economy**

At the same time one can also point out negative trends of economic and political domination of the big IBG, concentrated around mining and distribution of natural resources. The existent export of raw materials orientation of the national economy does not respond to the Russian core interests, and also does not correspond to its scientific and intellectual potential. Without switching to the innovative development and to

postindustrial transformation of society in XXIst century, Russia does not have any chances for the participation in the global economy on equal terms. Russia with its huge intellectual resources cannot remain outside of these global processes.

The reasons for the increasing intellectual marginalization and for the Russian technological backwardness at the time of increasing demand for knowledge and for scientific staff are as follows:

- The basis of the existent Russian economy is made up of obsolescent structures of the industrial age;
- The most powerful social forces forming the economic policy of the country today are oriented towards raw material export and mining industries, which are not known for the high level of industrial technologies and for the use of complex management.
- Political parties and official structures have not yet completely realized the essence of the innovative economy.

The investment activity of the forming “intellectual economy” is concentrated on the human resources and information technologies along with the reorganization of the structures and management systems. Movement towards the information economy changes property relations in the direction of overcoming the economic estrangement of the workforce from the means of production. Herewith it is possible to see the trend of smearing of the term “production model”, of erasing the boundary between products and services as well as organizing mass production on individual order.

Forces of the ‘new economy’ are forming a new style of industry activity, in which the capital is directed by the intellect more than the intellect serves the capital. Under these circumstances the most competitive resource of the companies and of the state as a whole becomes a high qualification and joint knowledge of the employees. However, the intellectual potential of the ‘new economy’ is forming and developing not within the raw material IBG but within the high tech and IT SMEs. Consequently, forming social forces of the new economy, despite their weakness and insignificant share in the GNP, can and must, with the Government support, become politically influential and interested subjects of development and implementation of the industrial policy.

## **2.7. Conflicts of interests and political will of the State**

As a result of the collision of the normalization processes and of the management revolution with the outdated and strictly organized industrial structures, the core instructional basis of the countries with large shares of traditional industry became unstable. The same situation has formed in Russia. The largest profits are being earned by raw material monopolists that are interested in maintaining political and economic status-quo, while the need for financial resources for investment in technological modernization of the national industry requires its breaking. This conflict will be related with the creation of a mechanism of transferring financial resources to the development of high tech industries as well as with the targeted political and economic government support for the still weak forces of the ‘new economy’.

However, there is no doubt that it is the scientific-and-technology progress that is presently the basis of the economic growth. The contribution of scientific-and-

technological progress to economic growth in developed countries can reach 90%. If the natural resources rent will be used for the development of high-tech industries, the economy would grow with the government support by raising national competitiveness and by stimulating the new quality of growth.

## **2.8. Aims and goals of the industrial policy**

The government industrial policy should include:

- The definition of technologies and industries, ensuring the realization of the vital national resources, defense capability and security of the country.
- Concentration of government efforts aimed at reaching priorities of scientific-and-technological development, working out vital technologies and at mobilization of the necessary political, financial, economic, legal and organizational resources;
- Creation of the favorable conditions for maximal realization of national scientific-and-technological and educational potential, stimulation of creative activities.
- Development of the scientific-and-technical activity infrastructure and of the technology market, including its “soft” infrastructure.
- Stimulation of the national industry’s innovative activity including small high-tech business;
- Support for the promotion of the national technological achievements on the global market and protection for the national scientific-and-industrial companies;
- Evaluation and realization of the national scientific-and-technological programs. Participation in the long-term venture projects of scientific centres and industrial corporations.

The backbone goal of the industrial policy under the circumstances of Russia entering the world market is the increase of the national competitiveness, respect of the world standards and increase of the national companies’ shares of domestic and world markets. All this is considered to be the main source of the rising living standards and of the wealth increase.

In this area the main goal of the government is to create a complex system that will ensure the development of high-tech industry in Russia and that will provide for the support of individual industries and technologies, determining the possibilities of technological breakthroughs and being of great importance for the global economy.

The main goals of the industrial policy are:

- To stimulate scientific-and-technological process;
- To implement structural scientific-and-technological sphere reform;
- To create institutional basis and infrastructure of the knowledge-based economy, providing practical use of scientific achievements;
- To form stimulus to invest in new knowledge and technologies;
- To accumulate, develop and to use intellectual (human and structural) capital of the new economy efficiently;
- To direct investments to the intellectual capital;
- Priority development of the educational sphere;
- To redistribute parts of income from the traditional sectors in order to solve tasks of the scientific-and-technical progress;

- To spread information technologies in the society and to implement the reform of the management on this basis.

## **2.9. Assistance to the industrial policy, de-bureaucratization of the economy and of the government**

In order to reduce the bureaucratization of the economy and the government it is necessary to take the following measures.

**1. To take measures aimed at increasing the role of the NGOs through which business controls itself.** Measures of establishing and developing and setting up the legal basis of the self-controlled companies activity including trade and industrial chambers, spread of corporate regulations, working out codes of business ethics, provision of the mutual information transparency of business and the government are essential.

**2. To realize a set of immediate measures aimed at reducing the bureaucratization of economic regulation and entrepreneurship protection.** The most important issue here is the improvement of the administrative and legal regulations of the entrepreneurship activity. This situation in the sphere of intellectual property protection and control over faked goods are unsatisfactory.

**3. To grant some of government authorities to the associations and business unions, to discharge the government's excess functions.**

In particular to grant the Chamber of Commerce and Industry the right to accredit representative offices and subsidiary companies of the foreign companies and to empower it to issue certificates, to define standards and to coordinate the exhibition and fair organizing activity; to propose to the subjects of Russian Federation to delegate similar functions to the Chambers of Commerce and Industries locally.

## **3. Economic development**

### **3.1. Modernization of production – alternativeness condition of development**

A dynamic increase in volumes of industrial production and of goods export with a large degree of processing, directly depends on the speed of the introduction of new technologies in the manufacturing industry. It is conditioned by the following issues:

- High level of production facilities amortization;
- Load reserves depletion of the facilities not in use;
- Necessity of the sharp increase in the production of innovative goods to achieve their competitiveness in home and international markets;
- Need to decrease resource-intensive and energy consumption of the production.

The share of the companies active in innovations has grown from 5% in 1997 to 14% in 2001, while the innovative products share remains small and in 2001 it reached about 4.4% (in 1999 – 2.7%) and even in machinery production and metal industry it was about 10%.

There exist several evaluation methods to determine the volume of investments necessary to modernize Russian industry: their minimal volume is evaluated as 100-200 billions USD within the next five years. The modernization of the fixed assets in manufacturing industry requires a combination of the three conditions:

- availability of large-scale financial resources:

- creation of effective mechanisms to transform savings into investments and to the inter-industry capital flow;
- provision of similar investment attractiveness of manufacturing industries to other economic sectors.

### **3.2. Increase in national competitiveness**

Most of Russian industrial products are competitive within Russian and CIS markets and only 3-5% of the products are competitive in developed countries markets.

In the postindustrial society science-intensive services become dominant in the GNP. In Russia one can observe growth and qualitative development of the service sector. Orientation towards the development of science-intensive and high tech services should define the main content of the postindustrial break-through strategy in Russia. The important factors of this strategy are related to the external economic sphere: industrial policy should be targeted at the postindustrial break-through in the world markets, and not on the prospectiveless protection of uncompetitive national producers.

### **3.3. Market expansion**

If we consider the structure of the Russian economy as markets for science-intensive products, it is possible to make the following conclusion:

- low payment capacity of the population does not create demand for the fifth technological generation goods and for science-incentive products (e.g. Russia is significantly behind the developed countries in computerization, telephonization, access to the Internet etc.);
- the possibility to sell science-incentive products is limited by the fact that many industries and consumer structures are organized and controlled by the State (primarily the defense industry), and not by the private sector.

Presently, the Government to a large extent keeps out from its property and responsibilities in the sphere of education (while education may become that sphere, which will determine the demand for science-incentive products), medicine (although new systems for disease studies, examination and treatment, surgical instruments gain an increasingly wide use) and science, the poor situation of which limits its ability to transform into a structure capable of creating (as it already does in developed countries) demand for science-incentive products.

General assessment of domestic demand:

- traditional industries creates a rather low demand for innovations due to the lack of savings and long-term credits, which is related to the certain monetary policy of the last decade, lack of long-term funds because of the weakness of banking market and the stock exchange.
- Export demand for the Russian high-tech products experiences certain difficulties arising from the high foreign competition (even in the military co-operation sphere) and cannot exist without the indirect support or direct political and economic participation of the Government.

When evaluating the export policy, it is necessary to take into consideration that the present export structure is determined by the technological development level of societies and states:

- Pre-industrial countries produce agricultural goods and raw materials;
- Industrial countries provide cheap labor and production of mass consumption;
- Rapidly developing postindustrial countries use the new method of the world domination – production, use and spread of knowledge.

In the modern economy the term “national product” loses its initial sense. Today the principal importance for the national economies in the hierarchies of intellectual-and-creative as well as of production activities is carried not by the fact of creation of a certain good but by the degree of participation of their companies in the successfully operating global networks, integrated by the global IT and communication networks. In such “virtual corporations” the role played in the international division of labor is more important than the final assembly of high-tech and science incentive products. Due to this, orientation towards science-intensive services in the international labor division system turns out to be the most prospective direction of the export part of the industrial policy.

### **3.4. Institutional and structure reforms**

The most flexible and rational approach is to turn towards developing individual advanced technologies or complex solutions, which are available or can be created by the Russian companies.

Presently the Government is:

- The main consumer of science-intensive technologies and products;
- Active participant in advancement of the Russian scientific products in the world markets;
- The largest owner of science incentive production.

The existing opinion that defining economic growth points lies outside the sphere of interests, prerogatives and professional-and-technological capabilities of the Government, is seen as a serious mistake.

When defining economic growth points it is necessary to take into account the labor division forming in the modern World, which takes place at a very high level. This is why the restoration of the whole range of science-intensive technologies (as it was in the USSR during the Cold War) is financial and economically unviable. The development of structural and institutional reforms requires taking into account the peculiarities of the existent methods of capital investment in industrial development.

Due to the climate and geographical conditions, setting tariffs for goods and services of the natural monopolies on the global level leads to the uncompetitiveness of all the

Russian products. This position should be defended during negotiations to join WTO. The increase in tariffs always means the increase in one of the three components:

- Increase in rent payments, which come to the state budget and distributed through its structures;
- Redistribution of income in favor of the power consuming industries due to the low tariffs;
- Transformation of income to investment funds of the natural monopolies themselves; in this situation the main issue is the streaming the income into some segments of the Russian economy and ways of its apportionment.

Thus, tariff regulation matters are related to solving the problem of the natural monopolists' expenditure transparency, as well as to the creation of control mechanisms for revenue investment and its reasonable use. Budget dependency on individual export-oriented companies creates instability, representing a threat to the economy of the country as a whole.

The question of joining WTO should be assessed from the point of view of the industrial policy. Measures undertaken must protect producers only in case of unfair competition with foreign companies or of the availability of real opportunities to create the competitive products within the next three to five years.

### **3.5. Informatization of the business, society and the State**

The modern technological mode of production acquires its clear informational-and-telecommunication appearance with the key role of the global information networks, systems of artificial intelligence and integrated high-speed transport communications along with further development of energy-saving and environmental technologies, atomic energy, Space technologies, production of construction material with desired qualities and flexible automatization of production process.

IT plays an increasingly important part in an increase of competitiveness of the national economies and in many respects determines the quality of business management and acts as an infrastructure of network business organization providing development of the countries' integration into the world economy. Information technologies are of great benefit for those countries, who used them with enthusiasm as a part of national strategies and as the main resource of economic development, which is confirmed by the experience of such countries as India, Ireland, China.

Presently, 10000 companies work in the Russian IT industry. Russia possesses an idle strategic resource of 1.3 million of IT-experts. While, according to the IDC, the USA lacks 850 thousand IT-experts, Germany increased quotes for the foreign IT-experts by 30 thousand people per year.

The "Electronic Russia" federal program is expected to increase the IT-sector's contribution to the GNP to 2% which would approximately amount to 10 billion USD. In particular, it is expected that the size of the Russian IT services market will increase 2-3 times by the year 2005, and 5-6 times by the year 2010 times in comparison with the current level.

Thus the industrial policy should pay special attention to the problems of the Russian informatization and to the spread of IT-technologies in the Russian entrepreneurship society.

### **3.6. Increase in the investment attractiveness of the industry**

The level of profitability and thus of the investment attractiveness of the industries producing highly processed goods is lower than that of the primary sector of the economy. The situation can be changed only by the global investment in technical re-equipment and in production modernization for which most companies do not possess enough of their own financial resources and credit with external investments are of low attractiveness.

There exists a vicious circle “low efficiency of production - bad financial state of companies – lack of investment – further decline of competitiveness”. It can be solved only by the federal policy with the following goals:

- To level the tax charge on the primary and secondary industrial sectors;
- To protect Russian and foreign investments aimed at develop manufacturing companies by reasonable protectionism of individual domestic markets;
- To reform natural monopolies taking into account the interests of development of the whole economy;
- To optimize zero interest state expenditure aiming to develop production infrastructure and to stimulate the final demand.

## **4. SME sector development**

In order to achieve more efficient operation of large business structures it is necessary to establish active high-tech companies ‘breathing in their back’, which initially can only be small or medium-sized.

### **4.1. Increase of foreign capital investments in Russia and the quality change of its structure**

In order to stimulate the investment process it is reasonable to practice signing contracts for modernization and restructuring with the large foreign corporations. Such contracts should include long-term obligations concerning loan guarantees, flexible tax policy, customs regulation of supporting the export from the Government’s side, and obligations to invest, produce new products and technologies, and to modernize existing facilities from the businesses side. It would perhaps be reasonable to return to the issue of creating national mechanism to guarantee investments and export credits.

**It is reasonable to grant the right to control activity and to collect taxes from small business to the local authorities.**

### **4.2. Problems of the city-forming businesses**

In the Russian Federation more than 900 city-forming businesses produce more than 30% of the total output volume (mainly, wood, woodworking, pulp and paper, food and fuel as well as engineering and defense products). 467 mono-structural towns and 332 settlements function on their basis. The problems of such businesses are connected to the



low competitiveness of their products and to their narrow specialization, social infrastructure content, and territorial remoteness from the main markets, along with the prices' increase for transport and energy, lack of well-qualified personnel.

It is necessary to adopt the 'City forming Businesses' law, defining their legal status, special features of liquidation, reorganization and bankruptcy, preferences to the producers, priority of obtaining government contracts, mechanisms of recruiting high-qualified personnel.

Taking into account Chinese experience, it is reasonable to create special economic zones of scientific-and-technological progress with their own legal regulations. Russian experience of science-cities can not be regarded as successful from this point of view.

## **5. Interaction experience of the entrepreneurial structures in a number of EU and APEC counties**

### **5.1.Japan**

The quantity of small businesses in Japan reaches approximately 99% of the total number of firms. Innovative SME make up about 6.5 million businesses in Japan. They employ 54 million, which constitutes 79% of the labor force in Japan. The share of small innovative businesses in gross national product is 52% (about 3 billion USD), in investments - about 40%, their share in export of Japanese products amounts to 15%.

In Japan, small businesses mainly operate as subcontractors of large corporation. Japan has adopted special protection measures preventing "chain bankruptcy", when the bankruptcy of the biggest client can ruin small innovative businesses. Additionally, there are mutual credit associations, which also support small businesses.

The Japanese entrepreneurial system at the governmental level is based on several structural biases.

First, these are special state bodies (advisory committees of small innovative businesses, regional services, prefect bodies, the State Development Corporation, academies of small innovative business, Japanese Regional Central Committee for Small Innovative Business).

Secondly, these are financial guarantees and financial support, provided by the State Financial Corporation.

The essential element of the Japanese SME support system is a system of legislation, which was gradually introduced, beginning with the law of the Establishment of the State Governing Office for Support of the Small Innovative Businesses, which was followed by the law of Establishing the State Financial Corporation for SMEs.

The basis of the special mechanisms of financial support for small innovative businesses is made up of "soft loans" – at half of the usual rate of 4-8%. Stimulation of small innovative business activity is carried out by uniting small businesses into cooperatives (an approach special to Japan, meaning that it is possible to obtain land, privileged loans for development of new technologies, transport, car parks, and so on).

**Historical reference.** During Madgy reforms the Japanese government faced the task of creating an industrial society with Western technology but not necessarily with the Western culture. Large companies were created to develop priority directions of the economy, which were then privatized and became the basis of the thus created financial-and-industrial groups 'dzaibatsu'. These associations consisted of the companies operating in different industries and cooperating with each other under the control of one holding company, which determined their strategy.

After the occupation large industrial groups '*keiretsu*' were re-created in Japan. They were similar to '*dzaibatsu*' but did not have a managing holding company. They also held on to diversification and, as a rule, consisted of the banks of various profiles, insurance companies, mining companies, production companies and sales networks as well as of chemical and fuel companies. Members of '*keiretsu*' could also be small businesses.

*Sanchi* – it is a group of companies operating in the same industry and oriented to the small business. Members of *Sanchi* may cooperate or carry out different stages of the process, which ensures their competitive advantages.

*Kudokumiai* - this is a voluntary association, providing their members with financial and legal support and forwarding potential clients to each others.

*Shita-juki gieysha*, it is a complex system of subcontracting relationships, when a large number of small businesses depend on or are oriented to one large company.

## 5.2. China

China is historically characterized by a huge number of small businesses in many industries and, being a country with large population mainly located in agricultural regions, gradually supports small business for over 20 years.

Before the reforms they were represented by most of the state companies, municipal collective companies, agricultural popular communes companies and production brigades.

The direction to create a multi-structural economy basing on the large state property (1978) gave boost to the rapid development of small businesses of different types, especially in agricultural sector (in the peak year of 1996, 135 million of people were employed there).

At the edge of the 80s and 90s the State Council of China introduced the 'Criteria of defining small, medium-sized and large companies in an industry' for different industries, based on annual production volumes (in most cases) or on the initial fixed assets cost.

For example, small businesses included metallurgical companies producing less than 100 thousand tons of steel and mining companies with the annual extraction of less than 900 thousand tons, medium-sized businesses included metallurgical companies producing less than 600 thousand tons of steel and mining companies extracting less than 3 million tons per annum. Similar criteria were introduced for the construction companies. In the last years, Chinese statistics used the volume of distributed products as an indicator, in fact showing at the state level only the so-called 'large-scale companies' with the annual sales volume of at least 5 million Juans (600 thousand USD).

Thus, in 1999 from as much as 8 millions industrial companies registered in China only 165 thousand were 'large-scale' companies including 141.6 thousand of small companies, 15850 – medium and 7558 – large. In China there are 64.7 thousand state companies and joint stock companies controlled by the State; 1.1 million collective companies, 6.03 million individual and private companies, 62.5 thousand joint stock companies, 11.4 thousand stock companies.

Currently the share of SMEs in gross national product amounts 60%, in tax revenue - 40%, 90% in retail and service sector, 75% operating in non-agriculture industries and about 60% of export.

A significant share of the joint investments flow into this segment. According to our evaluation, in 1999 the volume of investment made up 143 billion USD of the total of 360.5 billion USD (1 USD=8.28 yuans), or about 40%. . This amount builds up of 52.4 billion USD of investments in the collective sector (including 40.4 billion USD in agriculture), of 50.6 billion in individual and private sector and of 40 billion USD in public sector. More than half of these investments stood for self attracted funds, about 20% - for internal credits, and only 6.2% or 22.4

billion USD were invested from the budget (the figures were calculated on the basis of the Chinese statistical data). SMEs hardly receive anything from the budget.

Rapid development of small business in China during the reforms period was not caused by the budget support, which only took place in an indirect form by partially financing training centers for fired staff and tax advantages for those who wanted to start their own business.

The main role was played by a rapidly forming market environment, removing bans for non-state types of companies, sharp consumer market deficit, which allowed to make “quick” money almost on anything, obvious competitive advantages of the small business in comparison with state companies slowly adapting to the market demands. Until recently, one of the most important advantages of China was the absence of racketing.

Socio-political and legal status of small companies of various ownership was reinforced by a series of legal documents. They are “Provisional Leasing of Small National Industrial Companies Act” (adopted in 1988, reviewed in 1990), «Provisional Management of Individual Industries and Trade Act» (1987), «Provisional Private Companies Act» (1988), «Collectively Owned Property in Towns and Settlements act» (1991), «Provisional Peasant Joint Cooperative Companies Act» (introduced in 1990 by the Ministry of Agriculture). Additionally, in 1996 the Permanent Committee of the Chinese Rational Representatives adopted the law concerning regional and settlement companies and in 1999 the law concerning companies established on individual investments. The small entrepreneurship is also subject to the General Tax Regulations and Companies Law of China (1993). In 1999 an amendment was introduced into the Chinese Constitution according to which private and individual sectors were accepted as an “important part of the Socialist market economy”.

Chinese Crisis of overproduction reaching its peak in 1997-1998, marked, among other, the end of the stage of mainly natural development of small business in the country. Presently, China faces the task not only to ensure small businesses survival under the circumstances of shaping domestic and world competitiveness but also supports its joining the process of economic modernization, as well as to make small businesses high-competitive part of the modern state economy.

The establishment of cooperation between small and large businesses, creation of networks of scientific-and-technological and informational services of the small business and its joining the electronic trade. Small companies whose profile corresponds to the state industrial policy are provided with:

- significant expansion of the loan support (presently most of the small companies have problems with drawing up,
- liberalization of the community finances attraction (including obligations emission),
- decrease of the local non-tax fees, and in a number of cases – certain tax advantages (first of all to the companies, established by the employees redundant from the state sector.
- encouragement of the foreign entrepreneurship participation in the establishment of small businesses,
- introduction of a simplified registration system,
- creation of bankruptcy mechanism and market of small businesses interests.

Another important step to provide proper development of small business was to become the Law of China concerning the support of SME sector. During the discussion of its project at the special conference in Tyanczine in 2000 it was found out that when preparing this Law China uses the appropriate experience of the development countries (first of all Germany, the USA, Japan) more then ever. By the experience of other countries China went on creating special fund to support SME sector from the budget resources and fees of the companies themselves, special bank to support the development of SMEs, as well as granting this sector a fixed share of government contractual work (the data concerning these tasks salvation is not available yet).

In order to support small business in Chinese province JiangGan there was established Credit guarantee fund (hereinafter mention as the Fund). Its aim is to provide the guarantees of credit for companies members of the fund. The sources can not be used in financial deals directly.

SMEs which have good credit, well-sailed products and magnificent developing perspectives as well as meet the debtor's requirements in accordance with the Fund rule can be members of the guarantee fund after the submission and acceptance of the inquiry. The Fund deposits the finances in the bank branch in form of deposit. The finances can not be use otherwise then guarantee and reimbursement. The Fund interest is being added to the sources instead of their return to the members.

The member owning special license and not having the credit can provide another member with the credit guarantee, but the credit amount must not exceed the amount allowed by the license. If the members need the credit they should submit written inquiry to the Fund. The inquiry should contain as follows:

- use of the credit;
- amount of credit;
- maturity date;
- ability to repay;
- maturity plan.

Chinese experience in support of small business is of doubtless interest for Russia. China followed China is oriented to the address and concrete support of small businesses and their joining the general priorities of economic policy.

### 5.3. Korea (SK)

In Korea SME's are defined the companies with the personnel of less then 300 people and capital not more then 80 billion won (about 70 million of USD). The quantity of SME's is about 2.64 million which makes up 99.5% of all the registered companies in SK. Their share of gross national product makes up 46.8% and 41.8% of total export volume.

SK Government pays a lot of attention to the support and development of SME's. In 2001 the budget included 1.5 billion of assignation on this purpose which is 17.6 billion more then last year, Since 1962 in SK there exists Federation of small and middle business.

**Korean Federation of small and middle business (KFSME)** – (established in 1962 as a non-state organization), it supports SME's and represents more then 2.8 million Korean companies, KFSME consist of 14 industry departments, as well as 12 regional brunches, the personnel of the Federation stands for 300 people. Under KFSME operate more then 700 cooperatives. The Federation owns the Korean institute of small business, Training centre, Exhibition complex, where production of SME companies is presented. Within KFSME there was established a Fund of mutual support, as well as special program of wholesale development is carried out.

KFSME maintains active relationships with the profile organizations of other companies. Since 1994 on in the Training Centre the SME representatives from other countries are studying (presently it is China, Vietnam, Indonesia, Thailand, Mongolia, Iran).

Administration of small and middle business (ASME) established in 1996 as state body works out the government policy in the SME sector, prepares legislation basis, regulating the relationships in this sphere. It is responsible for the implement of government policy in the sphere of SME, prepares recommendations for the President concerning overcoming existing problems etc, It consist of 6 functional departments and has 11 regional representative offices. There operates Institute of technology and quality attached to the Administration.

The main tasks of ASME are as follows:

- 1) to support structural reforms of SME companies,
- 2) to increase computerization and technique level of companies,
- 3) to develop the cooperation between SME companies,
- 4) to resolute disputed between large companies and SME's,
- 5) to support newly established SME companies,
- 6) to control SME companies activity,
- 7) to provide SME companies with financial support,
- 8) to provide SME's credits with state guarantees,
- 9) to carry out the program of staff training and retraining,
- 10) to support the distribution of the SME products through specialized trade centers, to organize exhibitions,
- 11) to establish "industrial complexes" where SME companies are given the rent and tax advantages,
- 12) to develop the interaction between South-Korean SME's and analogous foreign structures,
- 13) to introduce modern technologies to SME companies, to provide state quality control of produced goods,
- 14) to provide exporting SME companies with different kinds of support,
- 15) to support the attraction foreign investment to SME; of SK.

Concrete measures aimed to support SME are undertaken on the basis of the whole range of laws: "Concerning support of goods produced by SME" from 1981, "On support of SME development" from 1982 and "Concerning establishment of new SME" from 1986.

Within the implementation of the government programs important role is played by the SMTPC, established in 1979. The main task of this independent noncommercial organization is to carry out concrete programs aimed to support SME development and include:

- financial support of individual industries;
- management and technological support;
- training and retraining of managing and engineering staff for SME;
- collection, analysis, and provision SME companies with industrial and technological information;
- international support of companies and provision SME companies with the information of the existing partners

In accordance with the special Act concerning the measures of organizational strengthening of SME from 1989 SMIPC implements special programs of technology development, computerization and production automatization in SME companies. SMIPC budget is forming at the expense of special government assignments to the Fund of SME support controlled and managed directly by SMIPC.

Besides a range of regional representative offices located in SK in such industrial cities as Seoul, Pusan, Incheon, Tegu and Kvanju SMIPC has the representative offices in Japan (Tokyo), China (Peking), Germany (Frankfurt) and the USA (Chicago).

On purpose of the international cooperation development in the sphere of technology exchange, foreign investment, as well as development of SME companies foreign contacts under the aegis of The Service Centre for foreign investment was established. The main task of the centre is to provide the foreign investors with consolatory services at the initial stage of their cooperation with the SK entrepreneurs.

#### **5.4. The EU**

The EU economy is a symbiosis of large and SME businesses. Despite of the processes of capital and industrial concentration and centralization, this symbiosis play a leading role in creation of new jobs, contains a part of service sector, is a laboratory (however less then in the USA) of new equipment introduction in the persons of its venture companies

EU Large companies cooperates with small and middle ones generally as a) sub-suppliers and subcontractors of different levels b) providers of special services (repair, IT, design, marketing, counseling, social services etc), B) pilot companies of finishing new technique. At this time their relationships remain contractual not stock ones without characteristic for Russia mixture of property and directorates. .

In EU they introduced a Regalement of direct action 70/2001 from 12.1.2001 obligatory for all members and now also for candidates establishing the limits of Government support to SME. Its general regulations are as follows:

a) middle company is a business structures with a number of personnel less then 250 people, annual turnover less then 40 million euro and balance less then 27 million euro; small company is a business structure with a number of personnel less the 50 people, annual turnover less then 7 million euro and balance less then 5 million euro. Companies with a number of personnel less then 10 people are named “microbusinesses” but just they make up more then 90% of the total number of studied economy participants. In order to avoid gerrymanders the jobs is considered to be both permanent and temporary as well as season workers and employees. As a rule the season workers are not able to work for both large and small (middle) companies cooperating with each other at the same time without a risk to lose government assistance and government contractual working;

b) Government assistance to SME companies can be effected from the budgets of all levels and in all industry sectors (except coal-mining, ferrous metallurgy, agriculture fishery and shipbuilding where special schemes are operating), but only for the projects with cost of less then 25 million euro and in the amount of less then 150 million euro. The assistance can have a form of tax, credit, amortization, counseling, investment, infrastructure, tariff and other advantaged, directed to the fixed capital as well as to other assts of beneficiaries (land, buildings, equipment, technology obtaining, transport means etc.). However it is not allowed to use this means for export subsidiaries or for artificial creation of the competitive advantages of domestic goods in comparison with the import ones (which is forbidden by WTO regulations);

c) «grant-element» of the support (clear subsidiaries) can not be more then 15% of the project cost for small businesses and 7.5% fro middle businesses. The regions which EU officially regards as being behind in the development these figure can be decreased to 10-15% under some circumstances. The main criterion when choosing the projects and amount of government assistance is a number of created jobs that is why it is generally implemented in middle business sector. Calculation of new job is made for a term of three years after the investment and the jobs themselves should remain for minimum 5 years along with the growth of job numbers at the supported company.

d) expenses for internal counseling for small and middle businesses can be reimbursed in amount of 50%, as well as for participation in exhibition but only for the first participation in a certain exhibition and for the cost of rent, booth construction and its service

In EU countries a new quality level of interaction between large and small businesses is achieved in case of establishment of regional support centres for small business. Here the efforts of almost all the parties interested in the successful operating and increase in number of small companies are consolidated. Central and regional government bodies are interested in employment growth and increase in tax payments of

small businesses, and large companies are interested in complete usage of potential capabilities of small businesses on purpose of solving their corporate tasks.

The government bodies take part in the establishment of centres through different support funds for small business, which they invest. At the same time there exist forms of financial support to the funds through taxes and subsidies. Large companies bear a share of centres expenses help them in organization etc.

Not only large industrial companies can be partners of small business but also academies. In this case two important tasks are solved: first, to effect professional retraining of specialists or raise the level of their skill on commercial basis; second – effective use of the academy potential.

On the basis of Gent University “The Incubator – Innovative Centre was established”. Its 13 founders include Government of Eastern Flanders, City hall of Genta, General Bank, federal and regional supportive organizations for small business, large companies and some others. They are all represented in the top management of the centre which allows them to carry out the policy determined by the common interests. The general management of the Centre is implemented by the Government of Eastern Flanders which means its high importance. The centre assists small companies and distributes through them the innovations developed in the University laboratories. However the Centre is not only a university formation because the students and professors make up less than 25% of all the entrepreneurs in this Centre. Besides, the Centre assists small business in establishment the contacts with large firms.

Importance and attractiveness of the Centre for starting entrepreneurs is defined by the concrete University support to the small companies: young entrepreneurs working in the Centre can study at the University business-school, obtain consultations their as well as find partners between its learners.

## **6. The mechanisms of small and large businesses integration**

If the interaction of small and large companies is stable and based on the mutual benefit then these companies form an economic symbiosis. Economic symbiosis of the companies is a mutually beneficial association of small and large companies. Examples of efficient interaction between small and large companies of different types and kinds can be found in oil industry which is a leader of the structure reforming and restructuring of large businesses.

One of the mechanisms of interaction between small and large companies on the basis of bilateral contact in accordance with which the large company issues a license for production or distribution of the goods under her label is a franchising system.

### **6.1. Franchising**

Franchising combines the advantages of large industry (saving on management expenses, advertisement, expenses of new technologies and products introduction, personnel training) small business (high penetration capability, availability of local contacts and awareness of local conditions). Paying for the license (franchise) and undertaking the responsibility to meet the determined quality standards the small business acquires significant support from the “parent” company in marketing, staff training and especially in management, technical support (including mutual use of the equipment), wider access to raw materials etc

One of the first companies actively using franchising was Oil Company “LUKoil”. It leased on the competitive basis a number of unprofitable or low profitable objects (refueling stations, oil bases) to the commercial structures thus widening the distribution

of its products, getting rid of unprofitable assets and regularly getting additional income in a form of rent payments, system of franchising payments (royalty etc.). Franchising is still not very well spread in Russia due to the following reasons

**Economic problems.** Lack of appropriate economic presuppositions in the country causes following economic problems:

- franchising systems require stability, predictability and forecastability of the country's economic development of the whole;
- most of the entrepreneurs, potential franchisees do not have enough necessary start capital for joining franchising system;
- complication and sometimes impossibility of obtaining credit for creation the start capital since the credit organization do not want to invest starting business and lack of the franchising legislation does not allow the franchiser to be a guarantee of the planned profitability.

**Social-and-psychological problems:**

- lack of domestic experience;
- lack of appropriate respect to the intellectual property;
- franchisee's fear to lose independence and his own face of entrepreneur and manager.

**Organizational and legal problems.** Russian legislation almost does not use the term "franchising". Lack of legislation basis reduces the possibility of franchising development and, first of all, hampers the possibility of franchisee's obtaining credit since in case of investing the franchising deal the franchiser provides credit guarantees and must prove to the bankers the profitability of project.

Rather rare forms of interaction between small and large businesses (incubatorship, entrepreneurship) are demonstrated by Russian Stock Company "Gazprom". Along with the large Russian gas deposits there exist small ones which were hardly developed since they are not profitable and the large companies prefer concentrating on the matters of "big gas". Due to this significant deposits remain unclaimed. "Gazprom" evaluates conceptions and technologies of development and exploitation of the small deposits chosen by the scientific-and-research institutes and organizations project; as well as evaluation of the projects, material and technical basis is implemented, equipment is purchased (usually in block-module form). Only after that the decision to establish a small company, which would develop a small deposit, is made its financial and material support is effected. Analogous approach is used concerning some deposits being at the final stage of the development.

However, such forms of small and large business interaction as 'incubatorship' and intrapreneurship are not appropriately spread in Russia. Satellite forms appear more often even in recent time as a result of company restructuring, i.e. by detachment of the small company from the large one. They are also formed from the independent economic subjects while the large company usually attract the small one. Satellite form of interaction between small and large companies is implemented mainly on the basis of subcontracting.

## **6.2. Subcontracting**

Subcontracting, as a form of business relationships, provides cooperation with small and even smallest companies (including mini-firms, family business, home-working etc) when a large company on the contractual system makes order, determines goods' specifications, provides with raw materials or half-finished products for further processing etc., while subcontractors (small companies) make partial or final processing of the given material. Meanwhile large company can settle the contract either for production of the good without its own participation (commercial variant), or for participation of small



companies in some stages of technological process. Under the subcontract conditions small businesses also can operate on goods made on commission (some kind of tolling) and also distribute the goods of large company.

The wide spread of subcontracting is conditioned by the following:

- Subcontractor's lower process costs;
- Temporary lack of production facilities at large company along with huge quantity of orders;
- availability of so-called marginal consignments (either the order is not big enough for large, company or production of specialized goods is required);
- necessity of penetration to the market with small consignments of goods without expenses for creation of sales system;
- adaptation to 'peak' situation in market etc. обеспечением адаптации к «ПИКОВЫМ» СИТУАЦИЯМ НА РЫНКЕ И Т.Д.

Application of subcontracting allows a head company – contractor get rid of overheads for maintaining undercharged productions and concentrate efforts on the most important tasks – technological re-equipment, modernization of the model range of goods.

The experience of large countries shows that a contractor often at its expense introduces and certifies the system of quality control to the subcontractor's production process, provides it with premises and equipment. Subcontracting provided the industrial growth of such companies as Japan, Italy, France, Turkey. In our company the most of large companies dispose an entire production cycle. It provides the high level of operating reliability but is not suitable for working in the open market.

The presence of undercharged production facilities (especially at the lower levels – storage, foundry production) prevents from achieving the competitive prices for final goods. Inappropriate concentration of efforts on the key directions does not allow the company update the model range in proper time. The complex management system makes the speed of the decision-making unacceptable. The attempts of up-charging the production facilities of lower levels do not justify themselves.

Large companies having traditional structure mostly lose on the market of cooperation supplies not only to the companies of China and Eastern Europe but to the newly established small companies. Planned supplies with the cost of 1000-1200% (there also can be 2000%) except the implement of unique technological operations practically are of no demand.

In Russia subcontracting often used by SME companies for organization of their own production. In this case SME produces only parts containing key know-how and makes the final assembling. All other parts are produced at large companies on subcontractual basis. Such approach allows SME produce quality goods without bearing expenses on purchase of equipment, premises rent. SME can adopt to the market conditions very well and quickly occupy free niches.

Market activity and operation efficiency of such SME is higher then of the most existing large companies. The experience of operation of Interregional Centre of Industrial Subcontracting an Partnership provides many examples of successful development of such companies: developing key competitive advantage (awareness of market and unique technology) small companies order the main volume of the works by subcontracts including our information system and achieve quick growth.

Necessary content of subcontracting market infrastructure is a subcontracting centre - an organization supporting the industrial entrepreneurship development and

forming the industrial infrastructure at interregional, regional and local level (in accordance with the classification given below).

### ***Classification of the subcontracting centers***

In accordance with the current circumstances the following subcontracting centers' classification is possible.

1. Interregional subcontracting centre.
2. Regional subcontracting centre.
3. Local subcontracting centre.

In many countries with transforming economy the measures aimed to the subcontracting support are of their own importance and are one of the most effective tools of support to small business development. Large opportunities lie in such form of support of interaction between small and large companies as practice of direct or indirect attraction of small companies to the implement of government and municipal order.

In order to provide the implement of the statements of Russian Law "Concerning government support of small entrepreneurship in Russia" it is necessary to determine at the government level which government customers on which kinds of goods should reserve a share of government order for attraction of small business representatives, establish rules of small business's participation in the competitions for supplies to Government.

In order to provide successful implementation of the government support the following conditions are required.

a) on the basic level of government contracting the government support to the small companies will take into account the necessity of support to these companies (which often do not have their own staff) in preparing of the document package necessary for participation in the competition. along with the simple reservation of their share;

б) in the sphere of government contracting the reservation of small business share on the basis of contract relationship should make up a reservation of their share at the level of sub-contractual relationship which accords with the potential abilities of small companies as special groups of economic subjects;

в) at the level of the municipal contracting the support to small businesses includes the combination of simple reserving their share and also the assistance in preparing the whole document package necessary for participation in competitions.

### **6.3. Cluster principles of the industrial interaction organization**

In small entrepreneurship a leading role in forming a system of industrial-and-cooperation and other interaction with large companies, doubtless, belongs to representatives of small industrial business.

However within last 5 years a number of small industrial companies decreased by 10 thousand, an average number of employees working for small industrial companies reduced to about 400 thousand peoples. The small companies' share of the total production volume of Russian industrial sector also reduced. The most essential 'losses' were bore by the investment potential of small industrial business: currently these small companies let small trade and catering companies have the role of the larges investor in small business sector.

That is why it is necessary not only widen the government support to the industry-oriented small business but to support firming and dynamic growth of entire production-

and-integrate systems in the context of the industrial policy of Russian federation. One of types of the mentioned systems are *industrial clusters*, including small business either.

In modern industrial policy *industrial cluster is a group of geographically located near each other and integrationally cooperating companies operating in a certain industrial (multi-industrial) sphere supplementing each other.* .

As opposed to the usual forms of cooperation-and-economic interaction between small, middle and large business, cluster systems are characterized by the following particularities:

- \* presence of a large company – leader, determining long-term economic, innovative and other strategy of the whole system;

- \* territorial localization of the main number of economic subjects – participants of cluster system;

- \* stability of economic links between economic subjects – participants of cluster system; domination significance of these linkages for the most its participants;

- \* long-term coordination of the participants interaction in the context of its industrial programs, innovative processes, main managing and quality control systems etc.

The examples of the most well-known systems of cluster type are the cooperation of the companies in the sphere of IT and computer technique in Silicone Valley (USA); telecommunication – in Helsinki (Finland); cinema production in Hollywood (USA), aero-and cosmic industry in Moscow region, as well as forming cluster of chemical industry in Perm Region etc.

The significant distinguishing feature of the cluster in general model of production-and-cooperative and other interactions of economic subjects is a factor of innovative orientation. As a rule cluster forms in the sphere or region where a ‘break-through’ in technique and production technology is expected or implemented followed by gaining new ‘market niches’.

In Association of economic-and-social development program of national innovative systems (NIS) industrial clusters are defined as industrial networks of closely interrelated companies, united into a production chain for creation a final product and additional value. Clusters also include strategic alliances between companies and universities, scientific-and-research institutions, consumers, technological brokers and consultants. Clusters determined in such manner can be regarded an innovative system of applied importance.

In the context of cluster development policy a central attention is paid to the complex of interactions between the participants of good and services production and subjects of innovative activity. In case of using cluster systems also horizontal networks are forming within which the interaction between large and small companies marketing one product or belonging to one industrial group is carried out. Modern clusters usually cover several industries and a variety of firms specialized on a concrete link in a chain creation a concrete final product. Herewith we can see one more cluster feature in general model of production-and-cooperative and other interactions of economic subjects it is strongly pronounced factor of leading (integrating) a product or service. Very often this principle is interpreted as necessary role of leading investor ‘building’ a cluster on a basis of starting, existing and restructured companies including small businesses.<sup>1</sup>

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<sup>1</sup> Term ‘restructuring company’ is probably a specific product of Russian reforms and does not have universal definition. The experience shows that in stably formed market climate every

In many cases the industries connected with cluster make groups reasoning from the rate of inter-industry circulation of the products and knowledge including:

a) technologies flow conditioned by the obtaining of the products and intermediate products in other industries as well as interaction between their producers and users;

б) technical interaction, including patent issuing, mastering, use of scientific achievement is several adjoin industries as well as in joint research projects;

в) mobility of cluster personnel between the cluster segments on purpose of spread of the best management achievements.

Which lessons can be learned from the existing experience of industrial cluster operation? Cluster method allows to realize the most important interaction in technology, experience, skills, information, marketing and consumer requirements which are typical for a whole complex of the companies and industries. It is not occasional that in many countries cluster analysis (approach) is of active use in national industrial policy. Cluster approach allows to increase the efficiency of interaction between private sector, government, trade associations, research and educational institutions in innovative process, as well as be a basis for constructive dialog between entrepreneurs and government.

Due to the world practice cluster approach is not only a mean to achieve goals of industrial policy (structural changes, increase in competitiveness, strengthening of innovative direction etc.) but is also a powerful tool to induce regional development, which finally can consist in increase of employment, salary, payments to the budgets of different levels, increase in stability and competitiveness of the national industry.

Key success factor when working out and implement the strategies of cluster development is active position of business leaders and also efficient partnership between interests of different entrepreneurship groups in the region. In particular in June of 2002 in Perm region noncommercial project began. It is realized together with consulting company «Bauman Innovation», the project of Moscow State Technological University of Bauman “Review of the competitiveness of Russian Region” and consulting company «Economic Competitiveness Group» with financial support of USAID and fund IREX.

The capabilities of cluster approach are demonstrated by foreign experience. Finn and Scandinavian industries are completely clusterized, even in the USA more then the half of companies works in accordance with such model. As a rule cluster products are oriented to export or import substitution. EU countries accepted Scottish cluster model where a large company is a nucleus of the joint and units around itself small companies. There also exists Italian model more flexible and equal in rights co-operation of small, middle and large businesses, The specialists consider such form of cluster organization of production be the most acceptable for countries with developing economy.

Social-and-political and economic importance of clusters in developed countries can be studied by Germany experience (chemistry, engineering) and France (foodstuffs, cosmetics), where in 50-60 the entire groups of industries began to interact within the clusters providing multiplicative effect concerning employment and investment growth and acceleration of transfers of the leading technologies in national economy.

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company on its own in its format and due to its conditions seeks and realize ways of adaptation to new economic conditions. In some cases it is implemented successfully, for example, through the integration to cluster systems, in other cases less successfully, even actual destroy and formal liquidation of the company is possible..

American 'know-how' in sector of consumer goods production provided the leadership of the country in agriculture, package and mechanization means productions (industries-supplies) along with success in advertising and financial sectors (industries-consumers). Japanese power in sector of domestic electronics allowed producing memory chips and micro-schemes meanwhile the USA was a leader in logical micro components used in computers, telecommunication devices and defense technique.

High competitiveness and capabilities of the cluster economic systems are determined first of all by facts of inducing new technologies spread, interaction character and structure of science, education, financing, state policy and industry. The most viable clusters of innovative activity are formed on the basis of diversification of inter-industrial linkages. None of the country can be competitive in all spheres. In developed countries international competitiveness at the first stages was obtained and strengthened in the context of individual clusters. The competitiveness of Sweden in pulp and paper industry spread on the wood-processing and paper-producing equipment, conveyor lines and some adjoining consuming industries (for example, matches production). Denmark worked out specific industrial technologies for agriculture business and food industry. Germany engineering and motor-car constructing companies gain benefit since in Germany there is a large production of spare parts and components for this industry. In Italy special clusters developed in industrial regions, where the industry combinations were formed: metal-working – cutter production, fashion – design, leather- footwear, wood-processing – furniture.

Currently in Russia there are several 'spontaneous' clusters around the key industries (chemical, oil and gas, motor-car constructing and shipbuilding). But it is hardly possible to compare them to the real clusters and well-organized system of a large quantity of competitive suppliers and clients. It will take Russia a lot of time to create competitive in the world context industries in key sectors.

Forming of highly effective industrial clusters would accelerate in case of large purpose investments, realizing the principle of investment leader mentioned above. Rich raw material base is a ground for integration of many important industries, such as motor-car building, chemical, transport equipment production, pulp and paper industry and printing trades.

Clusters can form on the regional basis where there is high geographic concentration of interrelated industries (for example, engineering in Moscow and St. Petersburg, motor-car building around Tollyatti, chemical production around Moscow, Tula and Nijniy Novgorod). It will allow increasing investment and technology influx through direct foreign investments.

Another way is giving the main economic regions, cities and agglomerates a status of special zones where the foreign investors would be provided with special advantages in case if they developed industrial clusters. Direct foreign investments could provide establishing if sound competitiveness between domestic and foreign companies, between domestic and foreign investors which entails industry modernization thanks to new ideas, professionalism, a variety of strategies and support of scientific-and-research and experiment-and engineering works.

Industrial cluster as an object of government support is a combination of mentioned above 'package approach' to solution of tasks connected with the organization of interaction between small, middle and large business with supported priorities determined in the context of national industrial policy:

a) territory localization,

b) orientation to the implementation of the narrow production-and-technological tasks aimed to the output of the final product at high competitive level both in home and world markets.

It took China almost 12 years and huge foreign investments to create competitive clusters around textile industry, plants of sport goods, clothing, toys, dishes and other export-oriented industries.

The experience shows that some highly competitive key industries support the development of their suppliers network and clients as a result of intra-cluster relationships in the most efficient manner. Middle and small companies make satellite formation around large groups and become their suppliers. Diversification of key companies of a cluster allows to create new industries using technologies and 'know-how' of mother companies.

There is trend in the world practice which is typical even for large companies – concentration on the main directions along with delegation of production to other including small companies. That is why cluster creation influences greatly on small business, providing its industrial-innovative orientation and achievement of a new quality level of technology, organization and management of the production in all other spheres of economic activity.

As competitiveness of modern economies is connected with the availability of linkages between their sectors, it is reasonable to form clusters around the key industries. They should include services sphere (modern distributor and banking systems) allowing delivering to goods to the final consumer. One of the most efficient way of supporting to innovative processes is strengthening an interaction between companies of different profile and sometimes between different types of knowledge creators – scientific and technological research institutes. Commercial services of several categories.

However despite of the fact that motivation to cooperation and uniting into clusters is of great importance organization of such cooperation is not easy at all for the most of countries especially for small ones. As a rule small companies achieve success because of their individuality and enterprise, that is why too lose cooperation with competitors, suppliers or clients can be a serious threat to them. That is why such cooperation requires from small company managers a higher level of strategic thinking than usually. Small businesses are to decide which knowledge they would have input from their side and which they would like to keep a secret, all these requires a high level of inner organization.

Thus the interaction becomes more and more necessary but it has a certain threat – the possibility to lose the ability of independent market strategy, development of new products and services, new technologies and so on. That is why within last decades efficient 'cluster strategies' became so important in a number of countries. Such strategies are based on the centers of business activity already having proved their power and competitiveness in the world market.

*First*, a linkage between strengths typical for different industries is pointed out, for example the linkage between some industrial and even agriculture and service specializations.

*Second*, (partially connected with the first), in these 'strong' cluster the main stress is put on the active usage of knowledge and strengthening of the constructive interaction between different participant of the network. This can entail forming new and perspective

combinations (for example in multimedia sphere) but such interaction are built on the basis of already existing strong parties.

As every party and every region have their own specialization in cluster strategy main stress as a rule is put on the competitiveness based on the differentiation and specialization. The spread of the cluster strategies is not equal. The practice of their implementation is also different. There is no a unified terminology but most of the European countries have worked out some cluster strategy. The countries most obviously implementing such strategy are Denmark, Netherlands, Flemish regions of Belgium, Quebec (Canada), Finland and also South Africa (with the election of new government). France and Italy have been practicing a specific cluster strategy for a long time however it has another name.

Presently experts mention seven aspects of clusters and which are the basis for the forming individual strategies:

\* *geographical*: forming of the territorial clusters of economic activity beginning with typically local (for example gardening in the Netherlands) to global (aero-cosmic);

\* *horizontal*: several industries/sectors can make the larger cluster (for example mega-cluster system in Netherlands economy);

\* *vertical*: in clusters adjoining stages of the production process can exist (it is analogous to the value systems, supplier system);

\* *lateral*: different sectors can have mutual abilities and can provide the economy owing to the scale effect, which entails forming of new combinations (for example, multimedia cluster which is forming);

\* *technological*: totality of the industries using the same technology (as, for example, biotechnological cluster);

\* *focus*: cluster of the companies concentrated around one centre, which can be a company, branching group of companies, scientific and research institute or educational centre;

\* *quality of entrepreneurship network*: along with the question whether companies really cooperate herewith there is one more essential question of how they manage to do it so well. Network is not always an idyllic group of companies where every new innovation is automatically induced. On the contrary, sometimes in networks innovative processes are suppressed and the protective behavior is induced. Relationships between suppliers can induce innovative processes, but they also can be used for imposing costs on partners and their pecuniary injury. In this case the networks turn out to be neither stable nor inducing

On the whole there are different definitions of the term cluster each of them underlines some aspect (priority) of its operating.

1. Regionally limited forms of economic activity inside the relative sectors, usually attached to some educational or scientific institutions (science-and –research institutes, universities etc.).

2. Vertical production chains, rather narrowly defined sectors in which the adjacent production stages make a nucleus of a cluster (for example a chain ‘supplier-assembler-distributor-client’). This category also includes networks formed around the head companies.

3. The industries defined at a high level of aggregation (for example chemical cluster) or or totality of the sectors at even higher level of aggregation (for example, ‘agriculture cluster’).

It is possible to define two alternative supplementing each other cluster strategies:

- \* increase in the knowledge usage in the corresponding clusters;
- \* creation of new networks of constructive interaction within clusters.

Different characteristics by which clusters are forming also attract attention to different aspects of strengthening intellectual content and innovative activity within clusters:

- \* technological characteristic: preservation and development of high technical qualification;

- \* vertical, horizontal and lateral characteristics: ‘upstream’ interaction between different companies (close interaction with suppliers, including all possible educational and scientific institutions and commercial services) and ‘in stream’ (in particular, interaction with the demand sphere – retail trade and final consumers);

- \* geographical, focus and vertical characteristics as well as network quality are related with the spread of the knowledge and innovations among small and middle businesses.

Since current innovative processes intensify the intellectual content in all the industries, cluster approach creates a good basis for new types of knowledge association. Thanks to great variety of types of knowledge with which one has to deal with, in many cases it is necessary to use mediator’s services. Industrial cluster-oriented policy could stimulate creation of new ‘combinations’ and provide them with indirect support especially in the educational sphere and scientific-and-research works as well as through introductory mediator centers.

For example, in Europe a very important role is played by such cooperation programs as ‘Eureka’ which unite potential partners. A certain role in forming new combinations are played by large demonstrative programs. European level is the most acceptable since it provides added value when clusters are already international or provide a large economy because of the production scale.

It is possible to pick out a range of approbated systems aimed to provide cluster forming:

- \* programs aimed to unite businessmen (sometimes in certain are of technique) in order the widening of the network would entail the widening of the cooperation ;

- \* initiatives of partners selection, for example, creation of data bases which can be used by companies seeking the partner in their sphere of activity;

- \* investment mediator (agency) initiatives (for example, program organized by DTI B in Denmark and further spread in other countries);

- \* director initiatives which provide payment for consultant services, controlling process of cluster formation since its very beginning till the firs steps of interaction (initiative of DTI). In the Flemish project Plato large companies were granted government financial resources so they could direct a group of small firms;

- \* government investment in some cluster projects on competitive basis (government investment are obtained partially only by the best projects). Under the conditions of such competitiveness net innovative result of the subsidiary can be rather high.



The development of the optimal model of industrial cluster is mainly connected with development and implementation of the measures of support to innovative small companies. Able to generate the ideas and offer the companies (investors) –leaders not only their products made in accordance with 'western templates' and also their innovative developments at the stage close to the real commercial realization.

In the world practice there are following stimulating forms for small innovative companies including those in the context of industrial cluster systems:

- \* direct investment (subsidies, loans) which archive 50% of the costs of new production and technologies creation (France, the USA and others);

- \* loans including interest-free (Sweden);

- \* purpose subsidies to scientific-and-research developments (practically in all the developed companies);

- \* creation funds of introduction innovations taking into account possible commercial riské (England, Germany, France, Switzerland, the Netherlands);

- \* grant achieving 50% of the costs of innovation introduction (Germany);

- \* reduction of government levies for individual inventors (Austria, Germany, the USA and others);

- \* delay of levies payment or exemption of them in case if the invention is connected with the energy savings (Austria);

- \* free provision of paper work in accordance with the enquiries of the individual inventors, free services of the patent agents, exemption of fees levies (the Netherlands, Germany).

The necessity in basic reorientation of the main principles of Russian economic development from export of raw materials and fuel to innovative business requires fixed attention to this positive world practice in order to evaluate the possibility of fits introduction in Russia in the nearest future.

The advantages of cluster approach for authorities (federal ministries, regional administrates and so on) consist in the possibility to study the situation on the group of interconnected companies from different industries complexly. Besides cluster approach allows to use initiatives as a 'core' of cluster development strategy. These initiatives are worked out and implemented by business leaders and thus are going to be realized successfully.

Effective restructuring of firmer 'industry giants' required close interaction and cooperation between small and middle business, government, higher education institutions, scientific-and-research institutes e.t.c. in this case cluster approach provides with necessary tools and analytical methodology. The implementation of cluster approach allows to achieve better developments of SME sector.

As an example of potential clusters it is possible to mention aero-and-cosmonautics clusters in Moscow and Samara, informational-and-communicational cluster in Moscow, food clusters in Moscow, Saint Petersburg and Belgorod Region, shipbuilding cluster in Saint Petersburg etc.

Cluster approach also provides better mutual understanding with business leaders from developed countries. For example, Italians have already divided Russia into large zones intending to invest the production of some goods: for example, in Lipetsk region electrical goods are going to be produced, in Yekaterinburg - engineering goods, in Saint Petersburg, Moscow and Moscow region – footwear and furniture. Currently large international companies as a rule prefer investing to the regions with existing clusters or just having some prerequisites for their formation.

## 7. World and Russian experience of venture investment development

Global market of venture capital in the middle of 90<sup>th</sup> increased 100 billions USD. In 1999 in the USA, which has more then  $\frac{3}{4}$  of the whole world volume of venture capital, 56 billion USD was invested to venture funds. Recently venture industry significantly develops in South-Eastern Asia, mainly in China, South Korea and Singapore.

The quick growth of venture investment in the entire world is conditioned by the high efficiency of venture funds activity. In accordance with Venture Economics in 1999 the most successful funds which are on the peak of their activity provided an internal income of 150% for the investors. Despite of high investment risks and a large quantity of failures when establishing and developing new companies. Average world figures of investment funds annual income make up 17-25% which is significantly more then bank income

In accordance with the world experience the traditional resources for newly formed investment funds are the government resources given by different ministries and departments for realization on different entrepreneurship support programs including high-tech industries.; foreign investments; bank investments; insurance companies investments; pension funds investments; owned resources of the corporations (financial-and-production groups); savings of the inhabitants.

At this time in economically developed countries the establishment and support of venture funds specialized on the work with companies at early stages of development (seed и start-up), is implemented by the government investments and venture funds specialized on the work with companies at later stages of development are formed mainly with the private and corporate investments.

The government interest in venture business development is clearly observed in the USA since the second half of the 70<sup>th</sup>, and in Western Europe since the beginning of the 80<sup>th</sup>. Despite of the fact that the world industry of venture capital accumulates more then 100 billion USD. The governments introduce special programs solve the problem of "lack of financial resources", which prevents small businesses from obtaining necessary. These are first of all technological companies whose efforts to start innovative activity often treated skeptically by the traditional investment resources first of because of the lack of credit guarantee. ..

### **7.1. General trends in the state participation in the venture infrastructure**

The particularity of the venture business development especially within the 90<sup>th</sup> is the strengthen of the direct state participation. It means then the industrially developed western companies regard the venture mechanism as a most important part on national innovative systems and aim to its spread in the economy.

1. The most of the governments of economically developed countries USA, EU and APEC understand the growing role of the venture investment to economy. .
2. Both direct and indirect measures of state participation and stimulating of venture industry: from direct financial participation in venture funds creation to forming of the favorable conditions for small entrepreneurship, aimed to creation of appropriate economic, institutional and law conditions under which the markets can effectively invest new and innovative companies. For example the government can stimulate the development of the secondary stock market, stimulate financial institutes, provide with wider range of services, stimulate contractual development between small and large companies and support entrepreneurship. Using the financial and legislation basis the governments

create favorable conditions for venture capital and small innovative companies as well as determine a type of financial tools which would be worked out and implemented in the market.

3. Besides the creation of the suitable basic conditions many governments work out and implement their own programs of venture capital mobilization to support small innovative companies. Through these programs financial stimulus are mainly created (including different schemes of tax advantages) but also they include direct investments and state credits. These tools can be implemented for venture funds (managing companies) or/and directly to small and middle businesses.
4. State programs of venture capital aim to fill up the lack of private capital, regulate the investment of private sector and create favorable conditions for development within long period.
5. The most successful venture programs are invested by the governments but managed by the professional form the private sector.
6. Although the government should control and evaluate the results of such programs operation its participation in investment decision-making should be minimal.
7. The government participates in the infrastructure to support venture entrepreneurship.
8. Legislation in the sphere of venture investment covers all the key moments such as determination of the suitable type for creation venture funds, legislation acts allowing the participation of institutional investors of corporative and tax legislation in the venture capital.
9. The necessity of working out the legislation regulating the activity of national economies' venture industry. Especially if the governments are interested in participation of venture financial institutes in active development of economic objects in the actual directions (form the point of view of state priorities). However venture capital in accordance with widely spread opinion will able to be the financial mediator only in case if the owners of financial resources want to invest it. This intention should be stimulated by working out such regulations which would provide the appropriate compensation for all the 'inconveniences' connected with such type of investment such as: long term of profitability, uncertainties connected with the possibility of leaving the invested companies and income, high risk of losses etc. : The participation of the government in some cases provides more favorable conditions for recipients of venture capital, in particular the implementation of different schemes of state credit guarantees, in case of failure of the financed small business project, the government gives the company the resources in addition to the accumulated private capital etc.

## **7.2. Trends in the market of Russian venture capital**

There is a number of trends appeared recently in Russian venture industry.

1. The dynamics of venture investment since 2001 is increasing.
2. In 2001 and especially in 2002 began the 'leaving' of the venture funds from the companies invested by them earlier. In accordance with the existing data the income rates from venture investments in Russia are on of the highest in the world among the countries with the developing economies.
3. The success of individual venture funds and companies, for example Baring Vostok Capital Partners, allows them to gather new larger funds for Russian companies.

4. In the beginning of its development the venture industry in Russian was represented by mainly venture funds, appeared as a result of some foreign (TUSRIF), department (Defense Enterprise Fund) or interstate (regional funds EBPP) initiative, after a time along with these investment institutes which still determine the face of this business, private companies appeared – BVCP, CIPEF, Orion Capital etc, mainly American in origin.

### **7.3. Problems of venture investment in Russia**

Along with some positive tendencies mentioned above, the conditions in which the subjects of Russian venture industry remains rather unfavorable.

Comparably small (judging by the scales of Russia) volume of direct investments to the real sector of economy can be explained by high political and macro economic. Taking into account high scientific-and-technological potential of the country, the share of the venture investment to Russian high-tech projects (about 1-2%) obviously seems insufficient

Main problems preventing the development of venture industry in Russia are as follows:

- Low liquidity of venture investments, mainly conditioned by insufficient development of fund market which is a main tool of free leaving of venture funds from the invested companies;
- Extremely low participation of Russian capital in Russian venture industry – one of the main factors of country's attractiveness for foreign investors;
- Absence of economic stimulus for attraction of direct investment to high tech companies providing acceptable risk for venture investors;
- lack of development of infrastructure providing the establishment in Russian high-tech sector of new small and middle technological innovative companies and development of quickly growing ones, able to become an attractive object for direct (venture) investment ;
- Low respectability of small and middle entrepreneurship.

Besides the intensive development of venture industry is prevented by the following factors:

- Complicated process of venture funds registration in Russian jurisdiction;
- Insufficient quantity of high-qualified managers of investment funds;
- Low level of the investment culture among the entrepreneurs;
- Insufficient informational support of venture industry in Russia.

The government support in salvation of the above problems and overcoming the obstacles will help to attract foreign venture capital to the state economy.

### **7.4. Possible ways of attraction foreign venture capital to Russia**

Investment climate in Russia in 2003 improved significantly. In accordance with Ministry of Economy and Trade Development of Russia (МЭРТ РФ), within seven months of 2003 the volume of investment to the fixed capital made up 985.8 billion of rubles. The growth of this figure in comparison with the analogous period of 2002 made up 11.9%. Besides there exists a progressing character of growth rates of accumulated volumes of investments to fixed capital from 110,2 % in the first quarter of 2003 г. till 111,9% in the first half year and 11,8% in July. This means the conservation of the factors initiating the investment activity since the beginning of 2003 in the third quarter.<sup>2</sup>

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<sup>1</sup> Equity Market, №20 (251) 2003 г.

The improvement of the investment climate in Russia was noticed by western experts. In particular, Russia was one of the participants of annual rating of investment certainty published by counseling company A. T. Kearney. Russia managed to rise from the 17<sup>th</sup> rate to the 8<sup>th</sup> and joined the top ten. In individual nominations Russia turned out to be an absolute leader. In particular, in attractiveness of investments to the trade and which is very important the potential investors evaluated the perspectives of investments to Russia better than to all other countries including China. In accordance with the words of General Director of oil company British Petroleum in Russia Peter Cherow, Russia made a break-through integrating the world economy and on preserving the existing trend the investment to Russia would increase.<sup>3</sup>

Besides agency Moody's evaluated Russia as having the first investment stage raising the level of sovereign rating (the highest level which issuer can have in the country), and increased the rates of Euro bonds and Ruble obligations from Ba2 until Baa3. The rating of currency obligations of ministry of Finances (Russia) of 6<sup>th</sup> and 7<sup>th</sup> tranches was increased from Ba3 to Ba1. As it was noticed by the experts, this decision opens the way to Russia for large amounts of foreign conservative investors.

Among a number of possible ways of attraction foreign venture capital to Russia it is reasonable to take into consideration the following mechanisms. Создание венчурных фондов и фондов прямых инвестиций с участием зарубежного капитала

- Attraction foreign venture capital to creation of brunch and regional funds, forming with the participation of Venture Innovative Fund (Венчурного Инновационного Фонда - ВИФ)
- Participation of foreign venture capital in investment of 'technoincubators', 'innovative-and-technological' centers in Russia
- Attraction highly-technological Russian business capital owned by individual investor (business angels).

## **8. The experience of APEC and other countries in using different government mechanisms in the process of direct venture investment**

### **8.1. Great Britain**

British venture industry is one of the most powerful and the most developed in Europe, its share in total European volume of average annual venture capital investment makes up 49% as about its importance the venture industry has the second position after the USA. The steps undertaken by the government at the first stage (in 70-80th), didn't influence the venture capital directly but provided strong and comprehensive support to the entrepreneurs decreasing the risk of the investment to their development.

By 1983 the rates of corporate taxes for small businesses were decreased, tax advantages for credit payments, obtained for security purchase were introduced as well as tax advantages for the income obtained at the previous job. Regional companies acquired grants, loans with low interest rates and governments contracts which assisted the small businesses in their development. Technological and engineering programs provided with the grants for research works. The training for small business was provided.

The government policy of privatization the state companies since 1980 was actively financed by the venture capital. Since the Universities and Scientific-and-Research Institutes were prescribed to decrease their dependence on government financing, scientific-and-research institutes joined the venture industry. Through the

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<sup>3</sup> Equity Market, №20 (251) 2003 г.

investments and arrangement of research parks which considered to be a perfect basis for perspective companies development both private and public scientific-and-research institutes began to seek the ways of assets commercialization, widening the using of attracted investments

Since 1983 the investment volume of the venture capital industry in Britain made up 35 billion pounds. Which were distributed between 19.000 companies while 29 billion were invested only to the British economy. The programs of investment support implemented in Great Britain by Department of Trade and Industry (DTI). In the credit area there works widely known scheme of Guarantee Credit Granting for small business through the network of accredited banks in accordance with which DTI acts as a guarantee of 75% of the total amount of obtained long-term credit.

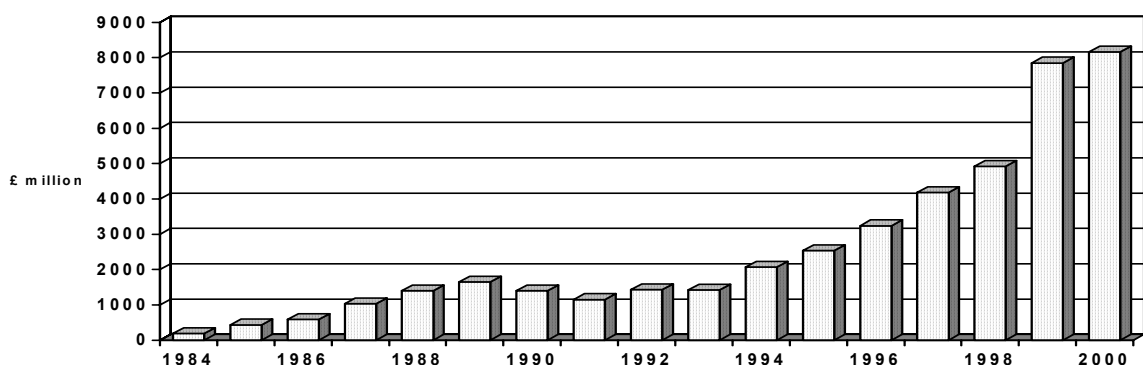
In establishment of venture investment institutes a main role is played by a fund established with DTI participation – British Fund of High Technologies, which was established on purpose of support high-tech business at the early stages of the development. The tasks of the fund include creation of venture fund on the share basis with commercial and institutional investors (pencion and insurance funds). These venture fund would orient the investments to small and middle high tech companies at the early stages of development.

The general volume of the resources attracted to the fund made up 125 million pounds in accordance with the evaluation of Westport Private Equity – fund’s managing company the rest of the amount is paid mainly by noncommercial institutional investors. This way the agreement with British pension fund of investing 80 million pounds was achieved.

In 1995 the government established Venture Capital Trust – association presented at London exchange and investing companies not presenting at exchange, it is financed by private investors, seeking for tax advantages and managed by experienced professionals of venture funds. As there are some limits for VCT investments, the most of the investment companies found this scheme attractive. By the middle of 2000 412.3 million of pounds were invested to VCT. Since 1993/94 during four years annual growth rates of sales volumes of companies supported by venture funds made up 40 % per year, which is by 2.5 higher then rates of the companies quoted by the Index of Fund Market ‘Financial Times’.

In investment policy of newly established and existing venture funds the following trends can be determined:

- a) Increase in investment to companies at the early stages (starting companies),
- б) Transfer of the capital to science intensive brunches of the industry..



<sup>1</sup> Source: BVCA

Picture 8.1. Sources invested by BVCA members

The quantity of invested starting companies increased from 1187 (22,8 %) in 1997 to 1978 (31,8 %) in 1998. The quantity of the invested companies in high-tech sector increased from 1592 (33,8 % of the total number) in 1997 to 2402 (38,6 %) in 1998. This growth entailed the essential increase in fund market – issue of primary obligations (IPO) and issue of additional securities by venture companies at the exchange increased in 1998 in comparison with 1997 from 391 to 924 companies-issuers. The total volume of IPO belonging to venture companies made up 1,308 billion euro in 1998, that is 18,8 % of the total sales volume on leaving a company. In 1999 r. the investment volume distributed between 1300 companies made up 7.8 billion of pounds, from which 6.1 billion were invested to British economy.

Almost 50% of the venture capital is invested to the growth of the existing business which provides increase in its growth rates and successful competition in world market. In 1999 over 1 billion pounds were invested into high tech British companies. The resources were obtained from new funds for future investment projects of high-tech companies.

The program of EU transformation to the most dynamical from the economic point of view power center able to compete with the USA includes:

- Introduction of venture capital to science intensive branches;
- Support to the companies newly created in the sphere of leading technologies;
- Stimulating the scientific-and-research and experimental-and-engineering works;
- Integration of traditional economic sectors with Internet etc.

## 8.2. The USA

A number of programs of government participation implemented in the USA are connected with forming more favorable conditions for recipients of venture capital. Program SBIC (Small Business Investment Company) provided young growing companies with access to government financing under condition of simultaneous resources attraction from private investors with ratio of 2:1 or 3:1, i.e. two or three parts of capital should be of private origin. Meanwhile the government acts as partner owning senior stocks and expecting to obtain a share of such company's income in future.

SBIC activity was regulated by the Small Business Administration (SBA). SBIC were private companies but taking the responsibility of implementation limited types of investments in exchanged obtained government securities issuing obligations guaranteed by SBA. During the process of SBIC development independent venture funds and companies began to appear with time transforming to so-called sources of 'venture' capital. SBIC program is the earliest of such programs.

Furthermore Small Business Innovative Program of USA (SBIR (established in 1982) is implementing, it supervises all the federal organizations investing more than 100 million annually to the external researches, to give a certain share of these funds to incentive reimbursement of small business. The recipient of the reimbursement should be an independent commercial US company with staff of not more than 500 people.

In 1995 in accordance with SBIR program starting technological companies obtained about 900 million USD, in 1997 about 1 billion. Since the beginning of the program implementation till 1998 37000 rewards for total amount of more than 5.3 billion USD were granted. Giving the resources for development of certain innovative project a company potentially releases internal funds which could be invested to NIOKR thus partially avoiding the necessity of obtaining investments from other resources. .

Furthermore the venture business development is also provided by the government investments in case of financed projects belonging to small business ending with failure. The respected program of guaranteed credits implemented by the Small Business

Administration of the USA covers 75% of the loan amount for establishment new business and development of small companies with high growth potential.

Moreover, in order to induce more active participation of institutional and private investors in investment to science-incentive projects of small companies in the USA different schemes of tax inducing are used (increase in tax rate for capital growth caused by operation with securities, tax advantages and others).

The USA, where the existing practice of government participation in venture industry development was implementing since the end of 70<sup>th</sup> and beginning of 80<sup>th</sup> till present day, does not refuse according programs even despite of the boom of private investments in the second half of 90<sup>th</sup>.

One of the supported by the government (also through grant system) mechanism, providing the attraction of venture investments is organization of venture trade-fairs. Such arrangements are carried out annually in many US states, for example in California, Florida, New Jersey, Oklahoma and others and being contact platform for investors and companies provide the investment attraction to new growing innovative companies.

In the USA within last 15 years more than 100 'venture' initiatives were realized at the level of states and federal centre. Although from the structural point of view such companies essentially differ, their founders' efforts are based on two commonly accepted statements:

- Private sector is not able to provide starting companies with enough volume of financial resources, at least in some regions and industries;
- The government is able to determine a range of companies where investment can unambiguously provide high social and/or private benefit.

State New York has initiated several tax advantages in order to support entrepreneurs and venture capitalists. In accordance with ITC (Investment Tax Credit) the cooperation are allowed to obtain Tax Credit at the rate of 5% of the investments to the property or production equipment and adjoining businesses. Credit of 4% is granted to private and corporate investors having invested more than 350 million USD. New Businesses (usually with an operational term in the USA less than 5 years) can obtain reimbursement of unused credits. Unused credits can be postponed for a period to 15 years.

EITC (Employment Inducing Tax Credit) provides the additional credit at the rate of 1.5-2.5% of the amount of the same investment to new capital (only production facilities and equipment) and should be deducted from the tax paid by the corporations each second year following the first successful year of initial investments. If the employment this year would achieve certain year. Unused credits can be postponed for a period to 15 years.

Tax credit for researches and developments allows to reduce corporate taxes to 9% in when investing equipment for researches and developments. Additional credits can be obtained for establishment and growth of new technological companies including 3-year credit of 1.000 USD for creating job for each employee and credit for capital when investing new technological business. Credits for hiring qualified employees to new technological businesses provides with 1000 USD for each new permanent employee (in comparison with 100% of annual level of employment) are available only within 1 three-year period. Unused credits can be postponed for uncertain period.

Venture investment program in New York presented in November of 1999 places about 250 million USD of New-York Common Retirement Fund (CRF) to venture investments and its assets make up 127 billion USD which is second by size. The program says that CRF will join partnership agreement with general venture partner which plays typical role of US venture capitalist (seeks for investments, examines their potential,



discusses conditions, supervises the progress of investments based only on potential reimbursement of investments. CRF will require other institutional investors to participate in any partnership with input not less than CRF input. Moreover the general partner is to invest the main amount.

### **8.3. Taiwan**

Taiwan government formally established venture industry in 1983 to provide the development of technologically intensive industry and renewal of its industrial structure. It published «Regulations of management venture investment companies» which included managing principles concerning organization, minimal requirements to capital, investment volume, management and control the venture fund. Since that time 191 venture funds have been officially registered with total investment volume of 130 billion Taiwan dollars (3.7 billion USD).

Since 1980 the government provided the investors making the first investment to the venture funds which can be obtained within a term of 2 years with 20% tax advantage. In 2001 tax credit was abolished. Within recent years the share holders of Taiwan venture fund obtained more than 6 billion Taiwan dollars (170 million USD) as tax advantages. When the credit was abolished, private and institutional investors earlier participating in venture capital recalled their offers.

Venture climate in Taiwan is still limited. The inquiries are to be submitted to the Ministry of Finance for examination and management approval, team's abilities and experience. Nevertheless, banks insurance and broker companies are not allowed to participate in venture business. The volume of venture investments was limited for foreign and domestic scientific-and-technical companies, other venture funds and domestic branches. Capital invested to the low-technological production can not be more than 30% of the whole fund's investments. Venture companies are forbidden to invest the securities offered for public sales.

### **8.4. Japan**

Without direct influence on the venture capital the Government created several companies of support to SME companies. Japanese Association of Small and Middle Entrepreneurship Companies (JASMEC), implementing comprehensive support to SME companies, provide consultation services as well as support of the credit system for cooperative association of SME companies established for development and modernization of the business. The funds provided the companies with the possibility to obtain land, buildings, equipment etc under very beneficial conditions.

The continuation of the economic recession (in particular the worsening of the employment situation) and low level of new businesses organization in Japan made the Government to strengthen the support to venture companies by introduction of a number of laws since 1995 .

- Law supporting the organization of small and middle businesses (1995);
- Introduction of tax system for business-angels (1997);
- Law supporting technology transfer (1998);
- Law supporting new businesses organization (1998);
- Law concerning reform of SME management (1999);
- Law concerning reconstruction of the industry (1999);
- Revision of the main law concerning SME companies (1999);
- Law concerning strengthen of industrial technologies (2000);
- Law concerning support of SME companies (2000).

Taking into account the success of pension funds of the USA and making attempts to find alternatives for unstable and breakdown capital markets Japanese Association of

pension funds in the end of 1999 announced about her intention to examine a matter of alternative investments of 51,28 billion of yen, which it operates, to forced national savings. In the middle of 2000 the laws limiting the investments of self-managing pension funds to government securities were abolished as well as another law said the pension funds of less than 50 billion yen should be managed internally. It was a critical measure aimed to attract capital to venture business.

Ministry of foreign trade and investment in order to promote venture capital gave grants (to 500 thousand USD) to starting companies and Japanese venture capitalists' abroad training. In order to attract specialists it is suggested to use options. The rule of 50% capital share in portfolio companies. In the end of 1999 г. Tokyo Exchange established «Mothers» – Market of the High-growth and Emerging Stocks – to provide support to companies at early stages of access to the funds and to provide investors with more diversified investment product listing criteria for foreign companies were worked out in order foreign companies could collect financial resources and improve their corporate portfolio in Japan. Moreover the companies did not require three year period of income for IPO.

In order to improve the climate for venture companies Japanese government presently studies existing option system, review of the commercial law concerning privileged stocks and establishment of new companies on the basis of Universities. This process will include a system of loans established by Japanese Financial Corporation within two recent years, improvement of tax system for business-angels, tax advantages for investment into small business and laws concerning covering of expenses. The Government also reviews the requirements concerning suspension of regulation for non-quoted stocks issuing.

### **8.5. Singapore**

The government established funds invested by the government and co-invested funds and programs for support of foreign investors interest and the investment growth as well as maintaining the infrastructure in country. Since 1985 there are some special tax advantages aimed to stimulate the establishment of large quantity of venture funds and funds managing companies. Two of them are advantages for venture funds and so-called 'pioneer' advantage for venture funds' managing companies. Companies acquire a period of tax advantages to 10 years for management investment and bonuses obtained from approved venture funds. This scheme of tax advantages was abolished in 1998.

In order to support national leadership in the country the companies are to belong at least for 50% to citizens of permanent inhabitants of Singapore. The losses from the stock sales can be covered at the expense of another investor income.

In 1986 EDB initiated a development program of domestic industry for establishment closer relationship between local and multinational companies of Singapore. This program helped to attract foreign investments and apply foreign experience for development and growth of Singaporean companies and branches. The government also stimulated the establishment of large united fund of venture professionals in Singapore in order to support industrial growth and strengthening of Singapore position as regional centre of venture capital

Presently the Singapore government develops the research direction and new companies, providing even more essential support aimed to protect intellectual property, placing higher government investments to research works and development, awarding for innovations and implementation of the programs of Technopreneur Home Office, supporting the development of technological companies in the regions. In 2001 EDB looked for the ways of market strengthening for the starting companies using the SEEDS,

program of 50 million USD, with rates 'dollar for dollar' for perspective starting companies which are supported by the third private investors.

Singapore is a centre of Asian entrepreneurship activity it cooperates with India, Korea and Japan on purpose of creating in Singapore 'incubators' for companies established in Singapore by the representative from other countries. It helps to attract human and financial capital, unite specialists and create a network of services offered by the companies. Since 1998 the quantity of the companies with venture history in Singapore increased more than by 2 times, from 310 to 635. The quantity of venture specialists basing in Singapore within this period increased from 280 to 421.

### **8.6. India**

Indian banks do not provide the entrepreneurs with the capital due to their extreme conservativeness which entailed the incorrect bank management and non-sequential actions. Thus the companies expected the investments only from the markets of capital. Due to the fact that the license was required for operation and Indian administrative-and-ordering management system of economy entailed the deficit of the goods, any company having the license obtained the income. Thus the markets of capital were receptive for such offers.

In 1987-88 India established Technology Development Fund, which stipulated for the taxation of all the payments of technologies import. The Fund intended to support the innovative and high-risk technological programs through the Industrial Bank of India. In 1988 the legalization of the venture capital operations began. First of all it was done for state banks and also allowed to create private funds. Nevertheless the interest of private sector was minimal. The legalization stipulated for the following.

- The venture funds would pay a relatively low capital tax.
- Investors were given the freedom to investment emission on prices without the confirmation of the Inspection of securities (which earlier forbidden to sell them at prices higher than the parity).
- The founder of the funds should be banks, large financial institutes of private investors.
- Private investors may possess not more than 20% of the company fund.
- Investment should have been not more than 100 million rupees per one portfolio company.
- The government determined the industries suitable for venture investment.
- Two central bank should have confirmed each venture investment.

Since 1999 the social funds were allowed to use till 5% of their resources for venture investment both direct and through the venture funds. Nevertheless in 2001 they have not made any venture investments. Presently in India there exists several obstacles for venture industry development.

- Largest pension funds one of the largest investors of the US venture industry are still not allowed to make venture investment
- In India there are exist strict limits for the foreign investments and establishing joint ventures with Indian companies which restricts the potential activity of foreign venture companies.
- Only six industries are considered suitable for venture investment.
- National venture funds are regulated by three government bodies. The western investors are to have the permission of the tree.

**Rating  
of the investment attractiveness of the countries for Foreign Direct Investments (FDI)  
from June 1998 to September 2003**

Position	July 2003	September 2002	February 2001	January 2000	June 1999	July 1998
	Country	Country	Country	Country	Country	Country
1	China	China	USA	USA	USA	USA
2	USA	USA	China	UK	China	Brazil
3	Mexico	UK	Brazil	China	UK	China
4	Poland	Germany	UK	Brazil	Brazil	UK
5	Germany	France	Mexico	Poland	Mexico	India
6	Индия	Italy	Germany	Germany	India	Mexico
7	UK	Spain	India	Mexico	Australia	Poland
8	<b>Russia</b>	Canada	Italy	Italy	Poland	Argentina
9	Brazil	Mexico	Spain	Spain	Germany	Australia
10	Spain	Australia	France	Australia	France	Germany
11	France	Poland	Poland	India	Italy	Spain
12	Italy	Japan	Canada	France	Canada	Italy
13	Check Republic	Brazil	Singapore	Canada	Spain	Russia
14	Canada	Check Republic	Thailand	Thailand	Argentina	Hungary
15	Japan	India	Australia	Korea	Thailand	Thailand
16	Thailand	Hungary	Check Republic	Japan	Check Republic	Check Republic
17	Hungary	<b>Russia</b>	Korea	Holland	Korea	Canada
18	Korea	Hong Kong, China	Holland	Check Republic	Hungary	Indonesia
19	Austria	Holland	Chinese Taipei	Argentina	Holland	France
20	Chinese Taipei	Thailand	Japan	Hungary	Singapore	Chile
21	Vietnam	Korea	Hungary	Singapore	Japan	Korea
22	Hong Kong, China	Singapore	Malaysia	Malaysia	Malaysia	Malaysia
23	Malaysia	Belgium	Turkey	Taiwan	Taiwan	Japan
24	Turkey	Chinese Taipei	Argentina	Belgium	Philippines	Singapore
25	Indonesia	Austria	Hong Kong, China	Ireland	Hong Kong, China	Philippines

Source: A. T. Kearney, Inc.

### Conclusion

As the world experience shows, the efficient interaction between the big and small businesses depends on a number of factors, which include cultural-and-historic traditions, social mentality, climate etc. In this context the experience of APEC countries turns out to be the most useful.

Russian model of interaction between the small and big businesses has its own peculiarities conditioned by the economic reforms and development which. The peculiarities consist in as follows: in the forming economic symbiosis of the companies

the significant share of the commitments lied on the small businesses, which very often provided the “survival’ of the large companies. This trend still exist.

Thus the role of the small business and its interaction with the large companies can not be evaluated in traditional manner, as it is in the stable economy, for example only by the quantity figures. Small entrepreneurship as a special industrial sector is of rather little position in the social industry despite of its providing the survival conditions for the most of the industrial companies.

The small companies interacting with the large firms played a great role in the initial capital accumulation and in privatization processes, had to deal with many problems of the reform economic development.

Today it is essential to develop the international interaction, to seek new resources for successful development of the small business. The most of them are lye in the creation of the conditions for the efficient interaction, association and cooperation of the small, middle and large businesses which is of great benefit for all the participants of interaction, the state and the society.

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**INTERNATIONAL CONFERENCE  
“SME AND BIG COMPANIES INTERACTION”**

**PROCEEDINGS\***



**Asia-Pacific  
Economic Cooperation**

**APEC Small and Medium Enterprises Working Group**

**Institute of Entrepreneurship and Investments  
Academy of Management and Marketing**

**Moscow, June 2004**

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\* Compilation of some papers presented

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*Professor Juan Carlos Scapini, Central University of Chile, Chile*



**Reports and presentations of  
International Conference “SME and Big Companies Interaction”**

**Russian Federation, Moscow, June 7-9, 2004**

**Theme**

**“The United States-based National Business Incubation Association”**

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(Athens, Ohio USA)*

It's my great pleasure to meet with you here in Moscow to participate in this APEC Forum on “Small and Big Business Interaction.” This is my second trip to Russia but my first to Moscow, and I very much look forward to getting to know Russia's capital. My thanks to all the organizers of the conference including the APEC Secretariat and others that have already been recognized at this podium (the Ministry of the Russian Federation for Antimonopoly Policy and Support to Entrepreneurship, the Foundation for Assistance to Small Innovative Enterprises, the Federal Fund for Small Business Support, the Academy of Management and Market, the Moscow Entrepreneurs Association, the Institute for Entrepreneurship and Investments, and the Russian National Business Incubators Association).

I am here today as a representative of the United States-based National Business Incubation Association, which is a recognized leader in supporting entrepreneurship and business incubation. Our members, who currently number 1,470 from nearly 50 nations, are organizers and managers of programs designed to provide assistance to new business enterprises that directly contribute to the economic prosperity of our communities. Currently, our members work with more than 15,000 start-up companies that provide employment to over a quarter-million people.

In my presentation today, I will be talking to you about the importance of providing assistance to entrepreneurs and our experiences with business incubation. I'll share with you some examples of different types of incubators that have had powerful impacts on their local economies.

Before I get into the specifics of this topic, however, I would like to paint a brief picture of how our understanding of the importance of small start-up companies has evolved.

Stepping back a little more than 20 years ago into the United States of the late 1970s, few people understood how important it is for any community to encourage the formation of new SMEs or how difficult it is to found and grow a successful company. In 1978 in the United States, Apple Computer began operations in Cupertino, California. At that time,

there were very few personal computers, no fax machines, no cell phones, personal digital assistants or global positioning satellite systems for personal use. Not only was the situation much different in the technology arena, it was also very different for small businesses and entrepreneurs, only 25 years ago.

Now I recognize that the picture was VERY different here in Russia and in some other APEC nations, particularly those that didn't recognize private property, where the state owned the means of production. But even in the United States – with its long history of capitalism and of many businesses being founded each year – there was little respect for small business generally and no recognition that creating new businesses was absolutely necessary to our communities. To illustrate this:

- Business schools did not teach entrepreneurship education; you could go to school to learn management practices used by big corporations but not how to start and grow a company.
- There was little research on start-up companies.
- Banks, generally, did not want to provide loans to start-up enterprises without a track record of success.
- There was very little investment capital either from venture capital firms or from organized networks of the wealthy individual investors we call “angel investors.”
- University- and government-sponsored research technology “sat on the shelf,” with little of it being commercialized. If a university was successful in licensing out a technology, the agreement was generally with corporations located some distance away. But because the technology might very likely not be used by the large company either, only a small portion of this intellectual property was commercialized. As a result, very little revenue accrued to universities or governments from licensing the results of their intellectual and research investments.
- There were no champions for people who wished to found a new business and no programs or agencies set up to assist in this process. Despite the adulation accorded successful corporations, it did not seem that people recognized that all successful companies start based on the aspirations of one or two people. They virtually all start small.
- Many people thought that entrepreneurs were born, not made. That is, they seemed to think that you couldn't teach people how to be successful entrepreneurs. These same individuals would never suggest that someone couldn't learn to be a businessman or woman, an engineer, a chemist or a teacher, but they felt there was something almost magical about entrepreneurship — that it was not teachable.

So what I'm describing is a situation in which – even in the United States with its historical dependence on business and capitalism – most people paid attention to only very big companies and global conglomerates. Only big companies got respect, and despite the fact that small companies created most jobs, they were virtually ignored.

What this meant was that people trying to found a new company were virtually on their own: they would try to start their businesses in a bedroom or a garage or a small rented office. They had no access to any capital except for personal savings and loans from friends and family. There were few to no advisors who understood the special challenges of founding a new business. These entrepreneurs were also very lonely. They would find themselves working long hours; they would have very little support, and they might be

under tremendous financial pressure to make the new business successful because they'd borrowed money that had to be repaid. It was a very frightening situation.

That's the way it was 20 to 25 years ago — and virtually all the years before that when people didn't understand the process of starting a business or recognize the importance of entrepreneurs to society. And this was the case even in the United States, whose economic wellbeing was dependent on a capitalist society composed of many thousands of companies big and small.

During the last 20 years of the past century, however, we began to study and learn more about the importance of entrepreneurs and small businesses. Important research was published in the early 1980s revealing that smaller companies created virtually all the net new employment in the U.S. economy. Of course this is true in most economies, and certainly in capitalist economies. Soon start-up businesses were challenging the old business models and sparking huge leaps forward in technology development and wealth creation. Very young people who subsequently became very rich founded Apple Computer, Dell Computers, Microsoft and many other famous companies. Soon other young people wanted to do the same. Gradually, government and universities began to be more interested in how people started companies.

The first business incubator was founded in the State of New York in 1959, but the concept of working with start-up and fledgling companies to accelerate their growth and success spread very slowly. By 1980, there were 12 to 15 incubators in operation in the United States and a similar handful of programs in Western Europe. Today, 1,000 business incubators operate in North America alone and about 4,000 business incubators exist worldwide.

Let me give you a business incubator definition, so that if you aren't familiar with these programs you can understand what I'm talking about: A business incubator is a comprehensive business assistance program targeted to accelerate the growth and success of start-up and fledgling companies with the goal of creating wealth. While it is true that some individuals who start their own businesses will become very wealthy, most incubators promote community wealth creation. That is, if companies can become successful and grow larger, they will create more jobs with higher-paying salaries. Both the businesses and the people who work for them will also pay higher taxes, providing more revenue for schools, universities and other public entities. The entire community will benefit and will become more competitive in the world economy.

To meet this definition of business incubation promoted by the National Business Incubation Association, these programs must have certain basic characteristics: the first of these is that there must be a comprehensive program of business assistance designed to meet the needs of start-up companies. The second vital characteristic is that the incubation program must have management with the skills to grow companies and this management must spend most of its time helping companies. The third characteristic of business incubators is that management screens the companies that are seeking assistance and selects those that are most likely to benefit from the program; then a defined program of assistance is made available over a period of one to four or so years. Following this, the companies served by the incubator "graduate" by moving out of the incubator program or facility and becoming self-sufficient in their communities. At this point, they will have developed

internal resources to the point that they can conduct their own affairs, hire their own advisors, raise financing and build or lease space to fit their needs.

Business incubators provide services to start-up and fledgling companies through:

- One-on-one consulting with company founders and top management by incubator managers and staff
- Linking companies to effective business services providers — such as accountants, attorneys, marketing experts, etc. (Many of these professional advisors will offer services to incubator companies at reduced rates as a means of growing new customers for their practices.)
- Training on subjects such as developing a business plan, making the business attractive to investors, pricing and costing products and services, developing new markets, etc.
- Hosting networking events and business fairs at which the start-up companies can make contacts and gain new business
- Providing forums at which company founders and top management can discuss their problems, give each other advice and share experiences
- Assisting the new firms to make helpful contacts with major companies to license technology or sell their products
- Linking start-up companies to university technologists who can help solve technical problems
- Providing access to specialized equipment — either on the incubator premises, in university laboratories and at other locations
- Referring company personnel to reference publications and to people who have expertise to help on many different business and technology-related topics
- Providing low-cost financing and linking companies to potential investors

Ninety-nine percent of the business incubators in North America also provide space that their start-up businesses can lease. This space is highly flexible, so that as companies grow they can take on new space. Providing a building in which many small businesses can co-locate is important for other reasons as well. First, it is much easier to provide advice, training and other services to the collection of incubated companies if they are all located within a single building or several buildings on the same “campus.” The incubator manager can easily move from one business to the next to provide services, and educational sessions can be held in a central meeting room. Second, the company founders can more easily learn from each other, share contacts, employees and equipment. Because the businesses will be at different stages of development, the less-experienced company founders can learn from more-experienced ones. After all, the incubator manager can’t do all the training himself or herself, and the companies themselves can share experiences and even provide moral support for each other since they’re all going through the same experience together. Thirdly, by leasing space the incubator program itself has access to rental fees that can offset some expenses and make the program more sustainable by generating revenues. And, finally, it is easier for the program to obtain community and government support because incubator buildings are exciting places! City mayors, state or provincial governors, university presidents and investors are impressed by the hubbub of activity in the incubator and the inspiring zeal of entrepreneurs who are trying to start new businesses.

Despite the value of having a building, however, its presence is NOT vital to the definition of an incubator. In the early days, some people mistakenly believed that the building WAS

the incubator when, in fact, buildings are only real estate. It takes committed management and a program of services designed for start up companies to help these same companies grow. Putting them in a building will not accomplish the task. And in some places, the business assistance services that incubators normally provide are accomplished by working with companies residing on their own premises at many different locations. A very strong program in Bulgaria includes both traditional incubators with buildings and business centers without buildings, but they all provide the same types of assistance to their start-up company clients.

Let me give you just a few basic facts about business incubators as they operate in the United States and North America generally and then I'll provide some U.S. and international examples. Our organization, NBIA, has done a lot of research on business incubators. In studying their impacts we learned that a very high percentage – about 87 percent of incubator companies – succeed and remain in business. Eighty-four percent of incubated companies remain in the community in which they received services.

Our research found that in the four-year-period covered by the study, incubator company revenue increased almost 800 percent and employment increased by 400 percent. Recent research shows that the average number of companies served by North American incubators is 22. On average, incubators report that annual revenue generated by their current clients was just short of \$8 million. The average time during which clients receive services is three years. Some incubators target companies that are developing or applying new technologies; others accept a wide variety of client companies. We have found that 47 percent of North American business incubators are mixed-use programs serving a variety of company types; 37 percent of programs are specifically focused on technology-related firms; seven percent of incubators service manufacturing companies, and six percent provide assistance to service-type businesses. The rest of North American incubators fit into the “other” category; they serve arts and crafts businesses, food production companies and various other specialty groups. The average number of graduate companies for incubators old enough to have graduates is 24.

Finally, let me note that business incubators have a wide variety of missions and thus are sponsored or initiated by different types of organizations. These missions include:

- Commercializing new technologies from universities and national laboratories or research institutes
- Diversifying the economies of rural regions by promoting a greater variety of companies and industry sectors
- Revitalizing distressed neighborhoods by creating wealth among these neighborhoods' residents
- Creating and supporting an industry or technology sector such as, for example, environmental technology, biotechnology or food production
- Supporting entrepreneurial role models among minority populations, women or low-income people
- Creating new jobs and opportunities for the unemployed
- Providing opportunities for obtaining financial return on investment in new companies

Elsewhere in the world, business incubators have also helped economies in the process of transitioning from communism or socialism to free markets.

Now, I'd like to describe some business incubation programs and their impacts. In Biloxi, Mississippi, on the southern coast of the United States, Adele Lyons is the director of the Gulf Coast Business Technology Center. This incubator, founded in 1990, serves a clientele comprising both manufacturing and service companies, so it is what we call a mixed-use incubator. The program has some support both from the local city and county governments. Each year Adele provides an Economic Impact Report card on her incubator. In the most recent year, the 25 companies in the incubator had total revenue from products and services of \$30.1 million U.S; they employed 344 people, and they paid almost \$2.7 million in wages and salaries to their employees.

The Quebec Biotechnology Innovation Center in Laval, Quebec, in eastern Canada recently won NBIA's top award given on an annual basis to a North American incubator. Just six years after the incubator opened, it is recognized throughout the world as a model biotechnology program. It houses 11 clients, two of whom were recruited from outside Canada, and it operates at 100 percent occupancy. More than 350 high-paying jobs are associated with incubator companies. This center is a great example of a community building on a core of mature biotechnology companies and university research facilities to launch new firms.

At the University of Texas' Austin campus, the Austin Technology Incubator focuses on helping early stage, high-tech, high-risk companies get funding and get their products to market and thereby create wealth and a strong economic impact. Since 1989, they have worked with 140 companies and created over 2,800 high-paying jobs in the Austin area. The incubator estimates that these direct jobs have resulted in another seven thousand indirectly created jobs. The incubator clients and graduates have generated over \$1.4 billion in revenue, raised more than \$600 million in outside capital, and 15 of the incubator's graduates have been acquired for more than \$450 million.

One of the oldest U.S. technology incubators is located on the campus of Georgia Institute of Technology in Atlanta, Georgia. This incubator, the Advanced Technology Development Center (ATDC) started in 1980 and is supported by the State of Georgia as a major economic development tool to help commercialize technologies out of the state's university systems into the local economy. It has grown to encompass three satellite locations around the state as well as three incubators in Atlanta. In 2002 alone, 44 companies in ATDC raised over \$94 million in venture financing, and in the same year companies that have been affiliated with ATDC generated \$684 million in revenue and 4,900 high paying jobs.

I have described incubators in North America but these programs share many similarities throughout the world, and they also have some differences. In North America, universities, local governments or economic development organizations have created most business incubation programs. This is also true of most incubators in the United Kingdom, Australia and many other nations. Because of the different types of sponsors, each of these nations has created a variety of incubator types with the wide variety of missions described earlier. In China, the central government in cooperation with local governments has created more than 400 business incubators. Since the central government agency in charge of incubators is in the Ministry of Science and Technology, however, virtually ALL Chinese incubators target their services to technology companies. And due to unique circumstances in China, Chinese incubators are very large. There are more than 30 incubators in the city of Shanghai alone, and the largest of these serves 300 companies. Many of these companies

were founded by “returning scholars.” These are scientists and others who have studied in Western Europe or North America and who have come home to start new companies that will take advantage of China’s booming markets.

In Europe, some business incubators are called Business Innovation Centres or BICs. The majority of BICs were created through initiatives of the European Commission, again working with regional and city authorities. These incubators also tend to be larger than those in North America, and they serve start-up and medium-sized companies (SMEs), while North American incubators primarily work only with start-up and young or fledgling firms.

Let me conclude with a description of an incubator network that I mentioned earlier, in Bulgaria. This is the JOBS or Job Opportunities through Business Support project, initiated by the Bulgarian Ministry of Labour and Social Policy and implemented with support of the United Nations Development Programme. The total budget of the project is \$21 million U.S. and its duration is from 2000 to 2007.

JOBS is a country-wide network of 37 business advice centers including 13 business incubators. Of the latter, nine have leasable space. JOBS also provides 24 information technology centers through which people can access the Internet.

The mission of JOBS is, “To support the development of micro and small businesses throughout Bulgaria in order to create long-term sustainable jobs.” Target groups include start-up companies, micro and small companies, agricultural producers, artisans and vulnerable groups in the labor market including minorities and youth.

JOBS’ incubators encompass 10,439 square meters of space and provide services to 123 companies, including 64 start-ups and 59 existing young firms. Some 800 people have already found employment in these companies, and 25 companies have graduated. JOBS virtual business incubators support agricultural producers and artisans and provide specialized infrastructure including nurseries for seedlings and shared drying and distillation facilities. They work with client companies providing them access to markets and a virtual craft shop on the Internet. An important component of JOBS in addition to business advice and access to markets are equipment-leasing schemes for both start-up and existing companies.

Considering both the business advisory centers and business incubators, JOBS has helped create 8,600 jobs. It has provided training to 11,000 people and has undertaken 15,000 consulting projects. It has also established 2,500 business-to-business contacts.

The description of this inspiring program in Bulgaria will conclude my presentation today. I hope I have convinced you that we should support our start-up and fledgling businesses in order to accelerate their growth and ensure their success. These companies represent the seedbeds of our communities’ and nations’ future economies. Everywhere in the world government concerns itself with providing to its citizens telecommunications and power systems, paved streets, justice, protection, sewage and educational systems. Government should also recognize the importance of new company formation to community wealth, and community leaders should encourage creation of new business incubation programs. In the future, there will be many more business incubators than the 4,000 spread across the globe

today. Like public libraries, business incubators will arise in cities everywhere to ensure the success of new companies that create new jobs.



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International Conference “SME and Big Companies Interaction”**

**Russian Federation, Moscow, June 7-9, 2004**

**Theme  
“Small and big business interaction through industry clustering”**

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Philippines*

## **INTRODUCTION**

In the early 1950's, industrial development in the Philippines grew at a rapid pace. Visible signs of such progress were evident. Within a very short time, due to import controls, we saw the emergence of food processing plants, flour mills, pulp and paper plants, machinery manufacturing and other types of industries. The pioneering spirit of the Filipino industrialist and his aggressiveness in spite of the high degree of risks and competition resulted to the rapid industrialization of the country. This momentum of growth in industry, however, has not been maintained.

Unfortunately, during this period, we locked ourselves into an inward-oriented, import- substituting and excessively over-protected framework, through the instruments of high tariff walls and other protectionist measures.

Some of the internal problems were inadequate capacity utilization, financial inadequacy, poor technology, lack of managerial skills and poor productivity. Hence, in the 80's industrial development strategies were geared towards:

- the establishment of world competitive industries
- the upgrading of the capability and competitiveness of existing industries.

In the early 90's, export-oriented industrialization was adopted.

## **STATE OF PHILIPPINE SMALL AND MEDIUM ENTERPRISES**

Small and medium enterprises in the Philippines made significant contributions in the structural transformation of the economy. Its role as a vehicle for industrialization and

development follows the route of SME-backed economies of Taiwan, Italy and Japan. In the Philippines, SMEs comprised 99.6% of the economy and absorbs 70% of the labor force, which translates into a significant 32% in industry and services value added. Clearly, the SMEs are the engines that propel our economy, as it constitutes nearly 100% of total business establishments in the Philippines. Out of nearly 100 percent, only 0.4 or less than one percent is the big companies in our country. Moreover, the SMEs are the best users of capital. SMEs contribute to a more equitable distribution of income; disperse economic activities to the countryside, and a potent force in the war against poverty

## **MAGNA CARTA FOR SMEs**

Republic Act (RA) 6977 passed on January 29, 1991 and amended by RA 8289 on May 6, 1997 was the official creation of the Magna Carta for Small Enterprises. The Magna Carta for SMEs is an “Act to Promote, Develop and assist Small and Medium Scale Enterprises provided three (3) major components:

1. The mandatory allocation by the banks of loanable funds for small enterprises;
2. The creation of the Small Business Guarantee and finance Corporation (SBFC) now known as the SB Corporation;
3. The creation of the Small and Medium Enterprise Development (SMED) Council.

The SMED Council’s mandate is to provide an institutionalized venue for public-private sector dialogue on policy issues and action programs affecting SMEs. It is called upon to be the primary facilitative and coordinative agency in tapping local and foreign funding sources and promoting the full use of existing loan guarantee programs.

### ***Specifically, the functions of the SMED Councils are:***

- 1.) Promote the development and growth of SMEs;
- 2.) Facilitate and closely coordinate national efforts to promote viability and growth of SMEs;
- 3.) Assist relevant agencies in tapping local and foreign funds for SME development;
- 4.) Promote use of existing programs
- 5.) Seek ways to maximize use of labor resources

The Secretary of the Department of Trade and Industry chairs the SMED Council. Members of the Council include the Heads of Offices of the following government agencies: the National Economic Development Authority, Department of Agriculture, Department of Labor and Employment, Department of Environment and Natural Resources, Department of Science and Technology, Department of Tourism, Monetary Board Chairman, the Small Business Corporation, the Chair of the SME Promotion Body and representatives of the 3 major island groupings namely, Luzon, Visayas and Mindanao.

From its inception to the present, the SMED Council has made significant inroads in providing an enabling environment for the promotion, development and growth of SMEs. Specifically, it has encouraged “increased private sector participation in policy formulation” through the Provincial SMED Councils in 79 provinces nationwide. Formation of regional and provincial SMED Councils assures a broad-based voice for small businesses all over the country. It also facilitated the establishment of One-Stop SME Centers nationwide. These SME Centers provide business advisory and counseling services as well as entrepreneurial development trainings to small and medium enterprises to make them competitive in the global market. The SMED Council also facilitated the entitlement of small enterprises to a share of at least 10% of total procurement value of goods and services supplied to the government. Furthermore, the SMED Council facilitated the drafting of the Implementing Rules and Regulations of the Barangay Micro Business Act (BMBE) of 2002. The BMBE Act of 2002 is envisioned to promote and develop a stronger micro enterprise sector that would invigorate the local economy and lead to a bigger tax base. It provides tax breaks and other incentives for micro enterprises registering under the program.

The SMED Council also performs other functions. It endorses to the Board of Investments the

The SMED Council also organizes the “Annual Awards for Outstanding SMEs.” These awards are given to SMEs who have exemplary performance in their chosen field of endeavor, made significant social and economic contribution to the community and supported the thrust of the government. Awards for Outstanding Bank Partners were also given to bank, which have a large exposure to SMEs.

The SMED Council also coordinated the conduct of the Survey on Business Competitiveness of Philippine Cities. The project is a study, which looks at the general attractiveness of cities for business and the competitiveness of cities for exports, SME development and tourism. It also aims to facilitate city competitiveness ratings with emphasis on leading and emerging urban centers outside Metro Manila and Metro Cebu that showed huge potentials in cultivating competitive industries and commodities.

## **THE SME DEVELOPMENT AGENDA**

Realizing the significant contributions of the SME sector, the Philippine government came out with the SME Development Agenda or National SME Development Plan.

Its overall goal is to have a vibrant SME sector that will provide a strong domestic supply base for our globally competitive industries. If you are globally competitive, the industries who locate here will be globally competitive.

We want to expand the enterprises by graduating the micro into the small and the small into mediums. And finally, we want to upgrade the productivity and value added capabilities of firms.

For the three-year objectives, we will increase the share of the Small and Medium segments by 40%, that is from 8.7% to 12%. We will also increase productivity in terms of gross value added (GVA) from 32% to 40% to the level of the ASEAN average.

*To achieve this, we have five basic strategies:*

1. Financing
2. Market Development
3. Product Development
4. Human Resource Development/Entrepreneurship Training
5. Advocacy/Enabling Environment

## **INDUSTRY CLUSTERING AS A DEVELOPMENT STRATEGY**

In light of the greater integration of the Philippines with the world economy, government policies and programs must be relentlessly pursued in stimulating business activities and promoting competition. Enhancing the competitiveness of industry and services therefore is critical in the country's future economic development.

The Department of Trade and Industry have identified structural challenges that need to be addressed in order to revitalize and improve the business environment. First is the dispersal of industries in the countryside; Second, Enabling and integrating of SMEs into the domestic and global supply chain; and third, strengthening of anti-trust and consumer protection policy and enforcement.

In trying to move economic activity all across the countryside, this involves strengthening domestic trade linkages, revitalizing agriculture and diversifying rural economy, pursuing vigorously the "cluster strategy", and maintaining support to key "strategic" industries.

DTI will pursue the clustering approach as an industrial policy, intended to build competitiveness and productivity, accelerate SME development and disperse economic activities in the countryside.

In 1999, the Philippine Export Development Program identified industry clustering as a key medium-term strategy for industry development and competitiveness. The cluster model as a collaborative model of governance was chosen because resources have not been fully utilized, coupled with inadequate planning, poor implementation and lack of teamwork among players in the industry.

Industry clustering was introduced to promote competitiveness of the region's products, expand markets for existing products and to develop new products as well as to spread economic development over the provinces and cities of the region. The critical success factors lie in the commitment and support of the private sector and the relevant government agencies. Furthermore, the private sector and government agencies should sense ownership of the cluster plan

Sustainable economic growth is the compelling internal reason why the Philippines have to look again at her strategies. Another reason is that the global environment has

changed. First, there is a new and more sophisticated consumer, which demands diversity, quality and value for money.

Secondly, there's global competition for our industries not only in the Philippines but also competition from external producers. To respond to the demands of global competition, firms must undertake continuous innovation both internally and in conjunction with their immediate environment.

Based on the foregoing therefore, we have to shift from product to customer-driven orientation. We have to look first at the market before we produce. We must fit our products into what the market needs and wants.

Since the Philippines is a small player in the world market and possesses inherent problems such as inadequate infrastructure and problems of technology and economies of scale, the producing sector must therefore collaborate to compete in an ever-challenging market.

Given these emerging realities, the challenge is to look for strategies to enhance competitiveness despite our present weaknesses.

Industry clustering deals with relationships and inter-linkages are developed not only among or within the industry but forward and backward linkages.

Furthermore, clustering enables us to reduce transactions cost. Since most of our enterprises are micro, cottage, small and medium enterprises, clustering will help us reduce transactions costs.

Industry clustering is a goal-oriented term we use for inter-related businesses from suppliers to producers to those companies which are engaged in bringing products to markets. It's a goal-oriented cooperation for mutual exchange of resources and synergy to resolve problems, exploring opportunities and is usually govern by formal agreements and cooperation.

Clustering can also run along the whole value chain because as I already mentioned, there are disadvantages, weaknesses/gaps already present right now.

So we should look at a cluster as a whole value chain. We look at each stage of the chain and find out where we can maximize our competitiveness and at the same time reduce costs.

## **INDUSTRY CLUSTERING: A CASE STUDY OF THE LETTUCE GROWERS**

The Lettuce Cluster is one of the most successful clusters in Region 10. It is a group of 10 growers and is one of the sub-clusters under the Northern Mindanao Vegetable Producers Association, Inc. (NorminVeggies). NorminVeggies is a non-stock, non-profit organization of vegetable growers

The lettuce cluster in Region 10 is a member of the Northern Mindanao Vegetable Producers Association, Inc. (NorminVeggies). NorminVeggies is a non-stock, non-profit organization of vegetable growers and its input suppliers, research institutions dedicated to the development of a globally competitive vegetable industry.

From a fragmented, smallholder farm production, the lettuce growers have transformed themselves into market-focused and highly competitive industry cluster in just one year. From initial 5 members farms, the cluster has now doubled its membership to 10. The group formed themselves into a cluster to have more market access and to reduce transaction costs such as shipping, logistics and marketing costs.

Furthermore, the lettuce cluster has now more market options. From 400 kilograms weekly shipment to Manila, it has grown to 3.5 tons and has the potential to supply 10 tons of assorted vegetables per week.

From the traditional landing area, its now directly delivered to the institutional buyers, fast food chain and supermarkets in Manila such as McDonalds, KFC, Wendy's and high-end hotels and restaurants in Manila.

Formation of the marketing cluster led to lower costs covering the whole chain of production, shipping, and distribution and our efforts to improve technologies led to higher productivity and reduction in spoilage and deterioration.

Because of this, the Lettuce cluster has exhibited a sound capability to consistently and reliably meet product quality and volume commitments, thus opening opportunities for other vegetable clusters

Its performance has opened opportunities for other vegetable clusters and expanded to seven sub-clusters:

- Salad tomato
- Broccoli
- Bell pepper
- Sweet corn
- Sweet peas
- Strawberry
- Carrots/cabbage

## **SMALL AND BIG BUSINESS INTERACTION**

At present, small and big business interaction is basically a client-supplier relationship. The growers have focused on their main competency and that is growing lettuce. Although, there still exists trade distortions and imperfections in the supply chain that are still being addressed, the bottom line is the cluster has been able to supply their markets at the right time, the right quality and the right price.

Their markets, in turn, have been providing them R and D technicians to produce good quality products and provide sound advices on packaging and labeling requirements, product standards and quality management systems. They also gain access to bigger markets, improved technologies through their “big brothers.”

## SUCCESS FACTORS

*The value of cooperation owes its success to the following factors:*

- Grower’s commitment to work together and make cluster succeed;
- Integration of an entire agribusiness value chain
- Presence of strategic alliances in government and resource organizations;
- Professional cluster management with cost sharing among growers;

### *Key Learnings and Tools*

- Primarily, clusters should be private sector led. It’s very important to have a core group to lead in the cluster process.
- One important implication of the cluster process is a shift from product to customer-driven orientation. Hence, market-orientation is one of the appropriate requirements for clusters to develop. Customers add value and thus knowledge of what the market needs and addressing these needs is emphasized.
- The cluster should be seen as a whole value chain. While players have different roles, stages in the cluster are integrated.
- Communication is a key success factor in clustering. Trust must be built.
- The process of cluster development takes time, commitment and people trained in the process (facilitation).
- The role of government in cluster development is in maintaining responsive foundations for economic development. Leadership must come from business.

- **Benefits to Government**

- Provides ready information re SME needs
- Cluster generates more impact from meager resources
- Programs/projects become more focused
- Active private sector leads to a more vibrant, market-led economy

- **Benefits in developing and expanding local businesses**

- Local efforts geared towards improving local products and services
- Entrepreneurs gain more confidence in doing business
- Generation of employment and upgrading of skills
- Local allied businesses are established
- Communities benefit from economic activities
- Increased consumer spending

## **Human Recourses Provision of Innovative Activity**

Mr. Veniamin Kaganov  
Rector,  
Academy of Management and Market

## **Main Purpose of the State:**

doubling of Gross National  
Product of the Russian Federation

## **Experience of Academy of Management and Market (AMM)**

- Organized and Offered – more than 1,000 workshops and trainings;
- Trained and Consulted - more than 500,000 entrepreneurs;
- Taught – more than 10,000 consultants and teachers.

## **Components of Innovative Activity Support System**

- Motivation (possibilities of realization, earning, becoming famous...);
- Creation of favorable environment (rules, orders, prestige, etc.);
- Information provision (Internet, booklets, advice, etc.);
- Learning (face-to-face (workshops, trainings), distance education, independent study);
- Consulting (support of projects, discipline-specific consultants (face-to-face and correspondence);
- Marketing (fairs, advertising, conferences, round-tables, presentations);
- Monitoring (control of purposes achievement on each stage).

## **Participants of Process for Conducting and Completing Innovative Projects**

- Authors (entrepreneurs, scientists);
- Experts, members of jury;
- Representatives of science sphere (scientist and education institutes);
- Representatives of business (entrepreneurs, head of firms);
- Representative of the State (on regional and municipal levels);
- Investors (funds, banks, private capital).

## **Key Problems of Innovative Projects Promotion**

### **Problems of Technologies Authors (Business Ideas)**

- Registration, estimation and protection of intellectual property rights;
- Determination of a product and conducting of marketing researches;
- Promotion of unappropriated financial sources;
- Realization of financial and economical расчетов calculations.

### **Problems of Partners (Participants)**

- Risks reduction at project support;
- Attraction of venture funds for participants;
- Accessibility, completeness and reliability information about projects.



## Stages of Project Promotion

analysis of reserve in existence and potential; - composition and submission of application to competitive commission.	- confirmation reality and commercial perspectives of project; - official registration of firm; - registration of intellectual property rights; - design of business plan.	- plan of firm development; - activity plan for breaking into market; - employing of main staffs.	- promotion of new enterprise with achieving substantial volume of output and realization of products	- provision of stable work for new firm; - overgrowth of manufactured products; - expanding of markets; - increasing of competitiveness
1 step (preparing stage)	2 step (firs stage)	3 step ( second stage)	4 step (third stage)	5 step (further development)

## Structure of Human Resources Provision

- Informing;
- Learning ( base course);
- Learning ( special course);
- Consulting:
  - correspondence (Internet);
  - face to face (individual and group).

## Financing

- Funds of customer (base workshops, preparing of partners, joint consulting, information provision);
- Funds of participants (including specialized workshops in estimate of credit);
- Under credit (leasing) support it is expediently to include participation in educational programs as a condition.

## Interregional and International Connections

- Penetrate international markets;
- National Agency for Entrepreneurship Technological Support INTECH;
- Russian - APEC Business Cooperation Center;
- Cooperation in the sphere of realization innovative technologies.

## BUILDING COOPERATIVE NETWORKS BETWEEN BUSINESS INCUBATORS IN RUSSIA

Mr. Veniamin Kaganov  
President,  
National Business Incubator Association of Russia

Building Cooperative Networks between  
Business Incubators in Russia

**National Business Incubator Association  
of Russia**

Founded in 1997 by 22 Russian business  
incubators and SME support institutions  
65 active members in 2004

Building Cooperative Networks between  
Business Incubators in Russia

### Specific of NBIA of Russia Activities

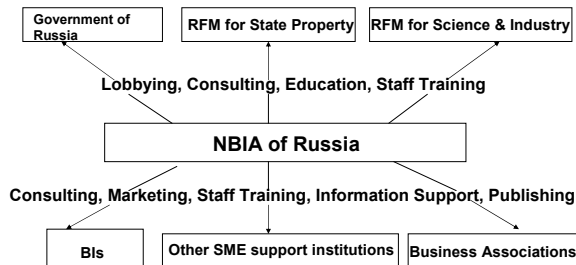
- Short history of market relations in Russia;
- Lack of SME support infrastructure;
- Lack of SME financial support;
- Lack of skilled SME professionals;
- Low level of interaction between small business and governmental authorities.

Building Cooperative Networks between  
Business Incubators in Russia

### The NBIA of Russia Mission

Is to facilitate the development of a network of Russian business incubators as institutions creating a favorable environment for small business start-up and growth.

Building Cooperative Networks between  
Business Incubators in Russia



Building Cooperative Networks between  
Business Incubators in Russia

### Major Types of Activities of the NBIA of Russia :

- Member-oriented nation-wide activities;
- Joint nation-wide activities;
- International activities.

Building Cooperative Networks between Business Incubators in Russia

**The NBIA of Russia National Activities**

Member – oriented:

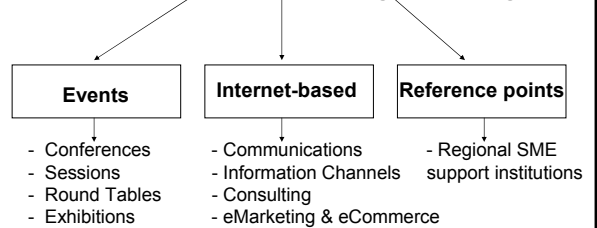
- Setting new BI's;
- Promoting BI clients through the network

Joint Activities:

- BI technology transfer to the regions of Russia;
- BI staff and managers training.

Building Cooperative Networks between Business Incubators in Russia

**The NBIA of Russia Networking Technologies**



Building Cooperative Networks between Business Incubators in Russia

**Networking Events Advantages**

- Wide participation of governmental officials, representatives of administrations of different levels;
- High involvement of BI professionals and managers, entrepreneurs and small business consultants and experts;
- Brilliant opportunity for the NBIA members to set new contacts, network and share their knowledge expertise and experiences.

Building Cooperative Networks between Business Incubators in Russia

**Upcoming Networking Event**

The All-Russian Conference agenda will include:

- Business Incubation in Health Care;
- Business Incubation in Tourism;
- Business Incubation in Housing and Utilities;
- Small Innovation Company Start-Up;
- New SME Credit Organizations;
- Services for Growing Business.

Building Cooperative Networks between Business Incubators in Russia

**Internet–Based Networking**

- Web sites  
([www.nsbida.ru](http://www.nsbida.ru), and [www.smb-support.org/nsbi](http://www.smb-support.org/nsbi));
- E-mailing the Association Newsletter to the members;
- Publishing discussion and analytic papers in the Internet BUSINESS PROPOSAL Magazine
- Collaboration programs - [Technet.ru](http://Technet.ru)

Building Cooperative Networks between Business Incubators in Russia

**Internet–Based Networking**

The NBIA of Russia Web Sites:

- Day-to-Day Activities;
- New Member Advice;
- International Experience and Activities;
- Project Activities and collaboration;
- Forum;
- SME News and Reports.

Building Cooperative Networks between  
Business Incubators in Russia

**Internet-Based Networking Advantages**

- Easy access to information, advice & services;
- Quick response, efficient business tools;
- Distant learning and consulting;
- Virtual "Professional Club" for sharing experience and trouble shooting;
- Joining efforts for solving BI common problems and lobbying;
- Elaborating common opinion on SME development in the country.

Building Cooperative Networks between  
Business Incubators in Russia

**Reference Points Networking**

- Cooperation with Moscow-based and regional SME support institutions in the sphere of:
- BI staff and managers training;
  - SME staff and managers training;
  - Project implementation.

Building Cooperative Networks between  
Business Incubators in Russia

**Reference Points Networking Advantages**

- Wider access to resources available for start-ups and growing small enterprise support;
- Better chances to win a tender through forming consortiums with other SME support institutions;
- Sharing experience and developing new forms of interaction.

Building Cooperative Networks between  
Business Incubators in Russia

**New Concept of BI Network Development in Russia**

Is to set a bunch of "Hub" Business Incubators in the regions of Russia forming the basis for creating regional BI networks.

Building Cooperative Networks between  
Business Incubators in Russia

**Regional BI Network Advantages**

- Value of personal contacts;
- Higher involvement;
- Higher member differentiation;
- More effective (versus the nation-wide);
- Better motivation through "Highlights";
- Lower competition;
- Intra-net communication and access to information.

Building Cooperative Networks between  
Business Incubators in Russia

**Example of Regional BI Network Development**

5 New Business Incubators set in Siberia forming a basis for a network of SME support institutions in their areas.

Building Cooperative Networks between  
Business Incubators in Russia

**The NBIA of Russia International  
Networking:**

Associated membership in BI Associations  
of Germany, Poland, Finland, Ukraine,  
Byelorussia and international BI  
Associations (SPICE Group)

Building Cooperative Networks between  
Business Incubators in Russia

**APEC Russia Business Cooperation Center  
–**

**New Channel for the NBIA of Russia  
International Networking**

- The BCC foundation initiated in 2002;
- Aims at facilitating Russian business  
development through international cooperation  
and promotion, especially in the APEC region.

Building Cooperative Networks between  
Business Incubators in Russia

**The BCC Principle Lines of Activities:**

- Analysis and adaptation of APEC SME  
support experience;
- Information support of business contacts  
between Russian and APEC SMEs;
- Special “APEC-oriented” SME staff training;
- Support of joint consulting projects ; and
- Partner search support

Building Cooperative Networks between  
Business Incubators in Russia

**Principal Areas of BI Client Promotion  
through the BCC:**

- Biotechnology;
- Pharmaceutical products;
- Medical equipment production;
- IT;
- New materials

Building Cooperative Networks between  
Business Incubators in Russia

**The strategic goal of NBIA of Russia**

Is to develop a powerful community of  
business incubators and small business  
support institutions as well as professionals  
for better using the network resources to  
develop SMEs in the country.

Building Cooperative Networks between  
Business Incubators in Russia

**The National Business Incubator  
Association of Russia invites everyone  
interested for cooperation and joint  
activities to contact us at...**

[kaganov@smb-support.org](mailto:kaganov@smb-support.org)

**Reports and presentations of  
International Conference “SME and Big Companies Interaction”**

**Russian Federation, Moscow, June 7-9, 2004**

**Theme**

**Canadian Experience of Business Interaction  
“Interaction Leading to Transformation –  
Why An Entrepreneurial Canadian Culture is Essential to Business Success”**

*Don Bureaux,  
Assistant Director, Acadia Centre for Small Business  
and Entrepreneurship*

Good morning, my name is Don Bureaux and it is my pleasure to be speaking to you today.

I am from a region in Canada known as Atlantic Canada, or the Maritimes. There are four provinces within this region of approximately 2 million people living in mostly rural areas. SLIDE WITH MAP OF CANADA AND NOVA SCOTIA.

I am the Assistant Director of the Acadia Centre for Small Business & Entrepreneurship at Acadia University. Acadia University is a primarily undergraduate, liberal arts university with a student population of 3,800. The Centre is a separately incorporated institute with the responsibility of entrepreneurial development within the community and at Acadia University by bringing together the small and medium enterprise sectors with the resources of the university. SLIDE WITH PICTURE OF ACADIA UNIV.

Today, I would like to present to you a Canadian perspective on business interaction between large businesses and small and medium enterprises (SMEs). In particular, I would like to discuss:

- The value of such interactions.
- The reasons why such interactions are being impeded within the Canadian context.
- The remedies to allow more interactions to occur in the future.

***The Value of Such Interactions:***

Interaction between big businesses and SMEs within Canada has often thought to occur for economic and efficiency reasons. It has been traditionally believed that competition from both domestic and international markets have forced large businesses to pursue external relationships in an effort to reduce costs and increase outputs.

However, this perception is changing.

I would like to talk about how this perception is changing in Canada.

First, I would like to discuss “why” big businesses and SMEs interact.

For the SME, working with a BB provides a level of predictability, reliability, and consistency required for entrepreneurs to take risks in the growth and development of their SMEs.

For the big business, results of a recent research initiative sponsored by Accenture-Canada of Toronto, Ontario highlight an interesting phenomena. In the report, “Outsourcing – Shared Risks and Shared Rewards”, the results of in-depth interviews with 177 Canadian executives of large businesses indicate that business transformation outsourcing (BTO) is the major driver in deciding to interact with other organizations.

BTO is defined as “a program to transform the way in which a business works by using outsourcing to achieve a rapid, sustainable, radical improvement in performance within the enterprise.”

Specifically, the research indicates that an astonishing 95% of the respondents said they plan to use business interaction through outsourcing as a means to bring change into their organization.

Change is becoming so important to large Canadian businesses because of the need to deliver results in much shorter time frames. To do this, large enterprises must look at doing business differently. According to the author of this report... “Insanity is defined as doing the same thing over and over again and expecting a different outcome. Business transformation changes that.”

Given this recognition... that change can be affected through interaction... the question becomes... “With whom should big businesses interact to best affect the desired and required change?”

The Canadian economy is greatly affected by the rapidly changing global environment that has become very sophisticated and unpredictable. There is a growing body of evidence that suggests the entrepreneurial paradigm is the most effective process of transformation within this environment.

According to Gene Luczkiw, Director, The Institute for Enterprise Education in Ontario Canada, “Canadians need to leave behind the mechanistic view of the large organization and begin the process of transforming mindsets into holistic world views that embody entrepreneurial habits. This is a significant paradigm shift that goes to the root of our civilization’s survival and requires a break with mindsets of the past, in order to create an enterprising mindset to deal with today’s emerging realities”.

As John Naisbitt points out in his book Global Paradox, “the bigger the world economy, the more powerful its smallest player”.

The entrepreneur has become the most significant player in today's global environment because of their ability to affect change... this change can occur in many different areas including the large business sector.

***To summarize thus far...***

- In order to compete in today's global economy, large Canadian businesses must be flexible and adaptable; they must be able to change. To affect such change, many Canadian CEO's are looking to interact with SME's.
- In order for SME's to grow and develop, they must form commercial relationships organizations that are stable and reliable. Such organizations tend to be big businesses.

Therefore, business interaction between SMEs and big businesses is of particular importance to the Canadian economy and ultimately to Canadian society.

***The reasons why such interactions are being impeded within the Canadian context.***

However, within Canada, it was our belief that we are suffering from a lack of an entrepreneurial culture; especially, within our youth generation. This lack of an entrepreneurial culture is impeding the development of the SME sector which in turn, prevents significant interaction between SMEs and big businesses.

An entrepreneurial culture is defined as a set of values, attitudes and beliefs that support the exercise in the community of independent entrepreneurial behaviour in a business context.

In 2002, our Centre began the coordination and implementation of one of the largest studies pertaining to youth entrepreneurship in Canadian history. The goal of the study was to determine the attitudes and perceptions of entrepreneurship within the youth population attending university in Atlantic Canada. The study has been completed over a two-year period. Eighteen Canadian universities participated in the study with over 11,000 students being surveyed.

***Some of the key findings were as follows:***

- Entrepreneurs are seen as positive contributors to society, however,
- Entrepreneurship is not viewed as a particularly good career option.
- Interest in the implementation of entrepreneurship across all programming was somewhat low.
- There is little opportunity for students to exercise the following characteristics and skills: risk taking, opportunity identification, responsibility taking, creativeness and innovativeness.
- Career intentions upon graduation relate to pursuing further education, working for government and working for a large business as opposed to entrepreneurial endeavours.

Why is Canada, a country built by entrepreneurs, now suffering from a lack of an entrepreneurial culture?

*Two significant issues during the last century can be attributed to our reduction of an entrepreneurial culture...*



First, the Industrial Age was responsible for creating specialization. Horizontal bureaucracies were created with hierarchical structures that provided a rational means for spreading out work, which led to a proliferation of larger and more stable structures. By dividing up the work and reducing it to specific steps, specializations emerged that led to fragmented departmental structures that imposed and imprisoned participants within a defined function. The entrepreneurial spirit was diminished.

Second, in the past century, Canada competed in the international economy on the basis of its extensive natural resources. We mined raw materials and shipped them out of the country only to have the value-added products of other countries sold and sold back to us.

However, the environment is changing. No longer are our most important resources in our oceans, below our ground or in our forests. Instead, our most important resource is now between the ears of our citizens. The important resource is the unique entrepreneur that exists in us all.

### ***The remedies to allow more interactions in the future***

How does a country like Canada create an entrepreneurial culture?

It is the belief of our Prime Minister, the Rt. Hon. Paul Martin, that one means of creating an entrepreneurial culture is to focus on Canada's youth.

In a recent speech, Prime Minister Martin offered the following advice to our youth...

- First, get international experience as early as possible.
- Second, build your network.
- Third, hold on to your dreams. Creating an entrepreneurial culture starts with each individual's attitudes, values and beliefs. To shift these, we need to challenge, support and inspire. Individuals need to be invited to take part in the challenge of dreaming and having the attitude and belief that they can attain those dreams.

To be more specific... our research is supporting the recommendations of Gibb<sup>1</sup> which suggests the following components contribute to an entrepreneurial culture:

1. Abundant positive role images of successful independent business.
2. Ample opportunity for familiarisation with small business tasks especially during youth.
3. Network of independent business/family contacts and acquaintances reinforcing familiarity and providing market entry opportunities.
4. Provision formally and/or informally of knowledge and insight into the process of independent business management.
5. Opportunity to practise entrepreneurial attributes reinforces by society culture during formative years.

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<sup>1</sup> Gibb, Allan A. Entreprise Culture – Its Meaning and Implications for Education and Training, p. 14.

These are being made available to through an increasing number of University-Based Business Development Centres. There are approximately forty Centres in Canada with traditional mandates of assisting community entrepreneurial development by matching the needs of local SMEs with the resources of the university

Given the recognition of creating an entrepreneurial culture, the mandates of these Centres is beginning to be expanded to assist with the entrepreneurial skill and attitude development of students.

In Canada, many large businesses are realizing the contribution of these Centres to the development of an entrepreneurial culture amongst our youth and are now beginning to assist with financially supporting the programming initiatives at the various universities.

### ***Conclusion...***

- A win/win relationship occurs when Canadian SMEs and large Canadian businesses interact.
- The reason for such interaction is different for the SMEs and the large businesses.
- To ensure future interaction between SMEs and large businesses, Canada must have a significant pool of entrepreneurs starting SMEs.
- To have such a pool, an entrepreneurial culture is required.
- This culture begins with our youth.
- Atlantic Canadian and Canadian universities are beginning to foster an entrepreneurial culture amongst our youth leading to SME development.
- These initiatives are increasing being funded by large Canadian businesses – which ultimately benefit from an enhanced entrepreneurial culture.

Thank you.

**Reports and presentations of  
International Conference “SME and Big Companies Interaction”**

**Russian Federation, Moscow, June 7-9, 2004**

**Theme**

**Introductory Speech for Section 1  
Mechanisms of Integration for Small and Big Business  
(Franchising, Outsourcing and Subcontracting)**

*Don Bureaux,  
Assistant Director,  
Acadia Centre for Small Business  
and Entrepreneurship*

In market driven economies, the traditional organizational structure was established and became popular in the first part of the 20th century, a time, when multi-layered bureaucracies were seen as the most effective and efficient approach to manage large, complex corporations.

Constraints on global transportation, modest education levels among the workforce, and the limited technical ability to collect, display, and transmit information were but some of the factors that led to the creation of a strong, centralized management system where managers did the thinking and the workers employed by the organizations were expected to do the assigned work without a question.

In the traditional organizational structure, the incentives and objectives could be clearly defined and the controlling was easy, as a result of everything in the business process being predictable.

In the modern business environment, technology and globalization are creating unprecedented changes. These changes are creating seemingly infinite opportunities for both businesses and customers. However, the business climate is changing so fast that the speed of change and the sheer number of choices available to companies often overwhelm managers, entrepreneurs and customers alike.

For managers and entrepreneurs, it is important to understand that business success still depends on the basic premise of understanding and satisfying the customer – regardless of whether the “customer” is defined as another business or the final consumer. In both the business-to-business sector and business-to-customer sector - getting the right

product, at the right time, to the right place for the right price, is still the formula that must be implemented.

To implement this formula during this time of change, big businesses are now relying more and more on the following approaches to business interaction:

1. Franchising
2. Outsourcing and
3. Subcontracting.

These approaches to business interaction are in turn contributing to many opportunities for entrepreneurs to plan and operate SMEs.

Further, these approaches result in many advantages for the businesses involved. These advantages include:

- Reaching new customers
- Accessing new technologies
- Pooling capital.
- Building economies of scale.
- Sharing and reducing risk.

Another significant advantage identified in recent research<sup>1</sup> on interactions between SMEs and big businesses is “learning”. While learning has always been an element of alliances, traditionally it has been more or less a secondary concern.

Now, however, more organizations, both large and small, are making learning an explicit alliance goal, right alongside the well-established economic objectives already mentioned.

Furthermore, this kind of learning is fundamentally different from the exchange of proprietary information typical of the business alliances of earlier decades. The nature of alliances has fundamentally changed. Today, there is far less incentive for one party to take advantage of the knowledge capital of the other through temporary alliances, because of an explicit intention to create shared value in the near term, and more effective relationships in the future.

For the next hour and twenty minutes, we are going to discuss the mechanisms of these three approaches of business interaction.

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<sup>1</sup> Accenture Annual “Alliance Issues and Trends” Survey, 2002

## International Conference SME and Big Companies Interaction

### DEVELOPMENT OF SMALL ENTERPRISES IN PERSONAL SERVICES SPHERE



Mr. Iván Ornelas Díaz  
Moscow, Russia  
June, 2004

## INTRODUCTION

To continue improving standards of life of Mexican SMEs and convinced that until today the made efforts represent the precedent that is required to turn into realities the objectives established in the World Economy, Mexico like other Economies are supporting the SMEs to impel their creation, development and integral consolidation, through the implementation of a support system to promote their competitiveness and to create a friendly environment and new entrepreneurial culture, that satisfy the demand of the domestic market and manages to be inserted successfully in the international market.

## MEXICAN POLICIES

Mexico is implementing a support policy for SMEs aimed at enhancing their competitiveness so they can compete successfully in the local and global markets. In this way, SMEs will be able to make a major contribution to the economic growth and sustainable development of Mexico.

The Development National Plan states as an objective of the economic policy of this administration, Growth with Quality. This concept is closely related to the increase of the companies' competitiveness, especially the smaller ones.

The Entrepreneur Development Plan proposes a change focused on consolidating competitive advantages, developing competitiveness and increase the relations among the government and the companies.

## MISSION

TO DRAW UP A SUPPORT POLICY BASED ON A SYSTEMIC APPROACH TO CREATE A FRIENDLY ENVIRONMENT THAT PROMOTES SMES COMPETITIVENESS.

## STRATEGIES

NO LONGER IMPOSES BUREAUCRATIC AND CENTRALIZED-TAKEN DECISIONS ON THE ECONOMIC ACTORS.

IMPROVE HUMAN RESOURCES DEVELOPMENT.

INVESTMENT AND PRIVATE CAPITAL FUNDS.

MECHANISMS THAT STRENGTHEN AND SUPPORT THE DEVELOPMENT OF PRODUCTS SUPPLY.

PROMOTE INTERNATIONAL BUSINESSES THROUGH TRADE AGREEMENTS AND INTERNATIONAL ECONOMIC ORGANIZATIONS.

## POLICIES FOR ENHANCING SMES COMPETITIVENESS

IMPLEMENT A DOWN TOP STRATEGY THAT MAKES SMES OWN INITIATIVES THE BASIS TO PROVIDE GOVERNMENTAL SUPPORT AS OPPOSED TO A TOP DOWN APPROACH THAT CENTRALIZES DECISIONS, THUS PREVENTING THE ENTREPRENEURS ENERGY FROM UNFOLDING.

**POLICIES FOR ENHANCING SMEs  
COMPETITIVENESS**

CREATE THE NECESSARY CONDITIONS TO FOSTER THE COUNTRY'S SYSTEMIC COMPETITIVENESS THAT INCLUDES ENTERPRISES, PRIVATE ORGANISATIONS, GOVERNMENTAL AGENCIES AND INSTITUTIONS FROM THE KNOWLEDGE SECTOR SUCH AS RESEARCH CENTERS AN UNIVERSITIES.

**POLICIES FOR ENHANCING SMEs  
COMPETITIVENESS**

ENHANCE THE DIALOGUE WITH SMEs TO GET MORE INPUTS FROM THEM FOR THE MAKING PROCESS, IMPLEMENTATION, FOLLOW UP AND EVALUATION OF SPECIFIC MEASURES.

EXPAND THE PROCESS OF LIBERALIZATION OF TRADE AND INVESTMENT.

**POLICIES FOR ENHANCING SMEs  
COMPETITIVENESS**

MAKE FINANCIAL AND CAPITAL MARKETS MORE ACCESSIBLE TO SMEs BY DEVELOPING SCHEMES IN ACCORDANCE WITH THEIR SPECIFIC NEEDS:

A GUARANTEE CREDIT SYSTEM  
MICRO LOANS  
VENTURE CAPITAL

REGIONAL AND SECTORIAL INTEGRATION.

**POLICIES FOR ENHANCING SMEs  
COMPETITIVENESS**

DEVELOP HUMAN CAPABILITIES AND SKILLS.

INNOVATION AND TECHNOLOGICAL DEVELOPMENT.

FOSTER THE USE OF THE INFORMATION AND COMMUNICATION TECHNOLOGIES.

FURTHER A MORE ACTIVE PARTICIPATION FROM THE PRIVATE SECTOR REPRESENTATIVE ORGANISATIONS AND OTHER APEC GROUPS IN THE PROGRAMS FOR SMEs.

**POLICIES FOR ENHANCING SMEs ACCESS TO  
INFORMATION**

As you know The SMEWG works together in a synergic way, between APEC member economies in order to facilitate the information access for SMEs.

Information sharing is essential for keeping track of well-known and new issues that affect or slow down SMEs' development in the APEC region. For that reason, one of the projects from the SMEWG is to create a Portal Hub by means of which member economies can access to information and share its best practices.

**POLICIES FOR ENHANCING SMEs ACCESS TO  
INFORMATION**

The Mexican Ministry of Economy will establish advice and technical assistance mechanisms for the SMEs, taking advantage of retired persons from the public and private sector (entrepreneurs, high-ranking executives, technicians, and officials), so that they get involved in supporting the companies' competitiveness development.

### **POLICIES FOR ENHANCING SMEs ACCESS TO INFORMATION**

The SMEs will have easier access to information, so that they can improve their decision-making processes. Information technology and immediate remote communication provide a new scope to the information field. This scope goes beyond the traditional concept of access to information. It allows companies to include different types of training, more efficient ways of management, and carry out businesses in a direct way. And so it generates additional competitive advantages for the companies that use this technological alternative.

### **POLICIES FOR ENHANCING SMEs ACCESS TO INFORMATION**

The Ministry of Economy will consolidate an information system (called "Contacto PYME") intended to cover the small and medium size company requirements, promoting the generation, distribution, and use of economic and entrepreneurial information, as well as the use of technological and computing applications adequate for these companies. This information system should be accessed easily by the MS&MSCs, and should allow the entrepreneur get knowledge about options to access information technology tools.

To promote access information for SMEs the Mexican Ministry of Economy have the follow instruments and services: Personal Services, Exports Promotion Services and Training Services.

### **PERSONAL SERVICES**

#### **FIRST CONTACT ENTREPRENEURIAL ADVISER CENTER (FIRST STOP SHOP)**

Its purpose is to offer to the businessmen an integral service of information about procedures for the business opening, federal government's support programs, business opportunities orientated in foreign trade and on the free trade agreements.

To obtain this information, the companies can attend to the information center offices, or they can outline their consultation by phone, by e mail and by conversation forums.

### **PERSONAL SERVICES**

#### **SME'S CONTACT HALL**

The information hall is an essential resource to the enterprises development, due the SME's Contact Hall provide consultancy of the following themes:

- ✓ General information about normative areas of the Ministry.
- ✓ Entrepreneur procedures to federal, state and municipal level for initiate or operate a business.
- ✓ Consultancy in international trade.
- ✓ Promotion programs provided by the Federal Government to give support to Mexican SMEs.
- ✓ Orientation about offers and demands of products and services to national and international level.

### **PERSONAL SERVICES**

#### **SME'S CONTACT HALL**

- ✓ Consultancy about the FTA's of Mexico.
- ✓ Identification of clients and providers of raw materials, consumables, goods and services.
- ✓ Consultancy about the constitution of commercial societies.
- ✓ Information about international commercial negotiations.
- ✓ Consultancy about internal commerce.

### **EXPORTS PROMOTION SERVICES**

#### **SME EXPORT CENTERS (Centros PYMEXPORTA)**

#### **OBJECTIVE**

The Centers provide specialized attention in external trade matters through a work methodology which allows SMEs support that starts export activities or desire to penetrate in other markets.

#### **INSTALLATION**

For the installation of PYMEXPORTA Centers have been promoted to seal agreements with State's governments, town councils and some organisms.

## EXPORTS PROMOTION SERVICES

### MODULES OF ATTENTION TO THE EXPORTER (MOES)

#### OBJECTIVE.

Provide free orientation and personalized consultancy, information and assistance to the election of a susceptible product for exporting, help to determine the exporter potential of the enterprises and detect the stage of an export process consolidating them in organizations and institutions with specialized consultancy.

Likewise, provide, to the export entrepreneurs or want to export in this origin place all the available information on foreign trade.

## EXPORTS PROMOTION SERVICES

### EXPORTS PROMOTION JOIN COMMISSION (COMPEX)

#### OBJECTIVE.

COMPEX is a commission that promote exportations.

#### INTEGRATION.

Is integrated by public and private sectors which aim is to make actions among them in order to coordinate and agree on relative actions to export and simplify the administratives and technical obstacles of foreign trade.

## EXPORTS PROMOTION SERVICES

### EXPORT INCUBATORS

#### OBJECTIVE.

The objective of this program is increase the promotion of the SMEs able to export to international markets, through a supporting temporary frame that supports the exportable goods, promotion, commercialization and distribution of its products.

The program responds to the necessity and increasing interest of the SMEs to enter to the international market, in order to take comparative advantage and benefits of the diverse Trade Agreements or Trades which Mexico has signed with some others countries and to develop products with export quality.

## EXPORTS PROMOTION SERVICES

### EXPORT INCUBATORS

In the same way, envisage the infrastructure spaces creation to the promotion and/or product's storage and the handle inventory service that includes advising and regional studies, entrepreneurial training, international marketing, and the production costs determination.

## TRAINING SERVICES

### NATIONAL COMMITTEE OF PRODUCTIVITY AND TECHNOLOGICAL INNOVATION (COMPITE PROGRAM)

The aim of this program is to raise the levels of productivity of micro , small and medium Mexican manufacturing industry, with the application of a consultancy of fast intervention.

Is given by professional consultants, through the execution of theoretical-practical workshops applied intensively for four consecutive days.

The consultants analyze and suggest jointly with technical personal of the enterprise, improvements to the operation of the enterprise related with their production systems, stock list, distribution and space of the place.

## TRAINING SERVICES

### NATIONAL COMMITTEE OF PRODUCTIVITY AND TECHNOLOGICAL INNOVATION (COMPITE PROGRAM)

Their mission is to develop through the especialized Consultancy and Training, SME's highly efficient and productive with elevated standars of quality and social responsibility, as well as training their staff to assure their productivity and permanence

COMPITE offers its services by 200 External Consultants, with great capacity and experience that provide national cover to all services.



### TRAINING SERVICES

#### NET OF REGIONAL CENTERS TO THE ENTREPRENEUR COMPETITIVITY (NET CETRO-CRECE)

The aim of this net is to provide entrepreneur services orientated to evaluate the competitive position of the enterprise, to identify their opportunity areas and the alternative ways to increase the productivity of the enterprises, to link the enterprises with the external consultancy services and the institutional financing.

The services offer by the net are:

- ✓ Integral consultancy.
- ✓ Entrepreneur training.
- ✓ Consultancy in groups.
- ✓ Feasibility studies.

### TRAINING SERVICES

#### NET OF REGIONAL CENTERS TO THE ENTREPRENEUR COMPETITIVITY (NET CETRO-CRECE)

- ✓ Market studies.
- ✓ Sectorial analysis.
- ✓ The services apply to SMEs of the commercial, industrial and services sector that have the next characteristics:
  - ✓ With 100% of Mexican capital.
  - ✓ at least 1 year functioning.
  - ✓ constituted legally agree with the Mexican laws.
  - ✓ Financial links.
  - ✓ External consultancy.

### TRAINING SERVICES

#### ENTREPRENEURIAL LINK CENTERS

The Entrepreneurial Link Centers are an basic attention network to the SME's and its objective is to promote the entrepreneurial formation. This centers make out to be easier and induce the use of information between the SMEs through personal and direct attention, so in that way it will be bound with the technological innovation alternatives to support them to increase its competitiveness capacity through entrepreneurial informatic tools in supplies, inventories, sellers, accounting, financial analysis, tax affairs as well as productive and administrative process .

### TRAINING SERVICES

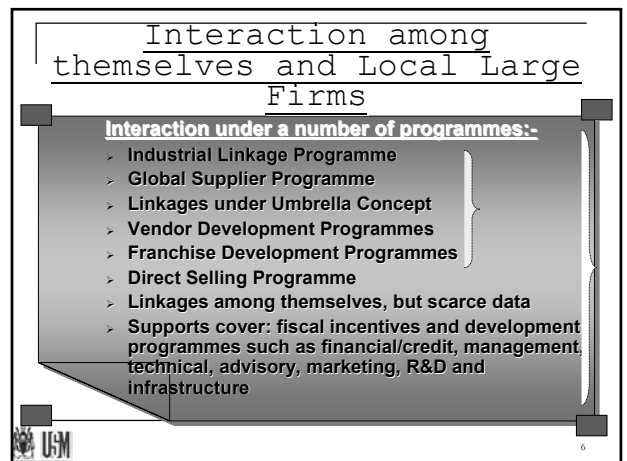
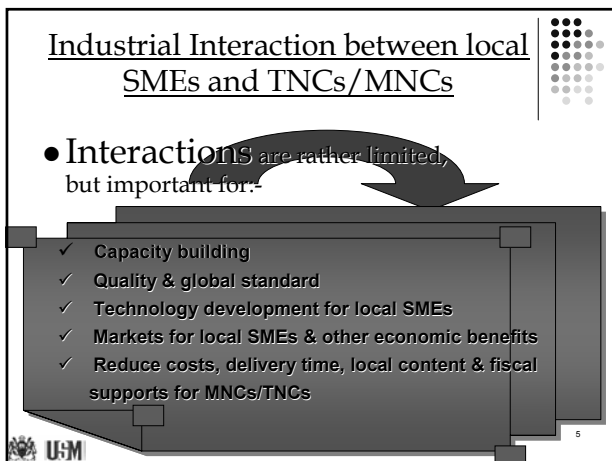
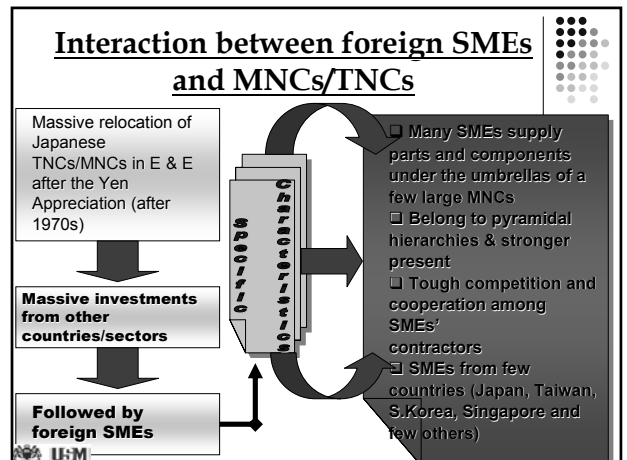
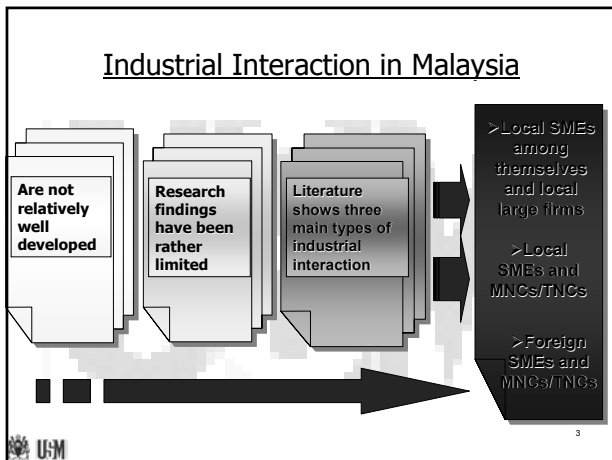
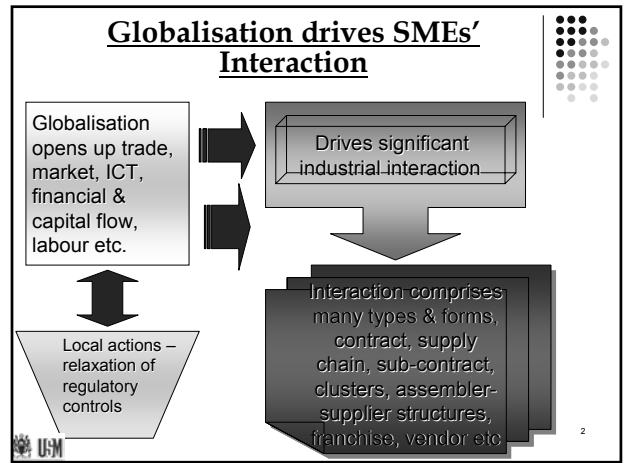
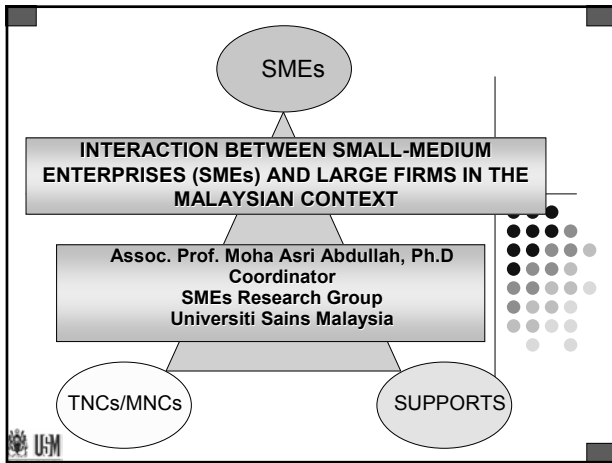
#### ENTREPRENEURIAL LINK CENTERS

This centers have three branches:

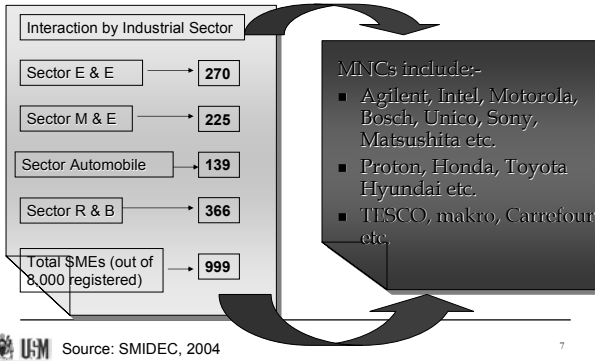
- Training and information
- Advising and consultancy
- Businesses opportunities

### SMEWG MEXICAN PROPOSAL

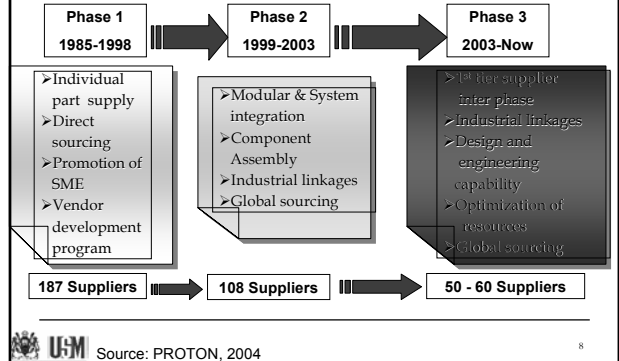
We propose to continue an increasing cooperation with other APEC Groups and private sector, and focus on the achievement of short, medium and long-term goals to support the development of SMEs and to facilitate the information access in the APEC region and the development of the New Economy.



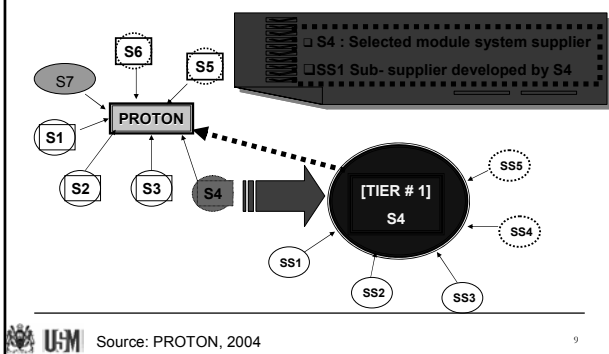
## STATUS OF INDUSTRIAL INTERACTION



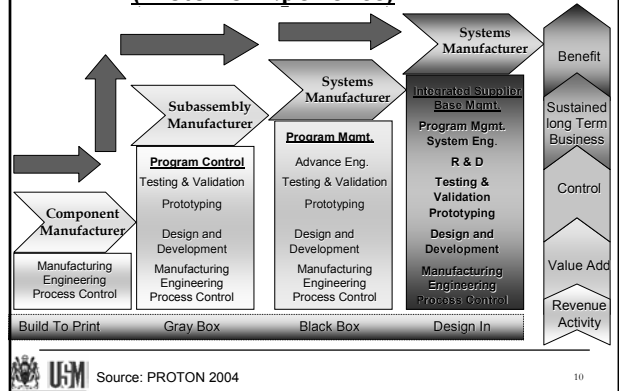
## SOURCING APPROACH - OF INTERACTION (Proton's Experience)



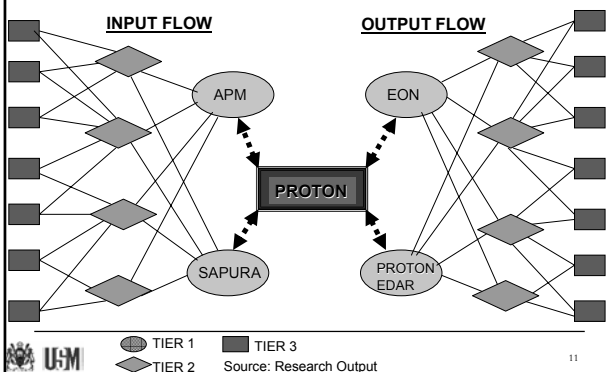
## SUPPLIER DEVELOPMENT PROGRAMMES - THE EVOLUTION OF INTERACTION (Proton's Experience)



## Sourcing Approach-The Evolution (Proton's Experience)



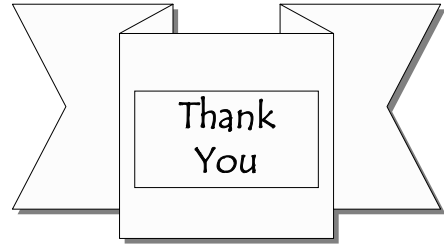
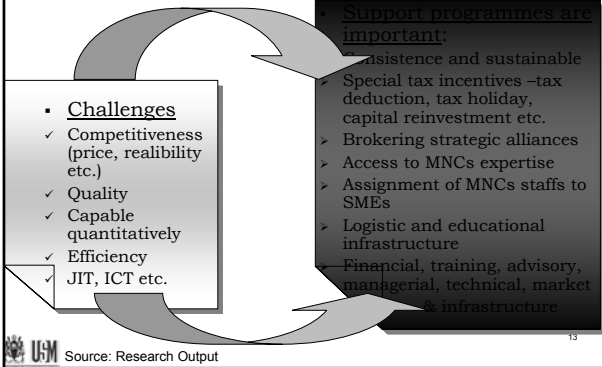
## FRAMEWORK OF INTERACTION - (Proton's Linkages)



## Requirements for SMEs to be INTER-ACTION ready

- Competent & capable with quality products in time
- Attitude (+ve & willing to change & adopt)
- Skilled and innovative to absorb and apply technologies from foreign partners
- Responsive towards technology, market & design
- Stable vision for future expansion & outward looking

## Policy Implications



**Reports and presentations of  
International Conference “SME and Big Companies Interaction”**

**Russian Federation, Moscow, June 7-9, 2004**

**Theme**

**«INTERACTION OF VERTICALLY INTEGRATED AND “INDEPENDENT” OIL  
& GAS COMPANIES: RUSSIAN EXPERIENCE»**

*V.I. Graifer,  
Chairman of the Board of Directors of OAO “LUKOIL”,  
General Director of OAO RITEK*

Interaction between large, small and medium size businesses is a major indicator, which, on the one hand, reflects sustainability in the economic and social development of the country, and on the other hand, reflects commitment of society to democratic values.

Large companies make up the backbone of the national economy, while small and medium size firms are its muscular tissue. The former help in implementing globalization advantages and the latter avert threats, which globalization brings to the nation state.

In other words, large business promotes the competitiveness of the national economy, small and medium size business preserves social stability and promotes efficient use of material and financial resources accumulated in the country.

Whatever a definition of “small and medium size business” may be, its characteristic trait lies in insignificant volume of controlled human, material and financial resources. As a rule, such companies are densely situated, they have a simple organizational structure with a single-purpose type of activity.

They succeed in preserving their independence mainly thanks to new hi-tech products and specific services they render. In the oil industry such a “niche” for small and medium size businesses lies in depleted field development and difficult oil reserves development, in rendering service and conducting R & D and experimental activity.

If we take hydrocarbon reserves development in dynamics, we’ll see that the process begins with one or more major producers entering the prospect oil & gas province. They invest significant resources into geologic exploration as well as construction of large transportation infrastructure objects – rail- and motor-roads, pipelines and oil terminals.

At this point the key object lies in securing complex oil & gas province development, and such conditions that oilfields situated on this territory will be developed at most efficient.

As time moves on oilfields begin to exhaust. Well yield goes down and reserves structure deteriorates. Major companies leave “ageing” oilfields thus giving place to small and medium size enterprises.

The latter enjoy the accumulated geological information and the existing transportation infrastructure. At the same time, they invest significant money into extraction of remaining recoverable reserves as well as implicating of nonoperating well stock and maintaining of social stability at the enterprises.

In those world regions where such a division of labor exists relationship between large and small and medium size producers is rather harmonic. A vivid example in this case can be the oil & gas industry of the USA.

All of us are used to identify it with giant corporations, such as ExxonMobil, ChevronTexaco, ConocoPhillips. However, in fact 85% of prospecting work, 66% of gas production and 40% of oil production in the US are executed by “independent producers” – extractive companies who do not have their own refineries.

Most of them produce raw in continental parts of the USA, while large vertically integrated corporations prefer to work in Alaska and offshore in the Mexican Gulf, where prime oil & gas fields are situated.

Today the same system of relationship between large and small oil businesses is being formed in this country. Though there are certain differences between Russia and the US. In the US small enterprises were initially set up as independent market players. Through the 20<sup>th</sup> century they’ve been constantly proving economic efficiency of their existence.

In Russia large as well as small oil companies were establishing on the basis of the formerly united production complex. This country is unique by the following: along with two main strategies of oil business development – vertical integration and specialization- there was one more – “privatization” of a separate production function.

In the early 90-s of the last century there were a great number of small oil firms in Russia. Their owners bore no relation to the oil business, though due to their lobby potentials they got access to some oilfields, pipelines and trans-shipment nodes. Operations of such firms caused great damage to the interests of the Russian oil industry.

Simultaneously throughout the last decade Russia has formed a certain class of small oil & gas companies specializing in extraction of raw materials using high technologies. Due to specific character of the Russian oil industry development most of them were either affiliated with vertically integrated companies or formed with the participation of foreign investors.

The oil industry in Russia is currently undergoing significant structural changes. Come-and-go firms cease to exist, their assets are taken over by large vertically integrated

companies. At the same time, smaller oil companies strategically oriented towards specialization, receive new opportunities for development – now as truly "independent" market participants.

Such companies, including RITEK, operate in the Volga region, the Kama region, the Komi republic and West Siberia on smaller fields with difficult oil and declining production. Due to the state-of-the-art technologies, they attain high levels of production indicators, and maximum efficiency in the usage of the resource base.

Their experience is indispensable in the regions, abandoned by large businesses, looking for new large-scale projects with high internal rates of return. Just like their colleagues abroad, Russian vertically integrated companies become more and more active in the new regions – the north of the Timano-Pechora region, East Siberia and the Sakhalin, Kaspian and Barents sea shelves.

Meanwhile, such companies receive more and more assets, which decrease the total business value and can be transferred to other subsoil users. For instance, LUKOIL, taken separately, is prepared to provide user licenses for certain territories with at least 30 hydrocarbon fields to small specialized companies.

Those are generally well developed sites located in the proximity of the existing transport infrastructure. They do not require large capital investments and can yield a stable revenue. It is such fields that can become basis for development of small and middle-size oil businesses in Russia in the coming several years.

However, in order to draw real division of responsibilities between vertically integrated and "independent" companies, at least two fundamental conditions must be met.

First of all, the Russian legislation must very clearly define the mechanism of assignment of user licenses for fields of reserves without a second tender or auction. The first step towards establishment of a secondary reserves market may be a change of relations between the state and the subsoil user making such relations less administrative and more civil.

Additionally, it is necessary to provide adequate conditions for efficient processing of the crude produced by the "independents". Companies, which do not have access to Russian oil refining capacities, should be able to export 100 per cent of their products. Otherwise, the procedure for collection of mineral extraction tax, tied to the world oil prices, must be reviewed.

It is obvious, that the issue of free access of "independent" producers to export capacities is directly connected with the prospects of development of the Russian pipeline system. During the coming 10 years, oil production in Russia will reach 500 to 550 million tons annually, while domestic consumption will not exceed 200 million tons per year.

If Russia doesn't launch implementation of new large-scale export projects in the coming several years, not only small and medium-sized oil producers, but large ones will be experiencing difficulties.

"Independent" gas producers are facing similar problems as well. The only difference is that in this case the problem is not access to the international market, but access to Gazprom gas pipelines. Currently, the procedure for access of Russian main gas pipelines is very complex and nontransparent.

Companies which have necessary funds and technologies for development of gas fields, have no guarantee that their products will be marketed. This hinders development of gas production capacities, and in time, will lead to gas deficit in the domestic market.

I would like to stress that the listed problems are relevant for all representatives of Russian oil and gas business. Balance between companies of various "weight categories" is a prerequisite for stable development of Russian oil industry.

Fortunately, the companies realize this now and feel growing dependence on each other in terms of finance, production and technology.



**Тезисы выступления на Международной конференции  
«Взаимодействие малого и крупного бизнеса»**

**Российская Федерация, Москва, 7-9 июня 2004 г.**

**Theme**

**“The Chinese government actively promotes the common development of both SMSs  
and big enterprises”**

*Guo Jianping, Liu Yi*

Honored President,  
Ladies and Gentlemen,

I am very glad to attend this conference held in Moscow and very honored to have this opportunity to discuss the topic about the cooperation and interaction among SMEs and big enterprises.

In the modern world, the economic and social positions of SMEs become more and more important. SMEs play a very important role in increasing employment, enriching markets and stabilizing the society. In recent years, the Chinese government push forward the restructuring of the big State-owned enterprises on the one hand, and on the other hand always spares no effort to stimulate the development of SMEs.

Today I'd like to introduce the development of SMEs and their cooperation with the big enterprises in China. My topic includes the following three aspects:

1. The general aspects of SMEs in China;
2. The development of industry clusters of SMEs in China;
3. The concerned policies and initiatives of the Chinese Government;

(1) The General Aspects of SMEs in China

According to the standards about SMEs promulgated in China in 2003, the so-called SMEs mean those enterprises whose employees are above 2000, or annual turn-outs are below 300 million RMB (about \$35 million), or total assets are below 400 million RMB (about \$50 million).

In recent 20 years, the SMEs in China develop very fast. Nowadays, the SMEs with less than 1000 employees accounts for 99.4% of all 3.02 million units of legal enterprise persons in China, and 99.8% of all of 1.34 million industrial enterprises. The values of

final products and services of SMEs in China accounts for more than 50% of GDP. The exports of products, technology and service of SMEs are about 60% of national total export. SMEs supply 43% of national total tax and more than 75% of employment in the Chinese towns. Therefore the Chinese government has been realizing that the SMEs play a very important and unique role and need the support and incentives as those big ones.

The problems and difficulties the SMEs are facing include:

Since China practices the policy of reform and opening-up, the rapid development of the eastern coastal part of China has brought a lot of opportunities for the SMEs. Now SMEs are transferring from labor-intensive industries to technology-intensive industries and are making restructuring and upgrading the industries. Their demand of technology is changing from the applicable technologies to high and new technologies. But most of SMEs in the western part lack even the applicable technologies and is still in a preliminary and lag-behind stage.

(1) Policies:

Because of the influence of the planning economy system for decades, most of the State favorite polices have been benefit for the State-owned medium and big enterprises and rare initiatives for the SMEs, especially private SMEs.

(2) Difficulties in fianacing: It lacks financial institutions for the SMEs and financing channels.

(3) Imperfect service market: The intermediary market is still in need of being normalized, and the special service system and network at both national and local levels is still imperfect.

(4) Low technology level: the production equipment and technology of most SMEs are at the level of 70's or 80's of last century, and it lacks technology innovation investment.

## 2. The Development of Industrial Clusters of SMEs

In recent years, the enterprises clusters with definite marketing position, and unique products have been emerging in some parts of China. Those industrial clusters are mainly some groups of enterprises which have close resource exchange relations in finance, personal, technology, information. Inside these enterprises are independent producers related through the market; and outside operate like a mega-enterprise by union.

The industrial clusters are not simple concentrations but industrial groups based on specialization and social cooperation. In those groups big enterprises and SMEs co-exist and co-develop. Therefore it forms ecological groups in the co-existing and complementary way.

The Yangzhi delta River industrial cluster and the Zhujiang delta industrial cluster have been formed.

The industrial cluster phenomena of clothes industry are very obvious.

The SMEs industrial clusters have unique advantages over the big enterprises.

## 3. The Chinese Government Supports the SMEs to develop with the Big ones

(1) To make the favorite initiatives to promote the SMEs' development

- (2) the beneficiary development environment created by the Chinese Government for the SMEs
- (3) to guide and support the SMEs to realize “specialization, high-quality, uniqueness and innovation”.

**Reports and presentations of  
International Conference “SME and Big Companies Interaction”**

**Russian Federation, Moscow, June 7-9, 2004**

**Theme  
“Business development in our SME networking”  
(Grounded Research, 2003 – 2004)**

*Mr. Hardono*

**A. BACKGROUND**

Since Suwastama established in 1997, this company has carried out some efforts to develop and improve every aspect one the system, mind and paradigm. At the beginning, Suwastama was a small enterprise with a small place, a few human resources and capital. Although Suwastama only have 4 framing group and 10 weaver, but in Suwastama blue print (dream) do retain a fundamental spirit: Handling and overcome the big and small order by the same way. The way to improve quality, delivery and to keep the price competitively. But there are the aspects to make different: The outstanding value of each human resources spirits to increase the production capacity to get small enterprise to middle or even to bigger enterprise.

With Fundamental spirit, Suwastama’s spectacular historical company journey has begun. Suwastama have a good spirit to get in industrial handicraft as the Winner. The Winner Goal is not to defeat other competitive company, but to breed the spirit of each of internal human resources to overcome all of handicraft, treatment and to be able to reach out every opportunity.

The first step of the long historical journey is the improvement on the small enterprises to a small factory in September 1997, exactly in Slamet Riyadi 280 Gumpang Kartasura. In open land of 5000 m<sup>2</sup>, with 100 local people was recruited to keep a warm and friendly relationship with the community. In February 1998 (the 5 th month operation) Suwastama has started a new development. A new factory in Babad Manang village was engineered in a land of 5000 m<sup>2</sup>. Approximately 150 local people was recruited.

With magnificent spirit to become The Winner in every employee, the 11 th month from February 1998 exactly January 1999 another factory was built in Salakan. Upon 5000 m<sup>2</sup> open land and another 100 human resources was recruited.

With deeply spirit to empowered small enterprise Suwastama has build an another factory in Transang as a warehouse not as production building to maintain a fluent communication and business relationship between Suwastama and each Supplier. With an experience to manage 4 factory (Gumpang, Cemani, Transan, Salakan), Suwastama have

design and industrial handicraft blue print. To pursuit on the blue print, in one and a half year Suwastama has built The New Factory in 20.000 m2 open land. An industrial handicraft will application with improvement of production capacity, quality, mind, behavior and paradigm.

In the present day, Suwastama have one dream or company goal setting: To be excellent provider and the best effort in customer service of industrial handicraft with change of mind, paradigm, Behavior and production process from traditional handicraft to modern/industrial handicraft. And all of our process base on to maximizing value addition, sales turn over and profitability with machinery development and minimum capital expenditure with deeply concern of high quality, environment friendly (green product), competitive price and on time delivery.

#### B. SUWASTAMA VISION

Being The Best Company To Fulfill Customer Satisfaction With Change Of Mind, Behavior And Manufactory Process Basicly Environment Friendly Product According To Customer Desire

#### C. SUWASTAMA MISSION

To Fulfill Customer Demand Appropriate Customer Desire About Quality, Environment Friendly Product, Competitive Price And On Time Delivery So There Is Additional Value Which Useful To Human Resources Welfare And Business Relationship For Mutual Advantage

#### D. RESEARCH SCOPE

1. Field of Human Resources Development in Our Small Medium Enterprise (SME)
2. Field of Production Capacity at Our Small Medium Enterprise
3. Field of Order at Our Small Medium Enterprise
4. Development System

#### E. PURPOSE RESEARCH

1. See the actual situation at Small Medium Enterprise (Central, East, Java)
2. Empowerment of Small Medium Enterprises
  - Capital, Market, System, Human Resources Development, Quality, Capacity

#### F. AREA

Central Java, East Java, West Java and Others

#### G. IDENTIFICATION :

CUSTOMER REQUIREMENT TO OUR SME

1. Environment Friendly (Green Product)
2. High Quality
3. Low Price
4. Good Delivery and Fulfillment

## 5. Excellent Services

### **H. SUWASTAMA POLICY :**

#### **TO FULFILL CUSTOMER REQUIREMENT IN SME**

Based on business tend in globalization era, all of our SME should be empowered to get good performance. Performance about quality, delivery, order fulfillment and competitive price. Today we have about 450 SME (west, central and east java). Each suppliers have 40 – 50 worker/people, so we have about 6.000 - 10.000 human resources in outside. From SME of raw materials until SME of completely product.

#### **Environment Friendly (Green Product)**

The whole environment system provides management tools for SME to control their environmental aspects and to improve their environmental performance.

1. Environment Awareness Training And Workshop To Supervisor, Group Leader And All Operators
2. Implemented 9 Habits In Every Production Line As Identity Of Suwastama (IDS). (“Resep Baik = Good Prescribes” : Work Culture à Rapi (Neat) Efisien (Efficiency) Sehat (Health) Efektif (Effective) Produktif (Productive) Bersih (Clean) Aman (Safe) Inovatif (Innovative) Komunikatif (Communicative))
3. Environment Review At SME. We Build West, Central And East Java Environment Team. Our Team Will Check About : Quality, Delivery And Working Environment Every 1 – 2 Weeks At Our SME.

Together, these program can provide significant tangible economic benefit, including :

1. Reduced raw material/resource use
2. Reduced energy consumption
3. Improved process efficiency
4. Reduced waste generation and disposal costs and
5. Utilization of recoverable resources

#### **High Quality**

1. Recently, we have quality management system to give good program to improve our SME production process.
2. We have implemented regular program to inspect and give help their product result
3. We have implemented whole inspection system : receiving/incoming inspection, In-line/process inspection and final inspection to secure all of our SME product to deliver our customer
4. We Have Implemented Quality Management System (QMS ISO 9001:2000)
5. We Have Quality Team At Our SME To Secure Our Incoming Inspection (West, Central And East Java)

#### **Good Delivery and Fulfillment**

We have monumental research to increase our production capacity. In our research we find “INTEGREATED TABLE” to make frame (furniture). We can increase our capacity until 650%. Today we have industrial handicraft system. We have good value when we aplicated industrial handicraft system. High capacity, high quality, good waste handling, building team minded are industrial handicraft added value.

**Herewith our resume about our research:**

TRADITIONAL SYSTEM IN OUR PRODUCTION

1. Low/Middle Capacity
2. Manual Work
3. Bad Waste Handling
4. Individually Minded
5. Environment Not Good
6. High Cost

New Suwastama System In Our Production

1. High Capacity
2. Using Machine
3. Good Waste Handling
4. Building Team Minded
5. Environment Friendly
6. Efficient

**Low Price & SME Relationship**

1. Long term view with close system to secure their quality, capacity and price.
2. SME cooperation (not just a client)
3. To create something UNIQUE in cooperation with SME (mutual advantage)
4. The foundation for long term cooperation
5. Offer better healthy product, good and clean
6. Leading with lowest price (low price with meaning!)

**Excellent Services : Strategy in Globalization Era**

1. Improvement in productivity, quality and time deliver
2. Deeply concern with environment aspect
3. Good social approach
4. To sustained improvement in environmental health and safety
5. Systematically of Human Resources Development
6. Excellence of Waste Management

**Reports and presentations of  
International Conference “SME and Big Companies Interaction”**

**Russian Federation, Moscow, June 7-9, 2004**

**Theme**

**“On the development of the cooperation relation between large enterprises and small enterprises”**

*Nguyen Thi Minh Hue,  
ASMED-MPI of S.R. of Vietnam*

**I. OVERVIEW OF ENTERPRISE DEVELOPMENT IN VIETNAM**

**1. SME: private enterprises**

The Government of Socialist Republic of Vietnam has identified small and medium enterprises (SME) as main engine of growth for the national economy in the new millenium. Over the past 4 years (2000 – Feb 2004), as many as 88,264 enterprises have established with total registered capital of 136,538,011 million VND, which is 2.2 times in terms of number of enterprise and 5.3 times in terms of total capital of those for the period of 1991-1999. The remarkable point was that SME sector has generated 1.5 million new jobs, contributed 26% of GDP, 31% of total industrial production, 78% of total retail revenues, 64% of total transportation volume, employed 49% of non-agricultural workers in rural areas, about 25-26% of total workforce. By now, total registered SME reaches approximately 120,000 (not to mention 15,000 cooperatives and as much as 2 million economic household).

**2. Large enterprises:**

Large enterprises in Vietnam mostly consist of two types of ownership, state-owned enterprises (SOE) and trans-national corporations (TNC) which have operations in Vietnam.

**a. SOE:**

The SOE reform process brings about 4,722 enterprises in Vietnam for the time being. It is planned that by the end of the year 2005, this figure will be reduced to 1,931 enterprises with 100% state ownership, 2,791 other enterprises will be restructured among which 2,053 SOE will be equitized and 738 others will be contracted, sold or dissolved, bankrupt. There are 91 [state-owned] general corporations, which will be the basis for the establishment of trusts in the areas of petrol and oil, post and telecommunication, airways...

**b. Foreign-invested enterprises:**

After 16 years implementing the Law on FDI in Vietnam, there is currently 4,376 active FDI projects in Vietnam with total register capital of 41 billion USD with strong focus in industrial and construction sector, which accounts for 66% of total projects and 57.2% of total register capital. The according figures for the service sector are 19.5% and 35.8%, figures for the agri-forestry-fishery sector are 13.6% and 7%. At the moment, 64 countries and territories have investment in Vietnam. With the annual growth rate of more than 20%, FDI sector contributes 36.2% of total industrial production, which helps enhance the national industrial growth.



## **II. FACTORS WHICH HAVE IMPACT ON SME-LARGE ENTERPRISE COOPERATION:**

According to our survey, these factors are: policy framework, market growth rate and technological factor.

### **1. Advantageous factors in accelerating SME-large enterprise cooperation**

#### **a. Success of economic reform in Vietnam**

Vietnam's economic reform, basically transforming from a centrally-planned economy into a socialist-oriented market economy, has gained remarkable achievements in sustaining the high growth rate, attracting FDI and developing business in all sectors. Over the past few years, the market growth rate has urged the cooperation between SME and large enterprises. The quick jump both in quality and in quantity of SME has helped meet the large enterprises' demand by supplying input material, sub-contracting, distributing products.

#### **b. Enterprise development policies**

The National Assembly promulgated the Enterprise Law in the year of 1999 with clear, open and more conducive regulations on the establishment of new enterprises, which led to rapid growth in terms of business registration (mostly private enterprises). In 2001, the Government promulgated Decree 90/2001/ND-CP on promoting SME. Decree 90 is the fundamental legal framework for SME promotion by introducing SME support policies and programs including those for boosting up the cooperation among SME themselves and between SME and large enterprises.

#### **c. The introduction of VAT system since the year of 2000**

The previous revenue and income tax were big barriers to workers assignment among enterprises. All inputs were not deducted from tax and suffered from double taxation. One enterprise's output and at the same time being one another's input will be subject to taxation at both enterprises. Therefore, the cooperation between enterprises which adds value into production chain and increases the total amount of tax to be paid substantially deters business cooperation. VAT system has considerably overcome this situation.

### **2. Difficulties in enhancing SME-large enterprise cooperation**

#### **a. In terms of policy:**

Despite of the fact that Vietnam has attained some achievements in creating an enabling environment for enterprises but the openness of the country is limited.

- Strict regulations in procurement greatly hinder SME in providing inputs as well as subcontracting for large state-owned enterprises (SOE).

- Policies regarding the establishment of general corporations have some influence on the cooperation between small business community and large business community. Vietnam's SOE were restructured in 1990s as general corporations with most business and production activities given to member enterprises. In most of the cases, these member enterprises run less

efficient compared with independent enterprises though being provided with more benefits from mother corporation. Therefore, it is difficult even for a highly-competitive, efficient-running SME to associate with a general corporation consisting of series of inefficient member enterprises.

- Vietnam trade policy has some negative impacts on the SME-large enterprise cooperation as well. The highly-protective domestic production together with the imposition of high import tariff onto goods produced by SOE induced these enterprises to import production inputs instead of to utilize the SME source.

#### b. Market size

Market scale grows rapidly but still of small size in comparison with foreign markets, this in turn limits the cooperation between SME-large enterprise. This is due to the fact that market dispersion and illegally-imported goods drive SME into trade and service. These sectors do not foster SME's sustainable comparative advantage in relation with large enterprises.

#### c. Technology factor

The uneven technological difference between SME and large enterprise is a fundamental factor deterring the cooperation as well. SME are required to meet the quality standards raised by large enterprises. However, it is quite common for Vietnamese SME to apply obsolete technology and small production therefore they cannot satisfy the quality conformity for highly-advanced large enterprises.

Another contributing factor is the lack of products quality and standardization system which can serve as common social norms for product circulation between SME and large enterprises.

The urgent need for Vietnamese SME is to be supported by the State and large enterprises to conform strictly with international and regional standards in an attempt to enhance the competitiveness.

### **III. MODALS OF BUSINESS COOPERATION IN VIETNAM**

The rapid change in technology during the past years together with Vietnam's economic renovation in light of globalization has accelerated the interaction between SME and large enterprises, leading to different forms of cooperation with strong focus in 3 following modals:

#### a. Networking:

Networking is often based on professionalization of different processes in production chain starting from material input, production processes and product consumption, distribution. Networking of small, medium and large enterprises can be established through information exchange, commercial transaction (supplier-consumer), sub-contract, product distribution system... This modal requires no geographical proximity among enterprises. General corporations often choose this modal by contracts with SME to seek semi-finished products or to sell products. These large SOE decentralize by networking with SME instead of implementing all processes of production chain in order to raise business efficiency. The concrete forms of this modal is enterprise union, sectoral business association, sub-contract... Networking modal is based on the core-large enterprise and the satellites-SME. Unilever Vietnam is a typical example with a network of more than 300 satellite companies, mostly SME, and all run efficiently.

#### b. Industrial zone/industrial cluster

The linkage between large enterprises and small enterprises in industrial zones, industrial clusters is based on enterprises' geographical proximity. After 15 years implementing FDI Law, Vietnam has been attracting a big flow of FDI. These FDI projects have urged the establishment of industrial zones, export processing zones in Vietnam. With nearly 90 industrial zones, export processing zones and small-scale industrial clusters scattering throughout the country, the efficient business relations have been established between large FDI enterprises and Vietnamese SME.

Most of these relations are spontaneous and without State intervention. However, the State role in developing physical premises for industrial zones, industrial clusters is a precondition for this kind of cooperation.

#### c. Strategic business partnership

FDI Law stipulates 3 types of investment: (i) 100% foreign investment, (ii) joint-venture, (iii) business cooperation contract. The latter two indicate business partnership between foreign investors and Vietnamese enterprises.

TNC were indeed present in Vietnam quite early and are providing capital flows and opportunities for Vietnamese SME. TNC operating in Vietnam such as Intel, Motorola, Toyota, Unilever, Sanyo, Shell... all have developed system of providers by training, which helps upgrade SME management and technology. But generally speaking, this relation is still weak.

### **IV. GOVERNMENT ROLE IN ACCELERATING THE COOPERATION**

Above analysis shows that the cooperation between large enterprises and small enterprises derived from cost-benefit motive. Policy framework which conduces free competition and minimize state intervention will create favorable conditions for this cooperation.

In light of more boosting up the cooperation between SME and large enterprises, the Government of Vietnam is considering the following measures:

- Enhancement of business information exchange
- Phasing out all discrimination among 3 sectors: SOE, private enterprises and FDI enterprises.
- Increase competitiveness of domestic SME by training, technology transfer, technical assistance so as for them to provide inputs for TNC and large SOE.
- Supporting subcontracting, satellite enterprises, outsourcing...
- Capacity building for business associations and support them in setting up business linkages
- Establishment of more industrial clusters
- Encouragement of SME to partake in international fairs and events
- Assurance of fair trade and cooperation
- Establishment of economic zones, high tech zones, industrial zones in order to facilitate industrial clusters' operation and cooperation.

# PRACTICE OF SUBCONTRACT DEVELOPMENT

Indonesia Experiences

16-Jul-04

Presented in Moscow

1

## Introduction

- Indonesia would like to share the experiences on subcontract development
- On this presentation, we will show some sample of subcontracting systems in Indonesia

16-Jul-04

Presented in Moscow

2

## Topics of Discussion

- Definition of SMEs
- Overview of SME Development
- Problems and Challenges of SMEs
- Government policies on Subcontracting
- Subcontracting Best Practices
- Conclusion

16-Jul-04

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3

## Definition of SMEs

According to law 9/1995 and Presidential Instruction No.10/1999

1. Small enterprises can be defined as enterprises which :
  - a. Having asset less than Rp 200 millions or
  - b. Having annual total sales not more than Rp 1 billions
  - c. Owned by Indonesian citizenship
  - d. Being independent and not affiliated with large enterprises.
  - e. Being individual business with or without legal license including cooperatives.
2. Medium Enterprises can be defined as business entity with total asset bigger than that of small enterprises, but less than Rp 10 billions.

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## Overview of SME Development

- Total number of SMEs (2003) were around 42 millions (99.99%) with more than 57.6% contribution to GDP and 99.4% to employment
- Majority of them are engage in primary sectors (60% in agriculture) and cottage industries
- The average growth of SMEs within last five years is 0.88%

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## Problems & Challenges

- I. Problems of SMEs
  1. Lack of capability to access into productive resources
  2. Low level of quality on human resources
  3. Lack of numbers for business services providers institutions, and
  4. High administrative and transaction cost.
  5. Majority of SMEs are micro enterprises and engage in traditional sector with low productivity

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## Problems & Challenges (Continued)

### Challenges of SMEs

1. Structural Economic Gap, hollow in the middle
2. Trend of globalization economy and liberalization on trade and investment.
3. Era of autonomy and regionalism
4. Strong competition.

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## Government Policies on Subcontracting

- Subcontracting system is regulated under Government Regulation No.44/1999 on Partnership as the implementation of the Law No.9/1995 on Small Business;
- Patterns of partnership are: Nucleus-plasma, Vendor, Subcontract, Franchise, General trade, and others;
- Subcontracting is partnership between SMEs and Large Companies or among SMEs in producing products or product components;
- Since 2001 the Government has tried to develop special Law for Subcontract Development;

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## Substances of the Propose Subcontracting Law

- Creating Conducive-Business Environment for promoting Subcontracting System;
- Roles and obligations of Parent Companies and Sub-contractors;
- Incentives to promote Subcontracting System;
- Sanctions.

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## Subcontracting Best Practices

- Dharma Bhakti Astra Foundation has been promoting Subcontracting System for supplying automotive component parts to PT. Astra International;
- Garment subcontracting system in Bali;
- Furniture subcontracting system.

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## Dharma Bhakti Astra Guideline

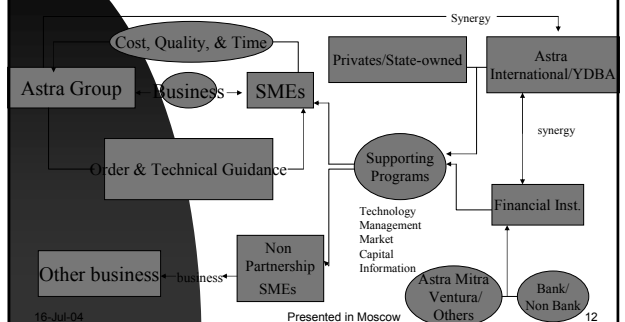
- Capacity building for subcontractors;
- Guidance and consulting system for subcontractors;
- Guarantee system to support financial access;
- Providing Financial System Support.

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## Partnership Pattern of Dharma Bhakti Astra



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## Conclusion

- Subcontracting system is one of the strategies in promoting competitive SMEs;
- Special Law on Subcontract Development is important to regulate the codes of conducts of the two-partnering parties;
- One of the best subcontracting system in Indonesia is under Dharma Bhakti Astra Foundation promotion.

**Reports and presentations of  
International Conference “SME and Big Companies Interaction”**

**Russian Federation, Moscow, June 7-9, 2004**

**Theme  
“DEVELOPMENT OF INDUSTRIAL SUBCONTRACTING IN RUSSIA”**

*Artem Kiselev,  
Director Inter-regional Center of Industrial Subcontracting  
and Partnership, Moscow*

Development of industrial subcontracting with participation of small and large business is of great importance for increasing export opportunities of Moscow and Russia on the whole. Subcontracting is undergoing quite a rapid increase on the territory of Russia, but its development has a number of characteristic features that are, on the one hand, caused by certain disbalance in the structure of the whole industry and, on the other hand, in the structure of a large number of individual enterprises. It is necessary to mention one feature very typical of Russia: while in the international practice the contractors are, as a rule, big companies with brand names, whereas the subcontractors are small and medium specialised companies, in the Russian Federation this division is not so well-structured. At the moment subcontracting in the Russian business is on the edge of new frontiers and we should note certain diversity and transition in the structure of participants in subcontracting. Our country hasn't had effective law standards for subcontracting in small and large business yet as well as the government does not provide impressive support for the development of subcontracting. Nevertheless it is necessary to mention positive trends in the development of subcontracting.

Taking the Russian practice of subcontracting into consideration, we can distinguish between the following types of businesses that tend to participate in subcontracting (Chart: Participants of subcontracting and essential order flows).

***Participants of subcontracting***

***Small businesses***

According to the present legislation, small businesses in industry are the enterprises with up to 100 employees on the staff and a number of juridical person-non small business less than 25% in the constituent capital. In foreign practices the notion SMB (small and medium business) is often used, in some cases micro-, small and medium businesses are distinguished as the targets for governmental support and subject to taxation.

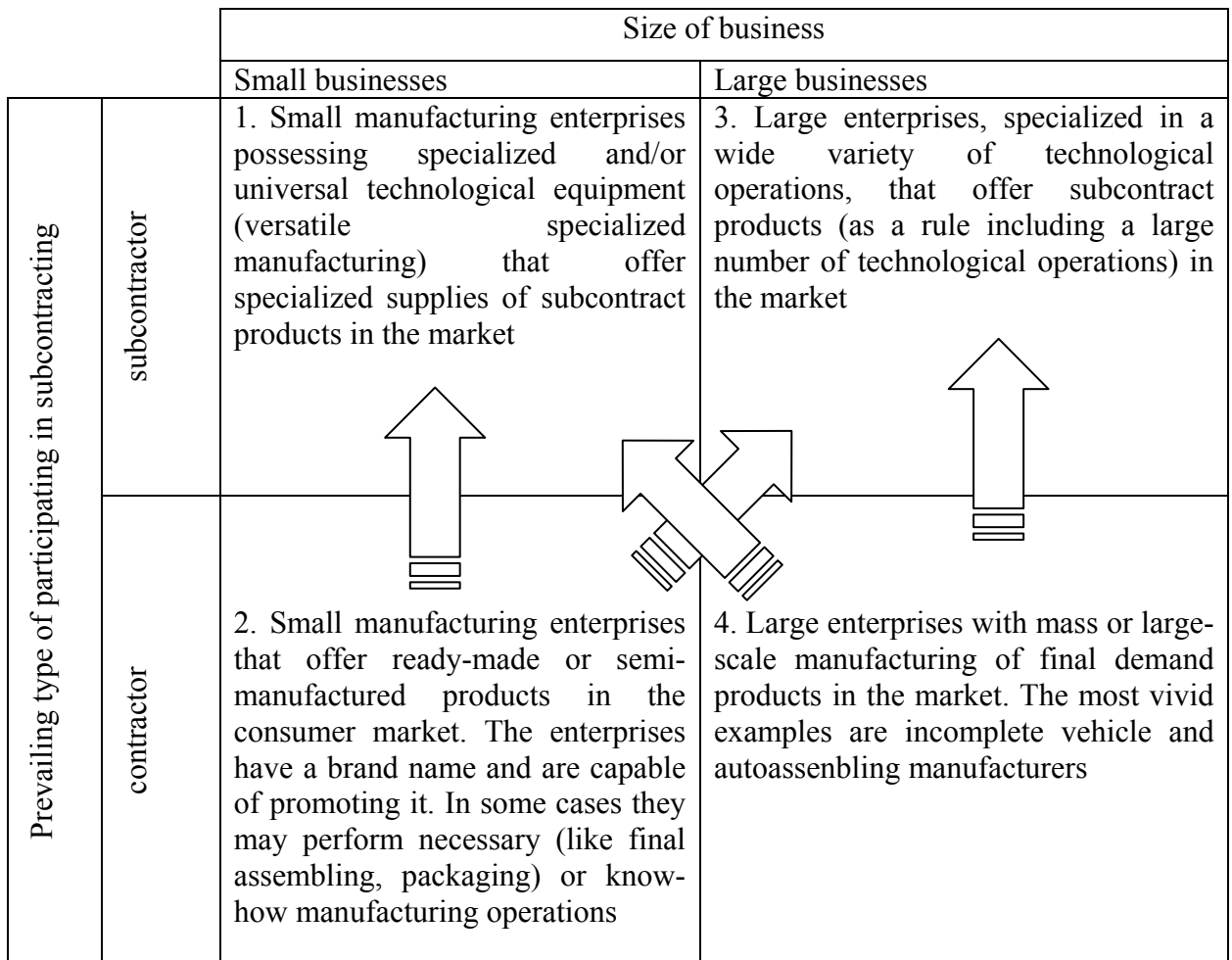
**Quadrant 1.**

In Quadrant 1 we can see small manufacturing enterprises that correspond to the international term of the Subcontractor. These are enterprises possessing specialised (hardly ever in the Russian practice) and/or universal technological equipment (versatile specialised manufacturing) and offering highly-specialised supplies of component parts or performing highly-specialised technological operations (e.g. electroplating).

**Quadrant 2.**

In Quadrant 2 we can see small manufacturing enterprises that offer ready-made products in the consumer market. These small enterprises possess a minimal number of own or rented equipment necessary for final assembling or know-how manufacturing operations. The essential part of components to provide manufacturing (small-quantity production, as a rule) as well as research engineering and development projecting in most cases, is ordered from other enterprises.

Chart: Participants of subcontracting and essential order flows



**Large businesses**

In comparison to the foreign practice, the situation and the system of management in the large Russian enterprises are diverse due to the unstable transient periods in the



industry of the Russian Federation. However, we can distinguish between the following types of large enterprises that may participate in subcontracting.

***Quadrant 3.***

In Quadrant 3 we can see large assembling enterprises, specialised in a wide variety of technological operations and offering subcontract products (as a rule including a large number of technological operations, research engineering and development projecting) in the market. As a rule, these enterprises stand out as the subcontractors of the top levels and place a large number of subcontract orders (the most vivid examples are autoassembling factories). In the Russian practice subcontractors are often large enterprises of defence industry, machine-building, electronics that use subcontract orders for filling up idle manufacturing capacity.

***Quadrant 4.***

In Quadrant 4 we can see large assembling enterprises (first of all machine-building, household device manufacturing) with mass or large-scale manufacturing of final demand products in the market. They are primarily established to cope with a large number of subcontractors. The number of enterprises on the Russian Federation that correspond to the notion of Contractor is rather small, however the positive trend is obvious.

Most large contractor enterprises observe the regulated system of relationship with the providers, in some cases competitive forms of purchasing are applied (competitions, out-of-competition purchase by means of offering, etc.) or qualification selection of the provider takes place.

***Infrastructure support***

In 1998 within the cooperation of the Moscow government and UNIDO the Inter-regional Center of Industrial Subcontracting and Partnership was established to widen the opportunities and to develop cooperation of small manufacturing enterprises of Moscow.

The comparative study of operational methods of the Center suggested by UNIDO and the situation in the Russian industry indicated that the methods are to be altered and adapted. It is well-known that serious problems in the Russian industry do exist despite positive changes. To some degree the problems were caused by the inadequate structure of the industry and the majority of enterprises. In the foreign practices subcontracting in small and large business has existed for a long time, whereas in the Russian Federation most enterprises tend to be integrated. They complete the total manufacturing cycle from supplies to shipment and production distribution. Restructuring of the enterprises occurred in most cases spontaneously and unreasonably.

At the same time another serious problem was the lack of the united information network capable to support manufacturing. Economical linkages among manufacturing enterprises were broken and most enterprises were left in the information gap.

The main purpose of the Center at that stage was to create an effective mechanism of searching for partners in manufacturing cooperation. An information system of subcontracting was developed and nowadays operates successfully. The system includes the possibilities of the Internet and allows to find a provider and orders (with drafts, manufacturing projects or requirements to the provider and the product) quite easily.

One of the most important activities of the Center is developing, technical and methodical support to the inter-regional system of subcontracting centers including 32 regional centers in the Russian Federation and Belorussia by March 2004. All regional subcontracting centers possess good linkages with regional authorities, most regional

centers are organization departments of Trade and Commerce chambers. All present and developing regional subcontracting centers make use of the united information system.

Participating in the system of regional subcontracting centers allows the Moscow enterprises to find partners (orders and providers) in the regions of the Russian Federation more easily and effectively.

Due to the work of the system of subcontracting centers from year 2002 till the 1<sup>st</sup> quarter, 2004, above 5,700 cooperation orders (subcontracts) including orders of such large enterprises as “KAMAZ”, YaMZ, Severstal and others, were transferred through the system of subcontracting centers. Most subcontracts referred to the production of the machine-building, electronic or electrotechnical industries. The total volume of orders constitutes 10,000 rubles (one-time orders from small enterprises) and \$ 1.5 million (long-term programmes of subcontract manufacturing).

It should be noted that due to certain circumstances the number of specialised small enterprises (subcontractors performing simple operations ordered by large enterprises like mechanoprocessing, press forming, etc.) in Moscow is not large enough. A large part of cooperative orders placed in Moscow requires development projecting, qualified personnel or technical and engineering employees. Besides, while reinforcing partnership large (especially foreign) enterprises faced a problem of a low level of technical and organisational development of the Moscow small manufacturing enterprises. The system of quality management in accordance with the international standards IOS 9000:2000 wasn't widely applied, small manufacturing enterprises underwent a shortage of specialised service in industrial design, preparation of engineering and technological documentation, etc.

Making use of the system of inter-regional exchanges in the system of subcontracting centers the Moscow small enterprises – contractors, have an opportunity of successful placing their own cooperative orders for various manufacturing operations like mechanoprocessing, foundry and press manufacturing, electroplating, etc. in the regions of Russia. That allows the Moscow enterprises to economise 10-30% in comparison with performing the same operations in Moscow.

Training, regular information exchange on the cooperative orders and providers as well as meetings take place for the managers and specialists from the regional subcontracting centers.

I'd like to take this opportunity and welcome the participants of this meeting to integration and cooperation. The system of subcontracting centers is open for taking part in developing and implementing the projects that help to promote international linkages. One of the aims of such projects should become the assistance in locating assembling manufactures with foreign capital on the territory of the Russian Federation and developing the cluster of component and service providers. We are also ready to manage the following activities:

- To assist in the target search in the Russian Federation for potential providers possessing necessary technological equipment and manufacturing capacities;
- to hold qualification selection of potential providers according to the requirements of the contractors;
- to assist in organizing group meeting and face-to-face negotiations with potential providers;
- to support subcontracts (engineering consultants on the matters of manufacturing organisation, equipment and material delivery, etc.);
- to take part in projecting and implementing the programmes of provider development, employee training, applying the system of quality management and norms of relationship between providers and subcontractors;

- to take part in projecting and implementing the programmes of information exchange, organising seminars for potential providers, business meetings, etc.;
- If required: to take part in negotiating with the representatives of regional authorities on the matters of implementing investment projects connected with locating or operating assembling and subcontracting manufactures on the territory of the regions;
- If required: to take part in establishing and operating manufacturing parks, negotiating and involve functioning technoparks into the projects;
- If required: to develop a system of information exchange within the Information system of subcontracting based on CALS technology;
- To take part in organising and implementing PR-support of the projects.

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*+7 095 234-53-76*

*e-mail: [subcontract@binec.ru](mailto:subcontract@binec.ru)*

*http: [www.subcontract.ru](http://www.subcontract.ru)*

*[www.subcontract-in-russia.com](http://www.subcontract-in-russia.com) (the english version of the subcontracting search system is under construction)*

# RUSSIAN IT POTENTIAL FOR APEC DEVELOPMENT

*Anton Panfilov,  
Vice-President INTECH, CEO Tradition Co. Ltd*

## **Introduction**

Globalization at its current state is mostly driven by the information flow, where the business process is becoming mostly electronic. Proper information at the right place is becoming most valuable asset and product of information economy. It has become ubiquitous adoption of IT even for most traditional and low tech businesses as a vital part of their ability to deliver goods and services. To rapidly increasing number of companies IT is both an important source of competitive advantage and growing part of products they offer. Hi-tech area is worth about \$3000 billion now, while to 2010 is expected to triple. At the same time, traditional economy wouldn't exceed 30% growth rate to that time.

With the increasing take-up of e-business and the delivery of services on line by governments, economies are becoming highly dependent on the Internet. In this new virtual world, physical borders between economies are of little consequence and it is this realization which prompts the need for a collaborative approach across all Internet-enabled economies to counter growing possibilities and challenges coming hand to hand in this new reality. To keep pace with growing competitiveness of the global economy, to realize growth potential of APEC economies, we have to define clear rules and establish firm infrastructure enabling steady and outstripping development.

## **ICT Challenges**

While local and international legislation harmonization over the region is still the biggest issue preventing rapid cross border e-business development another hazard of cyber criminal activity grows is getting more and more critical increasing risks and destructing information space. No doubt we can say that protection of Internet systems in the Asia-Pacific region is critical to the region's political and economic stability and security.

Attacks on the Internet are increasing in frequency, sophistication and scale. They come in the form online fraud, viruses, worms, trojans and denial of service attacks, and other malicious code. Another threat of information noise in the mostly annoying form of spamming is overwhelming the Internet. About 70% of the total traffic in the world is in the spam domain spoiling tremendously communications and business processes.

Recognizing the threat, APEC Leaders have defined the eAPEC strategy and counter-terrorism action plan that is in progress now in the form of enrolling coordinating centers CERTs (Computer Emergency Response Team) or CSIRTs (Computer Security Incident Response Team). However, the coordination is fragmented or missing yet and only few economies have established these. Also, those that protect us from these threats

are locked in an evolutionary struggle against those that perform the attacks. Safety, security and reliability of the internet is dependant upon early detection of criminal activity and precautionous law enforcement measures.

However, this requires a balancing of such fundamental rights as the right of individuals to privacy of communications and the right of individuals to be protected against criminal activities.

Another critical issue is in the digital divide among APEC economies in e-business enrollment practice and possibilities. The gap of e-Readiness is tremendous for example between Vietnam and Taiwan or Russia and United States. To Push forward businesses' digitalization, in order to establish sound foundation for achieving 2015/2020 APEC comprehensive paperless environment being ratified at APEC ministries meeting last year, APEC e-Commerce Business Alliance is created. The first Forum is held June 16 2004 in China. The mission of the forum and Alliance as its task force is to create a better environment for e-Commerce development in APEC members, and to advance dialogue between developed and developing countries on how to utilize information technology involving e-Commerce to achieve sustainable development of business. As actually, SMBs growth defines ability of steady economic development, benefits promotion and technology availability to this segment is a key to success. While large business already enjoys many flavors of B2C, B2B e-commerce, it's also limited in the fluency while his international and local outsourcing and subcontracting partners lacking B2B adoption.

To achieve the goal at the regional level, we clearly have at its first stage to define Multilateral Investment Rules with a further regional business credit system establishment. This could be done via intensive institutional infrastructure development in local economies enabling effective risk management via tight collaboration with the government to harmonize legislation, financial institutions and NGO's, facilitating direct interactions and technology provisions for SMBs.

While there's a good set of Business Registers in the region, there's still lack of contemporary document exchange facilities among international traders, weak acceptance of advanced Universal Description Discovery & Integration Protocol helping automate match making and optimized business transactions. The goods and services in the pathfinders have to be supplemented with an Electronic Certificate of Origin.

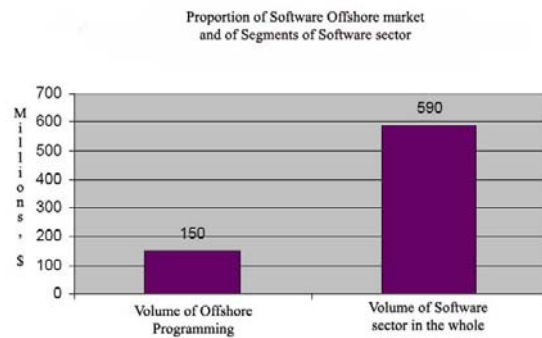
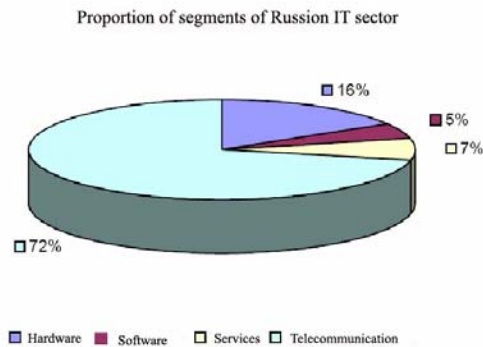
Obviously, the biggest slowdown in electronic trade is impeded by the traditional customs procedures and other paper interactions with the government services. Economies have to undertake appropriate efforts in adoption local and cross border Digital Signature Certification Centers to provide authoritative and legitimate trade docflow digitalization.

This is a short list of mostly important challenges vital to all APEC economies that could be met only in a joint collaborative effort enabling new achievements in region development. To guess an idea of what kind of contribution Russia can provide, we'll have to get through this brief information.

### **Russian IT sector Overview**

Being small in overall GDP (about 4%) and occupied (Half a million people) indicators, this segment is actually the only one emerged from nonexistence in the former USSR to the most competitive and highly successful on the international software markets industry. What is really impressive that it nearly doubled during 2002 and 2003. As there's no clear methods of evaluations according to different sources it was about 12 billion \$ in

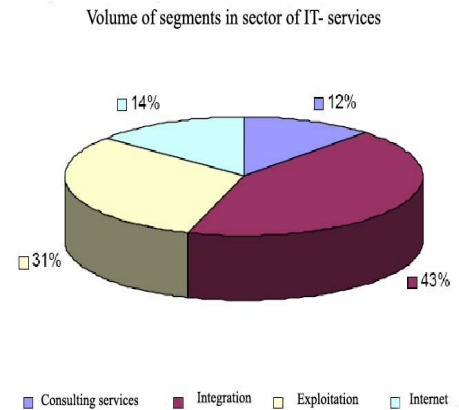
2002 and 18 billion in 2003. Software services are the smallest, however with the biggest added value.



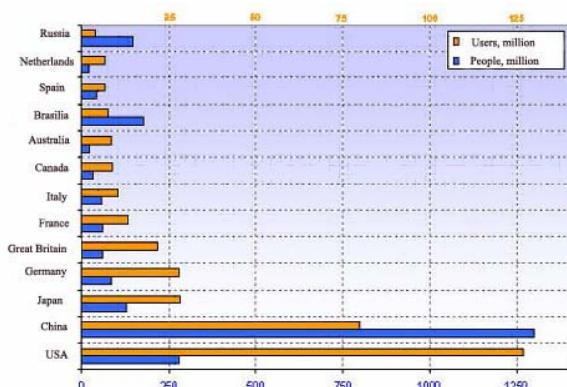
Coming to export oriented services, we have about 30% of international customers while turnover averages 600 million (300-1500 million dispersion in evaluation). If to consider that most of the cash flow is offshore in this business, realistic volume could be twice as much yielding to 300-400 million share of global market performance. IT services market estimated as 800 million\$ in 2002 over doubled in 2003 exceeding 1 billion\$ mark. The table below represents most conservative view to the performance of e-Commerce segment and forecast for this year, while the whole pie of IT- services is segmented as at the chart (2002):

**Russian e-Commerce operation turnover, m\$**

	2001	2002	2003	2004 (forecast)
B2C	218,3	317,5	480,4	615,4
B2B	99	189	316,2	464,2
B2G	-	10,8	141	275



Obviously we can see the results of e-Russia program accelerating e-Procurement and overall B2G, G2G service segment that started in 2002.



Another important aspect of reasonable e-Readiness of Russia is an Internet usage indicator approaching critical mark of 10% of total population of the country. Although, the obvious barrier is a low density of computers per 100 of people that is only 9 systems averagely in

Russia. For comparison, below is the graph representing the usage of Internet in proportion to overall population around the globe.

Mostly active are Canadians, while other leaders of 5 are South Korea, USA, Japan and Germany.

Russian IT market is becoming more and more recognized by elite of Global IT industry. We share the second place with China after Indian offshore programming services. Russia as economy, rapidly developing and it's a good time has come to invest money here, specifically in hi-tech areas. This is already recognized by the world leading analysts. Russia is mentioned among the most perspective countries for investments and IT outsourcing. The critical issue to handle reasonable risks is to deal with recognized and authoritative bodies like leading associations and centers, like APEC - Russia Business Cooperation Center represented by National Agency for Entrepreneurship Technological support. We, at our side, provide comprehensive support for match making, risk management and dealing with the strongest Software Development Associations like Silicon Taiga, Russoft and other to deliver full service at your site. Moreover, NAETS Intech is not solely IT concentrated, it covers innovation market of private companies and state bodies, serving as a right source of full service. We have special portal project dedicated to the Russian innovation companies market as [www.technet.ru](http://www.technet.ru) that is developing to B2B marketplace with diverse business directory and pathfinder. We'll be happy to assist you if you have a plan entering Russia or seeking for professional outsourcing services at your site.

**Reports and presentations of  
International Conference “SME and Big Companies Interaction”**

**Russian Federation, Moscow, June 7-9, 2004**

**Theme**

**"Development of Small, Medium and Large Enterprises Cooperation in Chile"**

*Professor Juan Carlos Scapini,  
Central University of Chile*

**Abstract**

The globalization of the markets offers a complex scenery for the national productive development and where the efforts of the policy should have to be aimed at a greater integration of the SMEs in the economy.

***The Small and Medium Companies' as the engine for development***

The irruption of the Asian countries in the world-wide economy and the recent incorporation of China to the OMC, certainly has increased the competition levels and the productive challenges now are much more demanding than in the past. These challenges are determined today by the globalization of the markets where developing competitive advantages on agglomeration, innovation, quality and design are crucial.

Today, Chile appears evaluated between those of better projections of the denominated emergent countries, with a sovereign risk of around 80 points and with a market of more than 1,000 million consumers to promote its investments and exports. Despite of that, this greater economic opening raises important political, cultural, social and economic challenges that must be solved.

In order to be able to approach the social and economic developing patterns, Chile will have to continue growing at high rates, incorporating more technology and value added to its exports and reduce the strong productive heterogeneity in the country.



Chile will have to be able to take advantage of the international opportunities that the globalization of the markets offers, as well as trade agreements that Chile is subscribing. In addition it will have to try suitable conditions of surroundings (normative and institutional) so that the Small Companies can unfold all their competitive potential.

In this sense, it is required to focus the national effort to promote the productive transformation of our smaller productive units, since they are an important source of economic growth and an efficient way to increase employment.

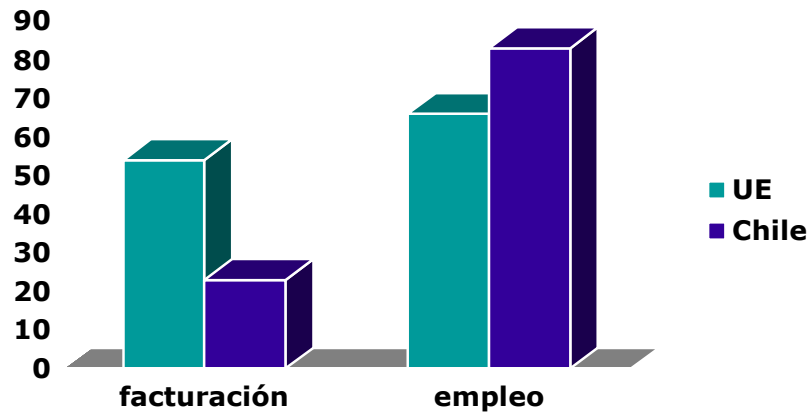
The Small Companies are fundamental to determine the type of growth that we want. As a matter of fact, the development of the SMES determines a kind of growth that has the following characteristics:

- It generates more jobs and lets grow the familiar income,
- Determines a more integral development of the territories,
- Improves the social and economic insertion of many entrepreneurial women and young people.

In relation to this, some weaknesses in our economy are detected that will be necessary to take care of if we want to have a productive structure similar to the developed countries:

- In Chile, sector of Small formal Companies, includes more than 627,000 economic units (near 1 million companies if the informal businesses are considered), but they only give account of 70.3% of the employment and of a 17% of the sales and less of a 2% of the exports. The situation is very different in Europe and other developed countries, where the Small Companies contribute around a 70% to employment and more of a 50% to sales and also of the exports. (see Annex N° 1.)

Graph: The Critical Function of the SMEs.



Source. Service of Inner Taxes of Chile (SII), Casen survey, International Development Consortium (UK). Data for year 2000.

In addition and link to the previous thing, is possible to detect that the productivity compared between SMEs and big Companies in the manufacturing industry, turns out to be several times smaller in Chile than in all the countries of the OECD.

***Picture: Manufacturing industry: Compared Productivity.***

	(A) 10-49 trabajadores	(B) + de 50 Trabajadores	(B)/(A) (N° Veces)
<b>Chile</b>	<b>17.3</b>	<b>40.0</b>	<b>2.3</b>
<b>Reino Unido</b>	<b>61</b>	<b>82</b>	<b>1.3</b>
<b>Finlandia</b>	<b>65</b>	<b>79</b>	<b>1.2</b>
<b>Italia</b>	<b>71</b>	<b>106</b>	<b>1.5</b>
<b>Turquía</b>	<b>87</b>	<b>112</b>	<b>1.3</b>
<b>Japón</b>	<b>57</b>	<b>93</b>	<b>1.6</b>
<b>España</b>	<b>67</b>	<b>108</b>	<b>1.6</b>

Fuente: Cálculos propios en base a la ENIA y OECD /SME Outlook 2002.

***Towards a systemic support policy for the Small and Medium Companies***

For the public policies, the objectives of productive promotion for the Small Companies, will have to be focus in generating an egalitarian access to the opportunities of enterprise development and competitiveness.

It turns out to be urgent to impel a policy for the development of the SMEs, and where the importance of the different national and regional actors in the design and the execution from the territorial strategies is recognized: gremial associations, the Universities, the Centers of Technological Transference, the National, Regional and local Governments.

Chile needs to make a great effort in the next years to spin off its development, to reach high rates of growth to continue diminishing the poverty levels. It is a big national challenge to commit the will of every Chilean. The experience shows that this enormous challenge requires that the SMEs achieve a high level of development, transforming Chile into a society of entrepreneurs.

We have had in these years with successful companies that have had decisive impact in our growth. Many of them began on small scale and they expanded until becoming units of great size and solid patrimony.

We think that the urgent task of today is to extend the possibilities for the sector of the Small Companies throughout the country, in all the areas, turning them also into a successful reality.

To design an effective policy to integrate the SMEs to a continue development we can define the following four strategic axes: fair competition, access to the financing, networks and the promotion of entrepreneurship.

1. The dilemma of the Competition. A competitive productive system requires to develop relations between companies that are founded on the cooperation, the quality and the technological modernization. Big companies should not just call their smaller suppliers just to return unsold products, nor to ask them to finance their promotional brochures. This is unjust and generates no competitive advantage to the country.

In order to improve the accesses from the small company to the global markets, normative and institutional conditions must be provided in order to create trust and specialization within the suppliers. The certification of qualities happens to be therefore an indispensable requirement to assure long term relations between small and large companies. While the SMEs in Chile competes by price, in the developed countries the SMEs compete in quality and innovation.

To support the certification of the SMES according international norms, such as ISO 9001, ISO 14,001 and OHSAS 18,000, the CORFO directly subsidizes the Companies to obtain international quality seals. It is relevant to say that at the moment, there are around 1,000 registered Chilean companies producing according to international norms, thanks to the CORFO support.

Although the certification of international norms is very important, that is not sufficient. The smallest companies are still far from being able to be certified by international norms. For such reason, the CORFO and the National Institute of Normalization has undertaken the task of creating a national norm of basic quality standards and has begun a process of consultations to elaborate this Chilean norm. In other words, this national certification will be a starting point so that an important number of small companies begins to certify itself in the quality subjects.

2. The faults of the financial system. The small company requires to improve its access to the financing to thus be able to make specific the projects of productive modernization and technological innovation that they require. It has been detected that in the stagnation cycles the great companies tend to transfer their financial costs to the smallest companies (suppliers), extending unilaterally the terms of payments in the invoices and transferring part of his financial costs to the smallest companies.

To stimulate the entry of the SMES to the formal banking system, the Ministry of Economics is studying a project that creates the reciprocal guarantee centers to ease the transfer of debts from one bank to another. It is very important to be able to break with

the captivity of the clients by banks and to allow the companies to choose the bank that offer the best financial conditions at any moment.

Also the Saving and Loan Associations should be a valid alternative of financing for the Small Companies. The new law of cooperatives in Chile improves public control and contributes to an expansion of the credit sources that is growing faster than the banking system.

3. The enterprise networks and the ICTs. There is no doubts the integration of ICT to SMEs will help them to access to global market information. That is even more important in the case of the companies that are located in faraway places.

When the Small Companies are considered in isolation they are weak economic agents, but they are competitive when they work in a local environment that promote complementarities, action in common, public goods and institutional stability.

The Internet is a powerful tool to create information and knowledge and between big and small companies, between the private sector, the Universities and the State. The networks of suppliers will be able to gain in efficiency and transparency, lowering the cost of the transactions.

One of the areas of greater development in the coming years will be the electronic commerce. Recent estimation say that in the 2004 the amount of the electronic businesses in Chile will be over 6,000 million dollars. It is worth saying that the recent law of the digital signature and the electronic commerce is already operative.

With the purpose of facilitating the access of the Small Companies to the information and the knowledge, the public policy has implemented around 150 “Infocenters” for exclusive use of the Small Companies. The Government at the moment is engaged in a campaign of digital alphabetization so that people learn to use Internet. Until this moment 54 thousand people have alphabetized themselves and the goal for this year is of 100 thousands.

The digital challenges place to the SMEs before the urgent necessity to adapt their own competitive management. It is not only required to be able to accede to Internet, but that in addition the SMES learn to take advantage of the competitive opportunities that they are opened through that means, developing Web pages that are interesting, novel and of high quality.

On the other hand, also the public institutions in Chile are engaged to develop to the E-Government and the electronic window of the public sector for the Companies. At the moment it is possible to accede by means of Internet to 100 procedures of the State.

The development of the public-private dialogue is a key element to be able to generate clustered economies. The productive development is a task for everybody and therefore

it must be supported on the joint work of public and private sectors and a good coordination between the enterprise unions of the small company and of the great companies too.

4. The entrepreneurial culture and the creation of new companies. The emerging companies are very important, because they increase the average productivity of the system of existing companies. The new ventures bring a high proportion of innovations and they are the germ for the development of the economy.

It is known that most of the great companies have started off in small enclosures, like houses and garages, just having the financial support that relatives and friends could provide.

To stimulate the development of innovating projects it is important to promote the instruments of seed capital and the incubators of companies. It is important to emphasize that the young entrepreneur that make incursions in new economic activities are the ones that are showing the way that the whole country will have to travel.

It is necessary to support the development of an enterprising culture, that includes from the basic to higher education, going through secondary, technical and professional levels. Nevertheless, it is important to point out that there is little commitment in the institutions of education to form new entrepreneurs. It is necessary to review the present educational curricula, as well it is necessary to educate the educators on innovation and entrepreneurship.

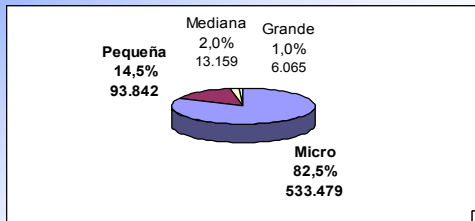
To be able to impel a culture of the enterprising SME is one of the most important challenges for the policy of the productive development in the coming years in Chile.

#### Anex N° 1. ANEXO N°1: Enterprises Sistem in Chile

## I. EL SECTOR MYPE EN CHILE.

### A. Dimensiones del Sector

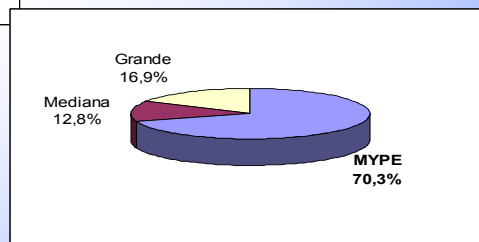
Las unidades empresariales formales alcanzan a **646.545** el año 2000.



Fuente: Información SII, año 2000.

### B. Distribución del Empleo

El sector MYPE comprende el **70,3%** del empleo a nivel nacional (considerando número de empresas)

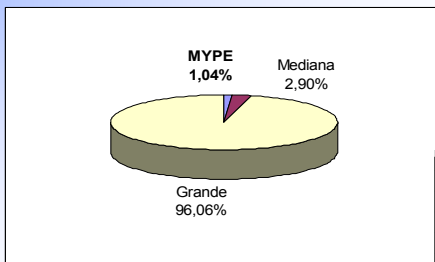


Fuente: Información SII, año 2000.

## I. EL SECTOR MYPE EN CHILE.

### C. Exportaciones

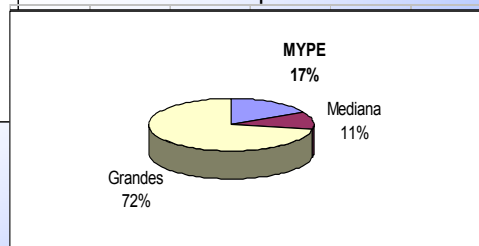
Del total de empresas exportadoras, el **1,04%** corresponden a pequeñas y microempresas.



Fuente: Información Aduanas año 2000.

### D. Nivel de Ventas

Del total de ventas, el **17%** corresponden a pequeñas y microempresas.



## Development of Small Enterprises in Informational Technologies Sphere

Dr. Robert Sun-Quae LAI  
Director General  
Small and Medium Enterprise Administration  
Ministry of Economic Affairs  
Chinese Taipei

June 8, 2004

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## Outline of the Report

- I. Foreword
- II. The Status of SMEs in Chinese Taipei
- III. Government Policy Guidance of SMEs
- IV. Recent Development of the IT industry in Chinese Taipei
- V. The Role of SMEs in the Growth of the IT industry in Chinese Taipei
- VI. Policy Focus on the IT industry in Chinese Taipei
- VII. The Vision of the e-Society in Chinese Taipei
- VIII. Concluding Remarks

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## I. Foreword

SMEs play a very important role in our economic structure, whilst its development tracts towards the idea of an equal society and distributed wealth.

In other words, it is synonymous with economic development and the stability of society. With regards to promoting economic growth, developing foreign trade, creating employment opportunities and increasing national income, lots of ideas have been out forward. However, facing keen competition, both operation and constitution have to be continuously improved, enhanced, and adhered to. Competency requires a structure in order to create enterprise value and, further, to achieve the "Built-to-Last" objective.

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## II. The Status of SMEs in Chinese Taipei

### A. Current Status and Characteristics of the SMEs

- (a) The Status of SMEs in 2003
1. The number of SMEs was 1,146,000 (97.8% of the total)
  2. The number of persons working in SMEs was 7,425,000 (77.56% of the total)
  3. The Sales came to US\$252,464 million (31.47% of the total)
  4. Direct exports accounted for 18.11% of all enterprises
  5. Average years operation 10-20 years was 25%, over 20 years was 18%
  6. According to the 2001 National Industry/Business and Service General Survey, SMEs production values accounted for 42.77% of all enterprises.

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### (b) Changes of SMEs

1. Through the SME guidance guarantee system, they are gradually expanding to large enterprises. There are 601 units of listed, over-the-counter (OTC) markets and emerging stock markets. Among them, 217 listed, 243 OTC and 141 are emerging on the stock market, e.g. Acer, Foxconn, Yam.com, Thunder Tiger, Cando, etc.
2. SMEs are gradually growing up, but bankruptcies and dismissals are filled by additions.

Unit: enterprises

Yr	Total	Established	Going out of business	Dismissals
1998	1,045,117	103,848	50,946	24,255
1999	1,060,738	100,744	52,683	22,681
2000	1,070,310	96,723	56,040	39,347
2001	1,078,162	94,803	61,355	34,569
2002	1,104,706	91,435	60,682	38,596
2003	1,146,375	111,510	Not announced	33,330

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## 3. The Status of New Established SMEs

- (1) The number of new enterprises was 112,000 units in 2003, SMEs accounted for 99.42% of all enterprises, large enterprises accounted for only 647 units
- (2) Among them, service industry accounted for 88.50%; manufacturing accounted for 11.29% and agriculture accounted for 0.21%
- (3) In the service industry, it provides increasing employment opportunities.
- (4) Years of SME operations less than 1-year was 8.28% while larger enterprises hold 1.85%

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### (c) Characteristics of SMEs

1. High importance towards the development of society
2. Lot of units, high variance, dynamic structure
3. High contrast of being transferred in/out
4. Employees face larger challenges and increased pressure
5. Relatively weak in comparison with large enterprises

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### (d) SMEs Contribution to Economic Society

1. To play a key role in industry structure to link division of up- and down-stream industries
2. To develop foreign trade, to create foreign exchange, to create employment opportunities and to have national income averaged
3. To provide remarkable contributions to building up a middle-class based society
4. To continuously support economic development and to stabilize society

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### III. Government Policy Guidance of SMEs

#### A. Guidance Picture

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### B. Vision and Strategy

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### C. Guidance Projects for e-Business in SMEs

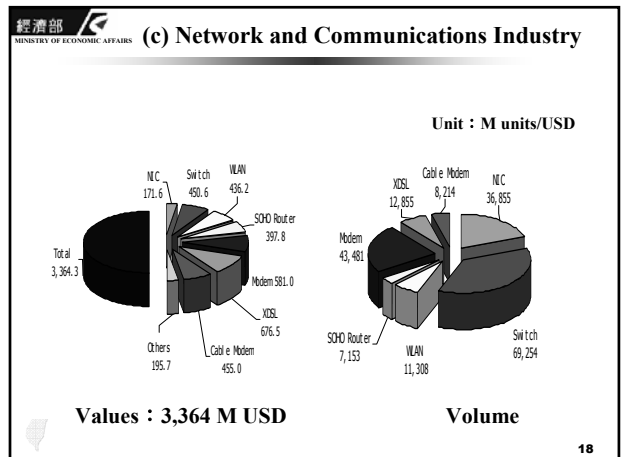
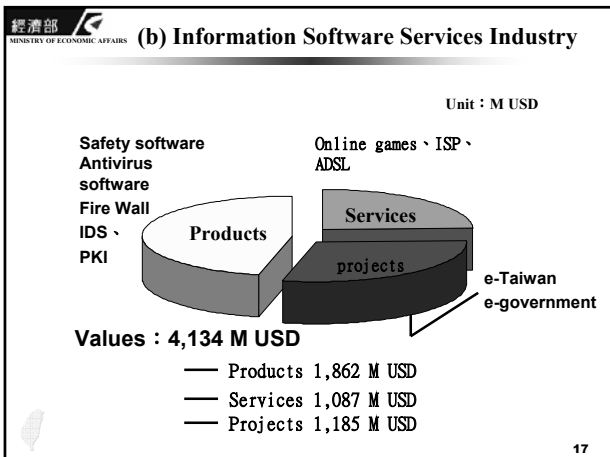
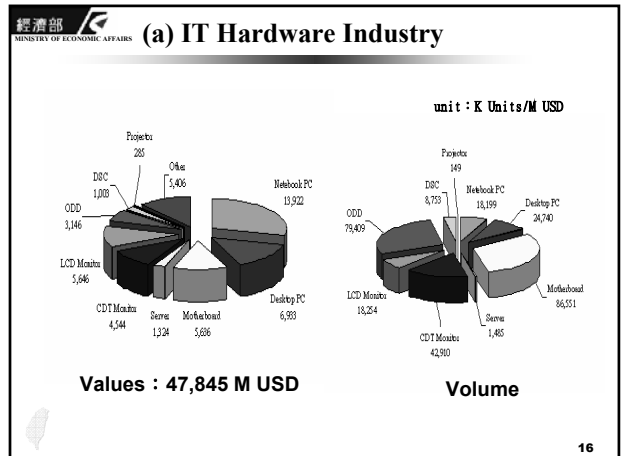
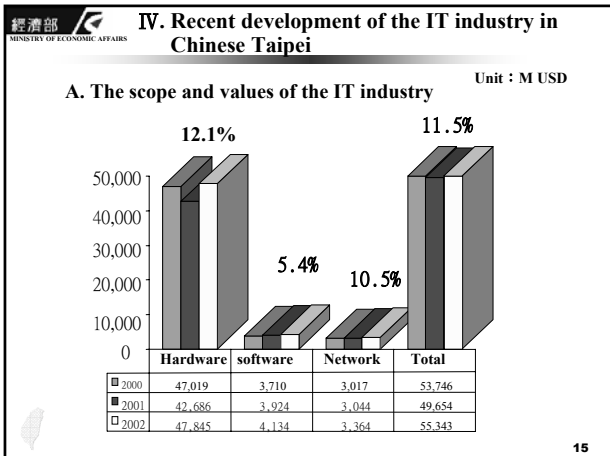
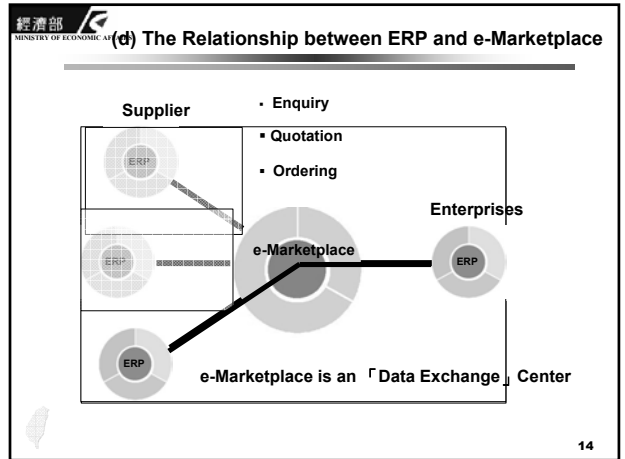
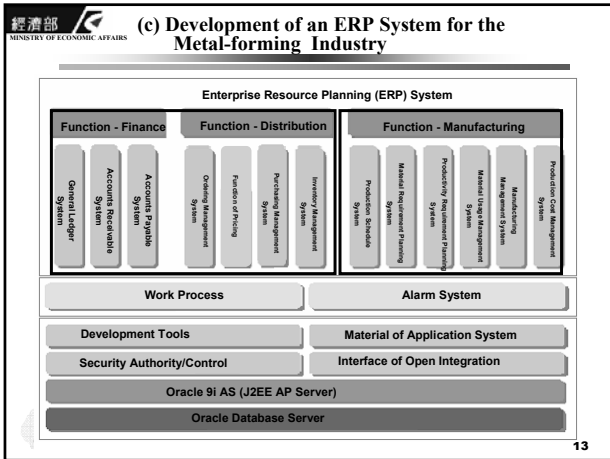
#### (a). Establishment of the SME e-Business Service Team

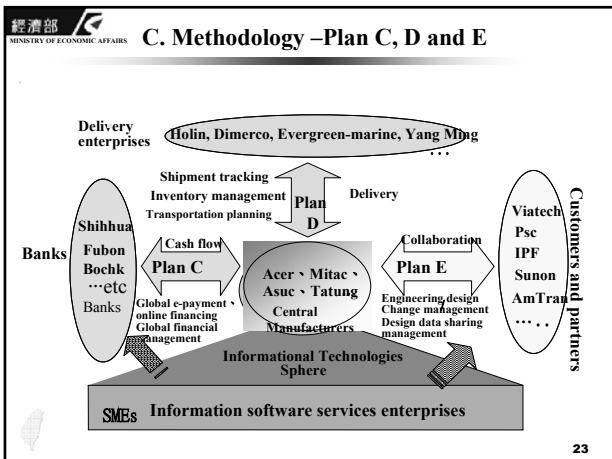
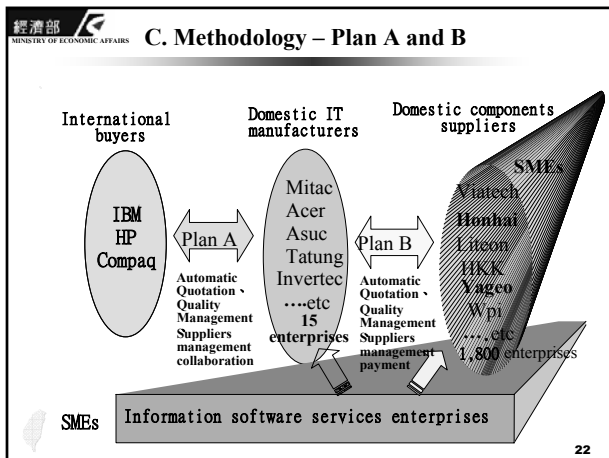
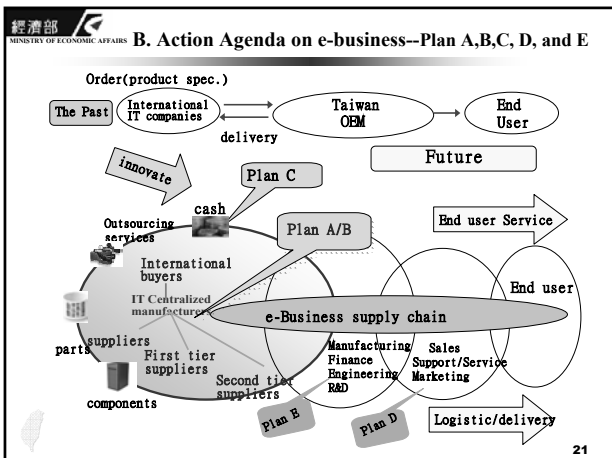
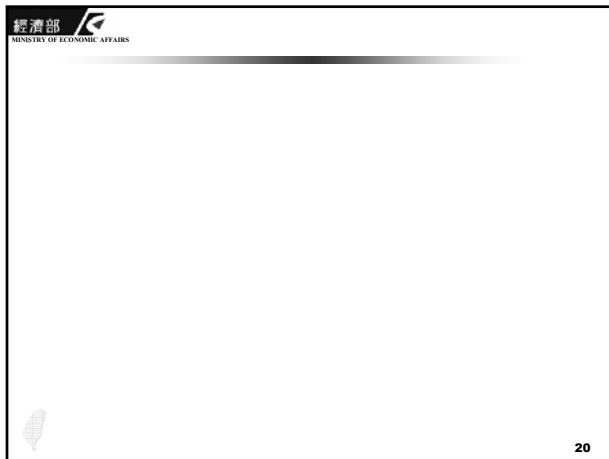
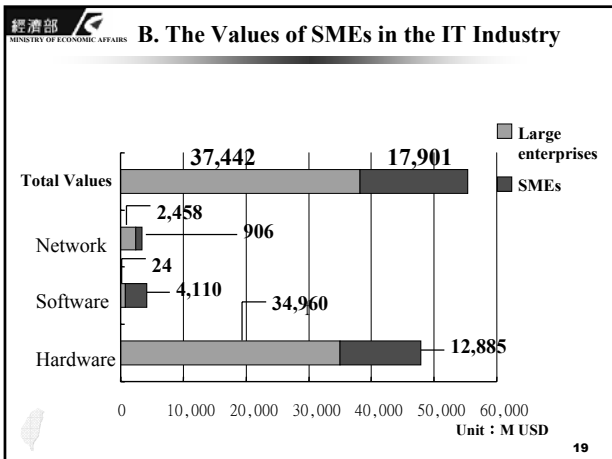
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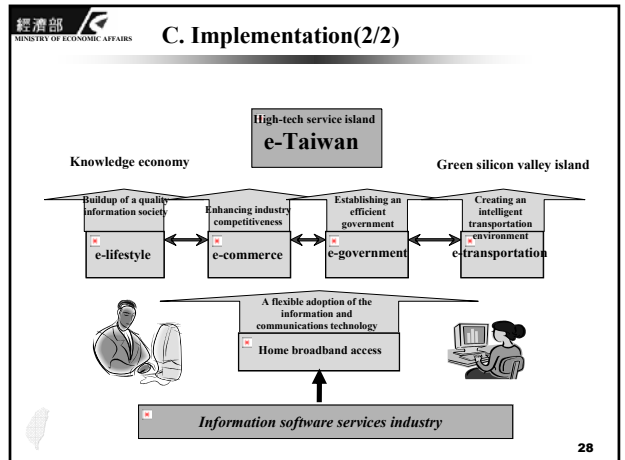
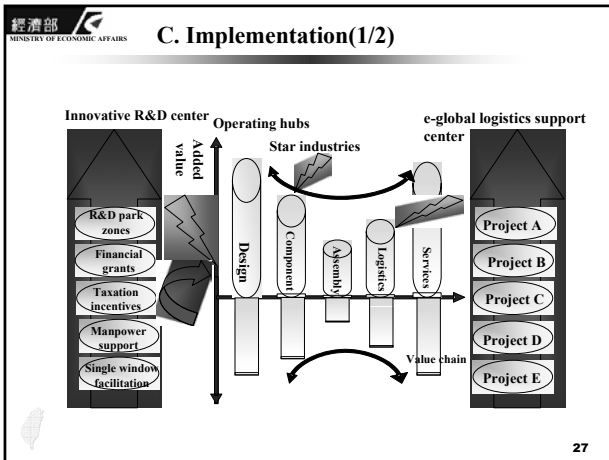
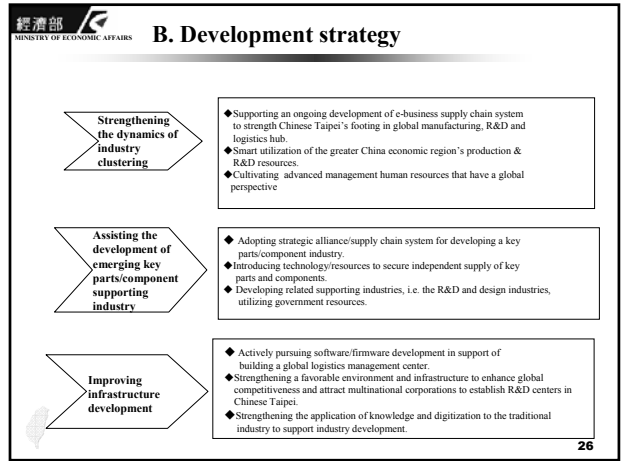
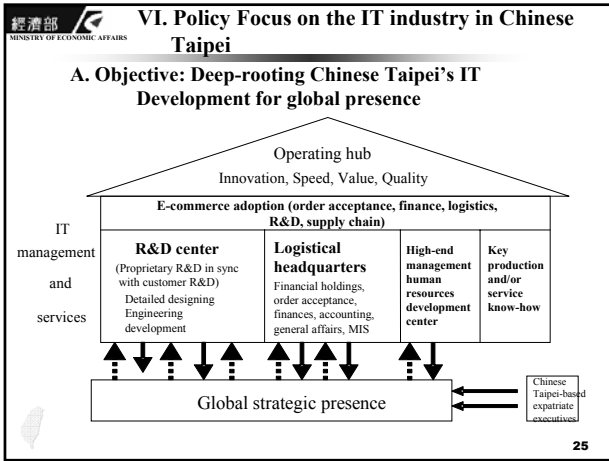
#### (b) Establishment of Industry Database and e-Marketplace

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- D. Achievements– Plan A, B, C, D, E**
- Strengthening local small and medium businesses' competitiveness in securing global orders.
  - Introducing the global supply chain protocol – the RosettaNet that links the local e-business environment to the global markets.
  - Establishing 15 central plants and streamlining a total of 1,800 medium and small businesses into the e-supply chain system to establish a long-term strategic partnership.
  - Improving order delivery rate by 45% to 93% to reduce inventory cost, shorten the time on processing order, and improve the overall competitiveness.
  - Improving B2B e-commerce adoption to increase global presence.
  - Developing the information applications service industry and software service industry.



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## D. Achievements (1/2)

Heading	Content	Implementation yield
Innovative R&D center	Establishing R&D centers	A total of 36 local corporations have built R&D centers in Chinese Taipei A total of 6 foreign corporations have launched R&D centers in Taiwan
The star industries	Semiconductor industry	Wafer processing output accounts for 73% of the total global output IC design output accounts for 26% of the total global output
	Image display industry	TFT-LCD output accounts for 34% of the total global output FPD output accounts for 24.5% of the total global output
	Digital content industry	Launching a "Digital content industry promotional office" to help the industry reach a US\$10.7 billion scale by 2006.
	Biotech industry	Launching a "Biotech industry single window facilitation" to help the industry to reach a US\$7.3 billion scale by 2006.

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## D. Achievements (2/2)

Heading	Content	Achievements
Computerized global logistics support center	Project A	1. Foreign purchasing increased by <b>more than 20%</b> from US\$15 billion to US\$18 billion.
	Project B	2. <b>1,800 medium and small business</b> joined the e-supply chain system to efficiently process global order and secure competitiveness.
	Project C	3. Greatly enhancing industry global image and popularity by <b>implementing Plan A and B</b>
	Project D	4. Plan C/D/E have successfully established over <b>25</b> industry systems introducing e-service in the banking and logistics industries.
	Project E	
Digital Taiwan	Home broadband access / e-lifestyle / e-commerce / e-government / e-transportation	1. Promoting the overall development of the information software service industry. 2. Promoting medium and small businesses to access to broadband that helps to enhance competitiveness.

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## VI. Vision of an e-Society in Chinese Taipei

**e-Taiwan**  
6 million broadband backbone network households in 6 years, become one of most e-countries in Asia

**Government drive, private sector leading**

e-lifestyle	e-commerce	e-government	e-transportation
<ul style="list-style-type: none"> <li>National Digital Government Program</li> <li>National Digital Archives Program</li> <li>Digital Entertainment</li> <li>e-culture develop</li> <li>Government Service available To Suburban District</li> <li>SMEs e-learning</li> <li>Push Farmer To e-learning</li> <li>Real Estate Information</li> </ul>	<ul style="list-style-type: none"> <li>Collaboration Electronic</li> <li>Agriculture Cooperative Knowledge Management</li> <li>SMEs Knowledge Management</li> <li>International e-business cooperative &amp; Program</li> </ul>	<ul style="list-style-type: none"> <li>On Line e-Government</li> <li>Combine and serve the single window</li> <li>G2B2C Electronic Official Document Exchange</li> <li>Video Conference Web</li> <li>Public access government's digit information</li> <li>Integrate construct disaster emergency communication system</li> </ul>	<ul style="list-style-type: none"> <li>ITS Platform &amp; System Develop</li> <li>e-traffic service</li> <li>Smart Bus &amp; Traffic IC Card</li> <li>Traffic Security e-Program</li> <li>Intelligent Exchange System</li> </ul>
<p><b>6 million broadband backbone network households</b></p> <ul style="list-style-type: none"> <li>Permeability is 70%</li> <li>To promote broadband backbone network</li> <li>To build network protocol ipv6</li> <li>To build broadband backbone network to SMEs</li> <li>To build safety informational communication environment</li> </ul>			

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## VI. Vision of an e-Society in Chinese Taipei

**M-Taiwan**  
To Motion Taiwan, To Apply Wireless, To Leap forward to New View

Diagram illustrating the M-Taiwan vision, showing the integration of various services and technologies:

- M-Service
- M-Lifestyle
- M-Learning
- broadband backbone network deployment
- Establishment of Roaming Center
- M-Training
- Integration of GPRS+WLAN

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## VIII. Concluding Remarks

### I. Experience sharing

Chinese Taipei is glad to share its information industry development experience with APEC member economies.

### II. Developmental education /training

It is suggested that APEC member economies to initiate an education/training program to promote the cooperation between large corporations and small businesses across the Asia Pacific region.

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*Thank you*