

**European guide to**

# **alliances**

**between**

**subcontracting  
SMEs**

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**alliances**

**between**

**subcontracting**

**SMEs**



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Reports, examples, country surveys	Partners from the 15 Member States of the European Union were asked to survey the particular forms that cooperation and alliances take in their country and to gather information on and write up examples of national and European alliances. We should therefore like warmly to thank:

AUSTRIA	Helmuth WEISER	AOEM
BELGIUM	Jacques BALON	Chamber of commerce and industry of belgian luxembourg
DENMARK	Hanne-Marlen SANDVIK	Danish chamber of commerce
FINLAND	Timo KARISTO	Finnish foreign trade
GERMANY	Dietmar ERNST	GWZ
GREECE	Evangelia ANASTASSAKI	ATHENS chamber of small and medium sized industries
IRELAND	Charlie KELLY	THE IRISH TRADE BOARD
ITALY	Gabriella BATTAGLIOTTI	Chamber of commerce and industry of Turin
LUXEMBOURG	Sabrina SAGRAMOLA	Chamber of commerce and industry of Luxembourg
NETHERLANDS	Koos VAN DIJKEN	Economisch instituut voor her midden- en kleinbedrijf
PORTUGAL	M. Helena RAMOS	ASSOCIACAO INDUSTRIAL PROTUENSE
SPAIN	Emiliano DUCH	CLUSTER COMPETITIVENESS
SWEDEN	Magnum EKWALL	EKWALL EUROCONSULTING AB
UNITED KINGDOM	Régis PONCELET	Welsh development agency

**We should also like to offer particular thanks for their advice and assistance to:**

Martine BARRAS	Chamber of Commerce and Industry of Lyons
Isabelle DURANT	Faculty of Law/Louvain la Neuve
Jean GERMANO	RIOST
Françoise LECOQC	Chamber of Commerce and Industry of Lyons
Pierrette PELHATE	European Union
Anna SODRO	European Union
Nicole VERHEYDEN-JEANMART	Faculty of Law/Louvain la Neuve
Patricia BOULHOUD	EUROSTAT

and the managers of the enterprises described in this Guide for their high-quality reporting work.

Art direction:	Eric MALARTRE, Lyons, France
Technical production:	Viking Infographie, Lyons, France

Other information on the European Union is available on the Internet via the Europa server (<http://europa.eu.int>).

Bibliographical details are given at the end of the Guide.

Luxembourg: Office for Official Publications of the European Communities, 1988  
ISBN 92-828-3137-X  
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Printed in Italy.

Faced with the higher levels of international competition brought about by the Single Market, increasingly global trade and newly emerging markets, large industries are outsourcing a growing volume of work to subcontractors. They are expecting subcontractors to be more efficient from the point of view of production organisation and cost and quality control, to show evidence of innovative skills and to be able to develop new products and processes. For SMEs, alliances are an up-to-date way of organising closer links between enterprises so that they can achieve the optimum size that contractors require, especially for transnational operations.

The experience that the Chamber of Commerce and Industry of Lyons has acquired from its detailed work on alliances made it possible for the Chamber to coordinate, in 1997, the production of the "European guide to alliances between subcontracting SMEs", with the assistance of the European Commission (Directorate General Enterprise responsible for enterprise policy), European specialists and the 15 partners from the European Union.

This aim of this Guide, which is intended to be a practical work, is to make the managers of SMEs more aware of the ways in which alliances can be forged between enterprises in the European Union. The information on different practices and cultures that this Guide contains offers SME managers:

- information on the ways in which alliances can be set up and run;
- concrete examples of cooperation between enterprises in the same country and between enterprises in different countries ;
- advice on legal and financial methods ;
- information on technical and financial aid, and on the regulations in force in the Member States of the European Union.

Knowledge of the ways in which subcontractors operate is essential if more partnerships between subcontractors are to be promoted. This Guide also looks in detail at the problems raised by the reorganisation of subcontracting in order to cope with increasingly global markets.

Kurt König  
Head of Unit DG Enterprise

## Notes on the production of the Guide

The aim of this guide is to make the managers of industrial subcontracting SMEs aware of the ways in which alliances can be set up in the European Union.

This project has been developed jointly by the Chamber of Commerce and Industry of Lyons and the Commission of the European Union with the assistance of a group of specialists (DATA MASTER, ERNST & YOUNG) and a group of partners from the 15 Member States of the European Union.

An analysis questionnaire, drawn up by the Chamber of Commerce and Industry of Lyons, DATA MASTER and ERNST & YOUNG ENTREPRENEURS, was initially forwarded to the 15 partners in the European Union. The surveying work that these partners carried out made it possible to pinpoint the forms of cooperation and alliances specific to each country. The partners also collected information on alliances in their respective countries.

The replies were then summarised and provided a starting point for the production of the Guide.

## We would like to make five comments on our work:

- The concept of an alliance or consortium is perceived in a relatively similar way in the 15 EU Member States.
- Leaving aside specific regional features, subcontractor development raises the same strategic issues throughout Europe.
- Cultural differences between countries do not have any radical impact on the forms that cooperation takes.
- Language is one of the main barriers to initial approaches and tends to hamper negotiations much more than technical aspects.
- Finding transnational alliances between subcontractor SMEs raised considerable problems for our 15 partners.

## How to use this guide

The three parts can be read separately. Alliances that are of interest to readers can be rapidly selected from the grid of examples organised by country, trades, markets and types of alliance.

Taking those aspects specific to subcontracting as a starting point, **Chapter 1** looks at the ways in which relationships between contractors and subcontractors are changing: from complete production integration to vertical partnerships.

Strategic issues for European subcontractors are then pinpointed from these changes and are linked to the types of alliance that are most commonly encountered.

Finally, after an attempt to define what an alliance means, the main types of alliance between European subcontractors are reviewed.

**Chapter 2** then draws upon ERNST & YOUNG's experience with 150 European enterprises to provide an eight-stage breakdown of the thinking and measures needed before an alliance during the establishment of an alliance. This Chapter is illustrated by a whole range of examples.

**Chapter 3** looks at the features of subcontracting alliances specific to each country. Since account has to be taken of cultural differences when setting up an alliance, this Chapter reviews management methods in each country, focusing on communication, decision-making, concerted action and organisational practices within enterprises.

This Chapter is illustrated by addresses, bibliographies and reports on cooperation. We draw your attention, by way of example, to the Spanish section, where an attempt to set up a cluster (by CLUSTER COMPETITIVENESS) is reviewed, and the Italian section where Flavio IANO (CESDI) reports on "Italian district organisation and relationships".

The **Annexes** review all the resources that the European Union has made available to SMEs in order to promote cooperation.

- 4 Preface
- 6 Examples of alliances
- 8 Introduction

Chapter I

- The issues that alliances raise for subcontractors**
- 10 Subcontracting in Europe
- 14 Changing relationships between contractors and subcontractors  
What challenges do subcontractors face?:
  - 15 - Specialisation and optimum size
  - 16 - Diversification
  - 18 - International development
- 19 What is an alliance?
- 20 Types of alliance

Chapter II

- Setting up an alliance**
- Before setting up an alliance:**
  - 26 - 1 questions: good and bad
- About to set up an alliance: feasibility test:**
  - 28 - Looking for a partner
  - 30 - Evaluating the advantages of the alliance
  - 34 - Discussions and negotiations
  - 36 - The division of power
  - 38 - Repercussions on enterprise assets
  - 40 - The legal package
- After formation:**
  - 42 - Good practices

Chapter III

- The particular forms that alliances take in the member states of the european union**
- The importance of cultural differences
- Dealing with cultural differences
- By country:**
  - Subcontracting and alliances
  - Cultural features
  - Sources of useful information
  - Examples
- Germany (p 48) – Austria (p 52) – Belgium (p 54) – Denmark (p 56) – Spain (p 59) – Finland (p 66) – France (p 70) – United Kingdom (p 74) – Greece (p 78) – Ireland (p 82) – Italy (p 84) – Luxembourg (p 88) – Netherlands (p 90) – Portugal (p 94) – Sweden (p 96)

Annexes

- 102 Strategic analysis of an alliance
- 105 Distribution of net assets
- 106 Particular features of transnational alliances
- 107 Alliances, agreements and competition law
- 107 A table for partner searches
- 108 European Commission resources for SMEs
- 114 Glossary

Title of example	Market	Activity sectors	Interested countries	Type of alliance	Legal structure	
<b>Austria</b> A partnership to make the most of technological advances in plastics precision micro-injection	Telecommunications, automobile, medical	Plastic injection machinery	Austria	Complementary competitors, technological and optimum size alliance	Contract	<b>53</b>
Cooperation to create new components using technical textiles (carbon, glass, metal, etc.)	Automobile, aerospace, sports, plastics industry	Technical textiles (ceramics, carbon, glass)	Austria, Italy	Technological and process alliance	Agreement, technological contract	<b>53</b>
<b>Belgium</b> Belgian road hauliers band together to gain European markets		International road haulage	Belgium	Direct competitors, search for optimum size	GIE	<b>54</b>
<b>Denmark</b> Eight specialist Danish subcontractors get together to offer a global supply	Electronics, communications, medical, hydraulics	Research, mechanical engineering, sheet metal production, foundry work, tools, surface treatment	Denmark	Complementary alliance and network	Framework agreement	<b>58</b>
Viewing process and technology for the seed industry	Agriculture and horticulture	Monitoring and process equipment	Denmark, Netherlands	Technological alliance	Specific contract	<b>59</b>
<b>Finland</b> Wood industry: extended product range and export expertise	Wood industry, wood equipment industry	Engineering, manufacture of materials, woodworking	Finland	Strategic and optimum size alliance	None	<b>68</b>
Penetrating the German market and optimising product range	Joinery industry	Joinery production, wood	Finland, Germany	Partnership, export	Association contract	<b>69</b>
<b>France</b> A Franco-Spanish alliance develops an innovative process in order to supply the Spanish iron and steel industry	Iron and steel	Surface treatment	France, Spain	Direct competitors, strategic alliance	Limited liability company	<b>72</b>
An association of subcontractors manufactures a steam vacuum cleaner for the general public	Domestic electrical goods	Design, moulding, plastics injection	France, Austria, Italy	Complementary colleagues, strategic alliance	Association contract	<b>73</b>
"SME managers" network in Romania	Industrial	Subcontracting	France, Romania	Strategic alliance	Joint venture	<b>22</b>
<b>United Kingdom</b> A network of 15 suppliers to manufacture Calsonic vehicle radiators	Automobile	Aluminium, plastics, rubber, electricity, etc.	Wales	Complementary network	Association	<b>76</b>
<b>Germany</b> Developing product range so that several enterprises can gain a foothold in the European market	Industrial equipment	Electricity supply, electronic components	Germany, Austria, Denmark	Complementary colleagues, commercial and optimum size alliance	No formal structure, contracts	<b>50</b>
An association of European "pressure sensor" leaders to combat worldwide competition	Industrial equipment	Measurement and instrumentation	Germany, Italy	Complementary competitors, commercial and technological alliance	Agreement, conciliation procedure	<b>51</b>
<b>Greece</b> Answering a European call for tender with a local partner	Public	Electromechanical machinery manufacture	Italy, Greece	Strategic alliance	Partnership agreement	<b>80</b>
Pooling European skills to optimise a tool-making technology	Automobile	Tools, prototypes	Greece, Germany, Sweden	Technological alliance	Informal	<b>81</b>
Association of Greek industrial subcontracting enterprises (AGEIS)	Industrial	Subcontracting	Greece	Enterprise network		<b>81</b>

# of alliances

Title of example	Market	Activity sectors	Interested countries	Type of alliance	Legal structure	
<b>Ireland</b> Supply of sub-assemblies to the PC industry	Computer equipment	Cutting/drawing, plastics injection, electronics, assembly	Ireland	Optimum size alliance, complementary colleagues		<b>83</b>
<b>Italy</b> Italian "district" organisation and relationships						<b>85</b>
Transnational alliance to supply a joint range of rubber products	Transport, various industries	Rubber processing	Germany, Italy	Complementary products, joint commercial representation		<b>86</b>
<b>Luxembourg</b> Association of Luxembourg importers	Civil engineering, crafts, schools	Importers of various materials	Luxembourg	Enterprise network		<b>89</b>
The buildings and public works market	Building and public works	Proofing, protection, soil treatment	Luxembourg	Contractors and subcontractors	Non-profit-making association	<b>88</b>
<b>Netherlands</b> KIC project (copiers): from partnership to cooperation between contractors and subcontractors	Office automation	Subcontracting, assembly	Netherlands	Strategic and technical alliance	Agreement	<b>92</b>
<b>Portugal</b> A broader range of foundry expertise and international development		Iron foundry	Portugal	Complementary competitors, commercial alliance	Informal	<b>95</b>
A group of suppliers rescues their main customer	Agriculture, packaging, fisheries	Textiles, rope-making	Portugal, United Kingdom, Denmark	Competitors, strategic alliance	The Weidemann Company	<b>95</b>
<b>Spain</b> Setting up a cluster						<b>62</b>
Development of plastic components for the scooter industry	Scooter industry	Plastics injection, engineering	Italy, Spain	Complementary competitors, optimum size alliance	Limited liability company	<b>63</b>
Competitive production and respect of the environment by Spanish leather producers	Leather users	Leatherworking	Spain	Direct competitors, technological and production alliance	Company	<b>64</b>
<b>Sweden</b> A Swedish SME puts its expertise at the service of the Norwegian Army	Military	Aeraulics	Sweden, Norway	Technological and strategic alliance	Contract	<b>97</b>
Joint commercial representation despite very different enterprise sizes	Wood	Woodworking processes	Sweden, Germany	Complementary products	Contract	<b>98</b>



*Starting up, developing and breathing life into alliances offers an innovative way for SMEs to grow and prosper. These alliances, which are not very common and relatively complex, require new knowledge and different approaches. As an alternative to internal or external growth (mergers, acquisitions), an alliance may in fact allow an enterprise to achieve objectives that it could not envisage on its own because of its lack of human and financial resources or even time. Bearing in mind the major changes in their markets and the new requirements of their customers, it is very rare for subcontractors to have the resources to find appropriate and sustainable responses to these problems on their own.*

*The new continental or even worldwide industrial strategies and purchasing policies that the major contractors are implementing are having substantial repercussions for subcontractors. They can no longer disregard the international dimension even if they deliver only to a local site in the immediate vicinity of their offices. In the future, it may well be that their customers will want them to supply to another site in another country. Their customers will want them to supply the same component or the same sub-assembly to all their factories, wherever they may be in the world. In parallel, their customers may well start to obtain their supplies elsewhere with the result that competition will be much more broadly based.*

*Faced with new competitors not subject to the same economic production conditions, subcontractors will have to adapt and possibly even envisage partnerships with their main competitors. Similarly, providing systems or sub-assemblies rather than basic components will make it necessary for them to acquire new technological knowledge, new industrial processes and new tools. Here again, forging links with partners may make it possible to remain competitive and credible in the market and among customers. Seeking out and setting up national or international alliances may also help enterprises to find the new customers that they need to survive.*

*The European area is nowadays an increasingly natural working area for SMEs. The Single Market is not, however, a completely unified market. Each geographical area, each country and even each region has kept and even developed its specific forms of organisation, expertise, consumption and lifestyle. Rooted in history, in people's education and training and in the structure of society, these differences are not about to disappear! Understanding and coping with these cultural differences is vital for anyone who wishes to communicate and work with a European partner.*

# The issues

## that alliances raise for subcontractors

Taking the specific features of subcontracting as a starting point, **this first Chapter** looks at the way in which relationships between contractors and subcontractors are changing: from complete production integration to vertical partnerships.

Strategic issues for European subcontractors are then pinpointed from these changes and are linked to the types of alliance that are most commonly encountered.

Finally, after defining what is meant by an alliance, the main types of alliance between European subcontractors are reviewed.

- Subcontracting in Europe
- Changing relationships between contractors and subcontractors
  - What challenges do subcontractors face?:  
Specialisation and optimum size  
Diversification  
International development
- What is an alliance?
- Types of alliance

## I • The issues that alliances raise for subcontractors

II • Setting up an alliance?

III • The particular forms that alliances take in the member states of the European Union

IV • Annexes

## • Subcontracting in Europe

• Changing relationships between contractors and subcontractors

• What challenges do subcontractors face?

Specialisation and optimum size

Diversification

International development

• What is an alliance?

• Types of alliance

## Subcontracting in Europe

Subcontracting in Europe has come about largely because of changes in industrial organisation in order to cope with the substantial demand for specialisation and innovation. Faced with a choice between doing it yourself or getting someone else to do it, efficient networks of subcontractors have grown up around the production of complex products.

The term “subcontracting” means different things in different European languages. In some cases it has negative connotations with the result that it is often preferred to use the term “industrial partnership”. The term “subcontracting” is often associated with the relocation or migration of enterprises.

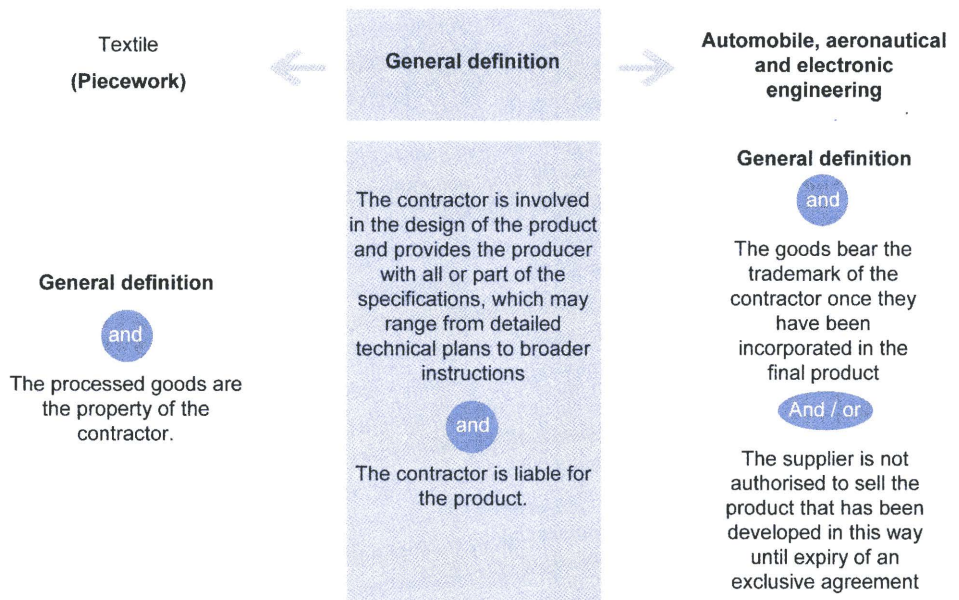
Meetings at European level involving statisticians and representatives from the world of industry (professional associations) have shown that finding a common language is no easy matter.

These discussions have nevertheless made it possible to formulate a definition of subcontracting that is in keeping with its current form (see definition in the following box).

### Definitions of subcontracting in different sectors

*There is a subcontracting relationship when:*

(Source: “European enterprises – Fourth Report” – EUROSTAT – 1996, 171 pages)



Statistical data on industrial subcontracting in Europe are few and far between and are not very comparable.

The study “The new industrial subcontracting in Europe”, 1997, contains, however, figures for the automobile, electronics, aeronautical and textiles and clothing sectors.

SMEs play a key role in the new kind of industrial organisation that subcontracting represents. It is interesting, therefore, to look at some quantitative and qualitative data on European SMEs, taken from “European enterprises – Fourth report” by EUROSTAT.

## New industrial subcontracting in Europe

New industrial subcontracting in Europe presents the results of a pilot statistical study by Eurostat, commissioned by ex-DG XXIII of the European Commission, in which four sectors were surveyed and studied:

- automobile engineering,
- electronics,
- textiles and clothing,
- aeronautical engineering.

The proportion of contractors' purchases for which subcontracting accounts, the proportion of subcontractors' turnover for which subcontract sales account, the geographical range of subcontract

trading and lastly the main features of the links between contractors and subcontractors (existence of contracts, supply of materials, cooperation on research and development, etc.), were studied for each sector.

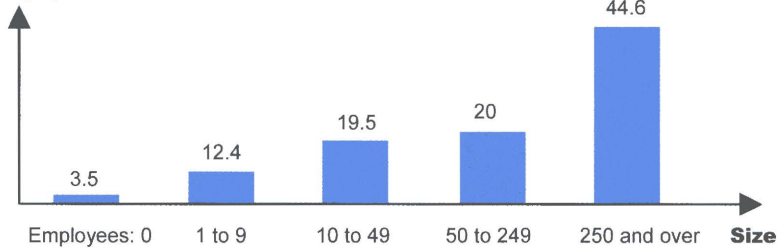
The measurements, using harmonised methods and concepts, taken by this pilot study are now helping to improve our understanding of the ways in which the industrial relationships that structure four main sectors of the European economy are organised.

*Luxembourg : Office for Official Publications of the European Communities – 1997 – 120 pages – ECU 19) or your EIC*

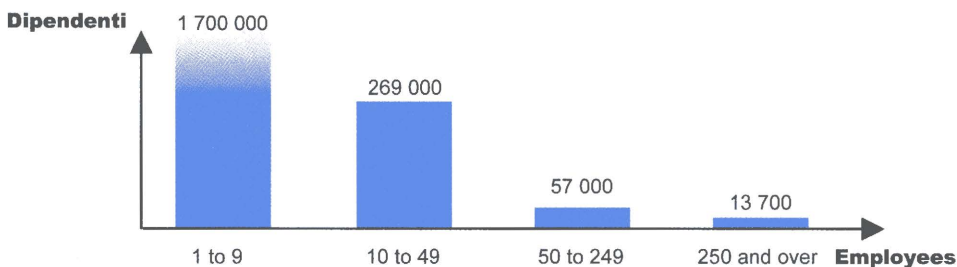
## The facts:

- In the European Union: 16 million enterprises, including 2 million in manufacturing industries\*;
- SMEs form the backbone of the Europe of 15 (90% of enterprises employ less than 10 people);
- Manufacturing industries\* account for 30 million jobs and turnover of ECU 3 364 billion;
- SMEs account for 55.5% of employment in these manufacturing industries\*;

**Distribution of employment (%)**



- Manufacturing industries\* – number of enterprises:



*\*Manufacturing industries:  
Metal articles (NACE 31) – mechanical engineering (NACE 32) – computers and office automation (NACE 33) – electrical and electronic engineering (NACE 34) – automobile engineering (NACE 35) – other transport (NACE 36) – precision instruments (NACE 37) – agri-foodstuffs (NACE 41 and 42) – textiles and clothing (NACE 43 to 45) – wood, paper, plastics (NACE 46 to 49).*

**I • The issues that alliances raise for subcontractors**

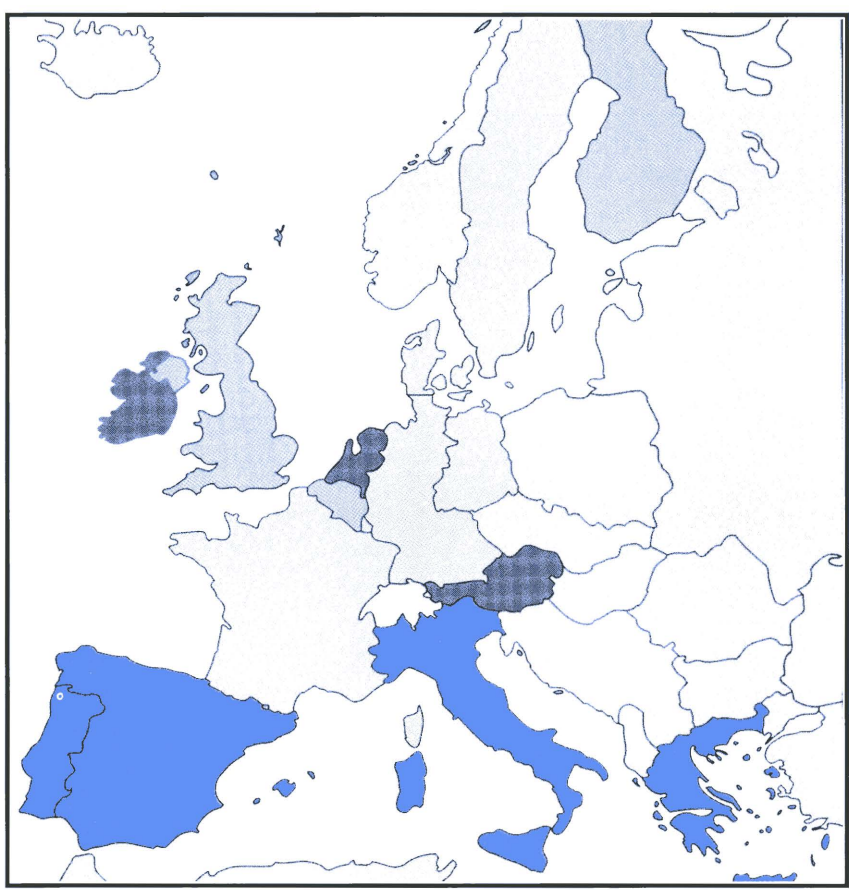
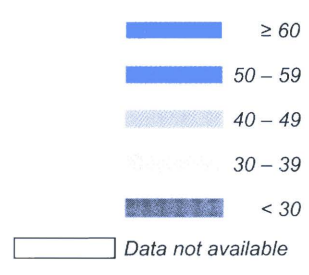
- II • Setting up an alliance?
- III • The particular forms that alliances take in the member states of the European Union
- IV • Annexes

**• Subcontracting in Europe**

- Changing relationships between contractors and subcontractors
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**Enterprise density in 1992**

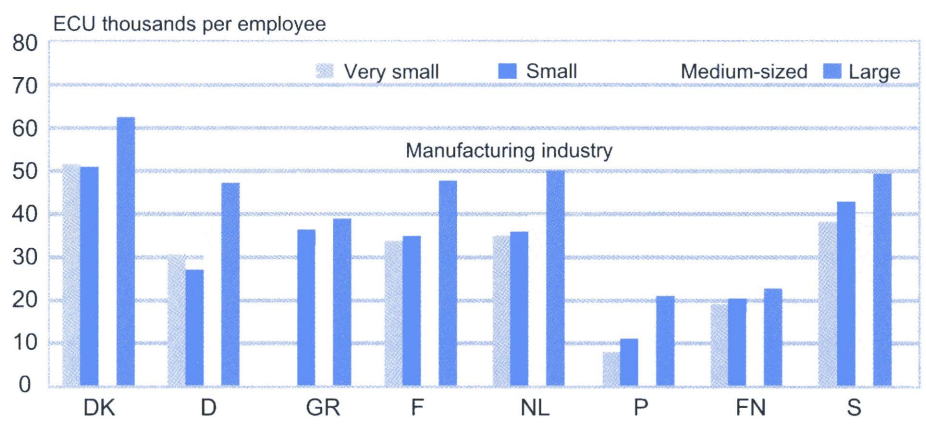
Number of enterprises per 1000 inhabitants



Statistical data: EUROSTAT  
Mapping and geographical information management: GISCO

**Labour force productivity in manufacturing industries\***

Added value is calculated by deducting the cost of all raw materials and goods and services purchased and used by the enterprise from total turnover. Calculating this economic quantity is not easy; not all countries are able to supply such data and data quality is not always very high with the result that care needs to be taken when making comparisons between countries. In manufacturing industry, labour force productivity increases with enterprise size.



## Mechanical engineering: key figures by country

By way of example, we shall analyse the "MECHANICAL ENGINEERING" - NACE 32 sector. The same kind of information can be found for other sectors in "European enterprises – Fourth report".

Enterprises in the mechanical engineering sector generally produce capital goods that are used in production processes. The sector is highly dependent on the general economic climate surrounding investment.

Medium-sized and large enterprises provide 70% of jobs and generate three quarters of turnover. The average size of enterprises is, however, "small", the European average being 21 people.

Key figures by country in 1992

EUR 15	142 213	2 953 068	283 483
<b>B</b>	1 326	41 872	5 674
<b>DK</b>	2 010	63 002	5 549
<b>D</b>	18 427	1 162 755	108 159
<b>GR</b>	353	6 541	263
<b>E</b>	13 904	104 683	n/a
<b>F</b>	11 258	267 044	32 096
<b>I</b>	27 908	464 298	n/a
<b>L</b>	30	2 900	304
<b>NL</b>	2 535	88 222	6 174
<b>A</b>	694	66 879	7 385
<b>P</b>	3 558	41 072	1 584
<b>S</b>	3 527	86 164	10 521
<b>UK</b>	42 776	753 795	56 801
<b>N</b>	2 212	37 916	3 743

Breakdown of employment by personnel numbers

	0	1-9	10-49	50-249	250+
<b>EUR 15</b>	2.8	7.3	19.3	24.9	45.7
<b>B</b>	n/a	3.4	18.1	24.8	53.7
<b>DK</b>	0.7	6.5	20.5	31.6	40.7
<b>D</b>	0.1	3.0	12.8	19.8	64.3
<b>GR</b>	n/a	n/a	70.8	20.8	8.4
<b>E</b>	16.2	13.9	32.6	22.2	15.1
<b>F</b>	n/a	7.2	20.8	30.8	41.2
<b>I</b>	n/a	13.8	31.7	28.7	25.8
<b>L</b>	n/a	0.8	7.6	33.7	57.9
<b>NL</b>	n/a	6.7	27.8	38.7	26.8
<b>A</b>	0.0	0.7	13.2	34.8	51.3
<b>P</b>	2.6	12.8	32.7	33.7	18.2
<b>UK</b>	13.7	-	15.0	20.8	50.5
<b>N</b>	n/a	7.2	9.7	17.5	65.6

E, L, UK: 1991

B, F, L, NL, S: employment

D, L, NL: large means 200 or more employees  
GR: data available only for units with 10 or more employees

I: the 0 size class is not available

UK: the first size class is 0-9

B: the data on employment are from a different source

L: NACE 32, excluding NACE 325

S: NACE 32, including NACE 346p. 675p

## European commission measures to promote subcontracting

In addition to this "European guide to alliances between subcontractors", Directorate B (Enterprise information, cooperation between enterprises and improved competitiveness) of DG XXIII (Enterprise policy, distributive trades, tourism and cooperatives) has launched a number of programmes of action to promote international trade between European enterprises, in particular schemes to match up partners from different countries:

- study of new industrial subcontracting in Europe,
- practical guide to the legal aspects of industrial subcontracting,
- pilot programme in the domestic electronics sector, multilingual sectoral glossaries,
- the SCAN (Subcontracting Assistance Network) project for decentralised interconnection and inter-operability of databases on subcontracting in Europe,
- European directory of subcontracting organisations,
- the organisation of forums and conferences,
- the promotion of subcontracting in non-EU countries (Japan and the United States),
- the "Human Resources Training Programme", given in Japan and intended for European managers,
- the organisation of "reverse" trade fairs,
- the dissemination of information on European programmes via the Euro Info Centres,

- building up cooperation between SMEs via the following programmes:

BRE (Business Cooperation Office) which disseminates cooperation offers,

BC-NET (Business Cooperation Network), a network of counsellors at all geographical levels,

Europartnership, more specifically targeted on regions that are less developed or in industrial decline (regional policy objectives 1 and 2),

Interprise (an initiative to encourage partnerships between industries and/or services in Europe) which supports the initiatives of local, regional or national bodies.

For further information, contact your EIC or  
EUROPEAN COMMISSION  
Directorate General Enterprise  
Rue de la Loi 200 – B 1049 BRUSSELS

## I • The issues that alliances raise for subcontractors

- Setting up an alliance?
- The particular forms that alliances take in the member states of the European Union
- Annexes

- Subcontracting in Europe

## • Changing relationships between contractors and subcontractors

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## Changing relationships between contractors and subcontractors

### Mass production: from integration to subcontracting

During the 1950s and 1960s, large industries in Europe were organised around mass production. The objective was to produce substantial volumes of components in order to obtain economies of scale and to build up experience.

The same enterprise manufactured a complete product at the same production site (vertical integration of all added value).

Structures of this kind, which were heavy and inflexible, found it very difficult to adapt to fluctuations in market demand.

In order to resolve the problems raised by short-term or seasonal production overloads, these large industries outsourced part of their production to small units/small workshops (capacity subcontractors).

Subordinate to their customers, subcontractors fulfilled orders while respecting specifications. The main aim was to reduce costs.

### Cost, deadline, quality: towards the vertical partnership

From the 1960s onwards, the automobile industry in Japan applied the principles of just in time production to its suppliers; this kind of organisation uses total quality and continuous flow production methods.

The objectives were to :

- reduce production costs,
- improve quality,
- reduce deadlines,
- produce with a minimum of stock.

These changes in relationships between contractors, suppliers and subcontractors spread over the next twenty or so years to Europe and the United States.

Contractors and subcontractors gradually began to specialise in their key skills. They became increasingly interdependent.

This situation created relationships of strength differing from those in an entirely competitive market. The notion of the customer-supplier partnership or vertical partnership replaced conventional relationships.

### Towards close cooperation between contractors and subcontractors

In a conventional vertical partnership, the contractor's aim is to reduce transaction costs and the costs of organising dealings with his subcontractor. His main objective is generally to optimise product development and to control dependency on suppliers.

Seen from the point of view of the subcontractor/supplier, as described by C. Donada (Revue Française de Gestion – June/July 1997), the supplier can choose between two strategies: he can remain a "loyal collaborator" of the contractor and simply meet his orders or he can become a "key partner" and offer functions and product sub-assemblies. In this latter case the customer and the supplier agree to share risks and responsibilities by coordinating their skills and resources.

**I • The issues that alliances raise for subcontractors**

II • Setting up an alliance?

III • The particular forms that alliances take in the member states of the European Union

IV • Annexes

• Subcontracting in Europe

• Changing relationships between contractors and subcontractors

**• What challenges do subcontractors face?:****Specialisation and optimum size**

Diversification

International development

• What is an alliance?

• Types of alliance

## Specialisation and optimum size

In order to retain contractors' trust, enterprises, especially European enterprises, must keep their expertise up to date. The processes that they use have to be at the leading edge of technology. Managers regularly have to invest in production tools, research and development and training. What the enterprise receives in return for this is an enhanced image.

Specialisation is therefore a must for SMEs wishing to remain successful and at the top of their trade.

Contractors also expect subcontractors to be able to :

- work together with their own technical teams on research and development,
- offer functions, sub-assemblies and complete products,
- offer a global supply,
- take responsibility for purchasing, logistics and stock management.

While maintaining a great deal of flexibility, product quality also has to be consistently irreproachable.

Not all these requirements need to be satisfied to the same extent or in all circumstances. Depending on markets, activities and product lines, they do, however, make it necessary for SMEs to achieve an optimum size. This is the size at which SMEs can meet customers' expectations in the best possible way in terms of competitiveness.

### **Why an alliance?**

- To provide complete sub-assemblies or a global service and not just a single component.
- To pool the resources needed for investment in specialisation within the alliance.
- To share certain enterprise functions so that the optimum size can be achieved in group terms.
- To react quickly to customers' orders by combining the flexibility of the grouping's skills with the enterprise's necessary specialisation.

When markets are uncertain and it is therefore difficult for enterprises to free up their own resources, an alliance makes it possible to react quickly and flexibly to customers' requirements.



**I • The issues that alliances raise for subcontractors**

- II • Setting up an alliance?
- III • The particular forms that alliances take in the member states of the European Union
- IV • Annexes

- Subcontracting in Europe
- Changing relationships between contractors and subcontractors

**• What challenges do subcontractors face?:**

Specialisation and optimum size

**Diversification**

International development

- What is an alliance?
- Types of alliance

## Market/trade diversification

A favourable economic climate or the discovery of areas with considerable development potential sometimes encourage enterprise managers to diversify their business.

Diversification is nevertheless a risky development strategy. It should not be tried out by an enterprise that is in financial difficulties. Too much risky or even badly planned diversification will tend to destabilise an enterprise and dilute its core skills.

Successful diversification often takes place after an enterprise's core trade has been consolidated.

Subcontractors with a solid foothold in their markets and a specific production process can take the following steps:

- market diversification,
- trade diversification,
- total diversification.

### Market diversification

An enterprise decides to branch out and find new customers.

A development of this type has the advantage that the enterprise grows at a faster pace and the risks of dependence on a single market are limited. Economies of scale from the point of view of production and other enterprise functions can also be achieved.

Example :

Two plastic injection companies, one working for the moped market and the other for the automobile industry. These enterprises have formed a fixed-term alliance in order to optimise their production capacity. The alliance makes it possible for them to offer their customers a higher production capacity, while each remaining the leader in their own market.

#### Why an alliance?

- to help one partner benefit from the other partner's customer and market experience;
- to represent a partner in markets with which the other partner is familiar and where they are well-known.

### Trade diversification

The enterprise wants to be able to supply a market segment with a complete range of products and expertise.

A development of this type has the advantage that it steps up the added value that the customer can be offered. Successfully increasing added value through product research reduces dependency on a trade that is overly narrow. The enterprise is also less likely to be destabilised by any replacement expertise available from competitors.

	Trades				
	1	2	3	4	5
Clients					
A					
B					
C					
D					
E					

Example :

A plastic injection company forges an alliance with a moulding concern and a research consultancy in order to offer its customers a complete function.

**Why an alliance?**

- to provide the grouping with its expertise and know-how;
- to offer a global supply;
- to assist the contractor with his research.

Clients	Trades				
	1	2	3	4	5
A					
B					
C					
D					
E					

**Total diversification (market and trade):**

In the case of market diversification, an enterprise will be in competition with larger enterprises on markets that are often much more extensive. Its products and expertise will need to be developed from a technological point of view.

In the case of trade diversification, the enterprise has to be fully aware of the final customer's needs and be in complete control of the range of products: this means combining expertise with production processes in order to offer finished solutions to purchasers.

Clients	Trades				
	1	2	3	4	5
A					
B					
C					
D					
E					

Subcontractors cannot control all of these factors on their own. Successful total diversification is no more than a dream.

**Why an alliance?**

In order to get round these problems, enterprises can enter into alliances with companies which will take responsibility for coordinating and regrouping skills. An engineering company working for a whole range of specialist subcontractors in order to supply one or more customers with a complete system or solution could perhaps play such a role.

## I • The issues that alliances raise for subcontractors

II • Setting up an alliance?

III • The particular forms that alliances take in the member states of the European Union

IV • Annexes

• Subcontracting in Europe

• Changing relationships between contractors and subcontractors

### • What challenges do subcontractors face?:

Specialisation and optimum size

Diversification

### International development

• What is an alliance?

• Types of alliance

## International development

The increasingly global economy and the opening up of European markets mean that subcontractors can no longer disregard the potential offered by an export strategy. The high-level skills and expertise that European subcontractors have acquired in meeting the demand from national contractors is making them increasingly competitive internationally.

As national markets are not large enough to achieve economies of scale, export strategies offer subcontractors new outlets and more attractive margins.

An export strategy should not, be undertaken lightly: an enterprise's size, structures and resources must be in keeping with the strategy. Subcontractors should take care that their resources are not frittered away in overly ambitious schemes that cause them to lose some of their competitive edge in local markets.

Moreover, language skills within SMEs, although varying among the EU Member States, often place a curb on export strategies.

Increasingly specialist industrial cultures and networks that have grown out of specific production factors are developing in the European regions. The comparative advantages of a particular country or region often play a key part in contractors' decisions as to where they should locate.

If subcontractors wish to stay in business they must therefore be able rapidly to follow their customers to new industrial areas.

Historically, each EU Member State has had preferential trading links with other countries on other continents. For an enterprise, joining together with and profiting from the experience of a European colleague is one of the best ways of gaining time when looking for export business.

As they move into world markets, contractors are increasingly demanding that their suppliers and subcontractors follow them. Many examples show that a cooperation strategy is the best way of meeting these challenges head on and the most appropriate way for two or three enterprises rapidly to enter into a foreign joint venture.

### *Why an alliance?*

- Rapidly finding a foothold in a new market through the offices of a foreign partner in order to get round problems connected with different practices and languages and to avoid a risky and costly relocation;
- penetrating other continents by drawing on the experience of a European colleague;
- following contractors into European and world markets.
- enhancing the enterprise's national image by developing an international image.

- Subcontracting in Europe
- Changing relationships between contractors and subcontractors
- What challenges do subcontractors face?:
  - Specialisation and optimum size
  - Diversification
  - International development

**• What is an alliance?**

- Types of alliance

**What is an alliance ?**

According to the opinions of specialists in the various EU Member States and in the language of European managers, no significant dividing lines are drawn between the terms: alliance, partnership, cooperation, network, grouping, etc.

There is, however, a consensus that the notion of the alliance characterises and represents a management method.

**An alliance is a way of limiting transaction costs**

In theory, an alliance is often seen as a way of limiting transaction costs between enterprises:

- negotiation costs,
- contract formation costs,
- costs of stocks and shares.

Savings made by reducing transaction costs make it possible for each enterprise to remain competitive without applying a whole range of margins that are prejudicial to a product's retail price.

**An alliance is a reciprocal, limited, progressive and reversible undertaking between partners in order to gain a key competitive edge**

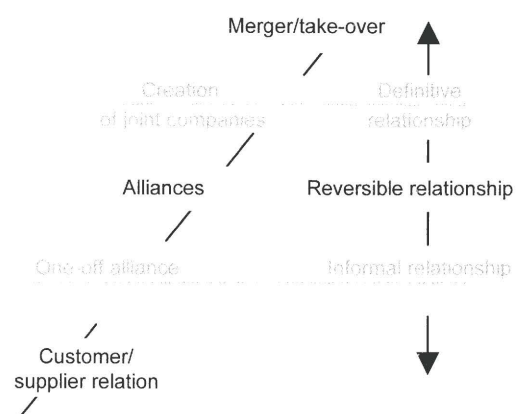
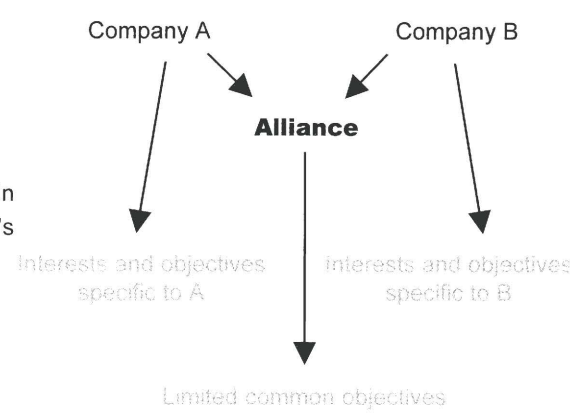
Enterprise practices would tend to show, in contrast to the conventional vertical partnership, that an alliance can be defined as "a reciprocal, limited, progressive and reversible undertaking between two or more partners intended to improve their respective performance and help them to acquire a key competitive edge" (Ernst & Young definition):

- **reciprocal**: two (or more) enterprise managers are each involved elsewhere and have genuine qualitative and quantitative interests in the alliance;
- **limited**: the partners use the alliance to work towards common objectives, but each retain their own business;
- **progressive**: the partners start to find out about one another through one or two initial business dealings. In contrast to a merger or take-over, an alliance gives each partner time to evaluate the other partner;
- **reversible**: the partners can leave the alliance if the results achieved are not satisfactory.

Note: these characteristics are obviously more or less pronounced depending on the nature of the alliance and the stage that has been reached.

**Legal position of the alliance**

The legal component should be considered as a means and not an end in itself. It positions the alliance as a relationship somewhere between a conventional customer/supplier relationship (where the price of a service is fixed) and a merger or take-over of an enterprise (where the enterprise is given a value).



## I • The issues that alliances raise for subcontractors

II • Setting up an alliance?

III • The particular forms that alliances take in the member states of the European Union

IV • Annexes

• Subcontracting in Europe

• Changing relationships between contractors and subcontractors

• What challenges do subcontractors face?:

Specialisation and optimum size

Diversification

International development

• What is an alliance?

## • Types of alliance

## Types of alliances

As these kinds of groupings are not at all comparable, we need to look at categories or types of alliance.

Actual situations and the comments that we received throughout Europe would tend to point to three types of alliance, shaped by:

- types of partners: customers, suppliers, colleagues;
- nature of relationships: competition, non-competition, complementary;
- types of cooperation: networks, technological and commercial partnerships, optimum size alliances.

## Types of partners: customers, suppliers, colleagues

Depending on the enterprise's situation in the product's value chain, this first type of alliance can be divided into two types of relationship:

- vertical partnerships,
- strategic alliances.

### Vertical partnerships

In this case the enterprise forms a relationship with its customers and/or suppliers.

Good practices likely to make this type of cooperation successful are described in the document "1997 Guide for industrial subcontracting partnerships".

This type of relationship may progress towards closer cooperation between the contractor and subcontractor. In such cases, cooperation then takes the form of a strategic alliance for both enterprises.

### Strategic alliances

The aim of these alliances, which are much more horizontal in nature, is to allow SMEs (whether or not in competition) to set up projects through which they can "improve their respective performance and acquire a key competitive edge".

The methods described below are in keeping with this type of alliance.

## Practical guide to legal aspects of industrial subcontracting in the European community

This practical guide is intended to improve contractual relationships between contractors and subcontractors, especially when these relationships are of a transnational nature.

The guide takes a comparative approach to the legal environment surrounding subcontracting relationships in each of the European Union Member States.

The guide, written in a language that is accessible to the lay person, will also be of value to the lawyers that small and medium-sized enterprises frequently consult.

(Office for Official Publications of the European Communities or your EIC)

## Nature of relationships: competition/non-competition, complementary

In this second type of alliance, the importance of the activity (strategic or support) has to be seen against the nature of the relationship between the enterprises (complementary or competitive); this provides four possible types of alliance between subcontractors.

### Complementary/competitor enterprises

Enterprises are complementary when their products, services or technologies can be marketed together. A more extensive product range can then be offered to customers. Enterprises are competitors when they are competing for the same customers.

### Strategic/support activities

Business can be seen as a sum of expertise that is supplied to a customer. Some expertise is considered to be strategic while other expertise tends to take the form of support activities. Strategic expertise helps to make the enterprise competitive and specific to its customers. Support activities can be more readily pooled or subcontracted. Four types of alliance are therefore possible between subcontractors.

- **A:** two subcontractors supply different products to the same customer and decide to pool their transport.

In this case, logistics is not part of the enterprises' core skills. As a result of the alliance, however, the subcontractors can reduce their transport costs. This alliance will be relatively easy to implement as the enterprises are not in competition.

- **B:** two motorcycle component producers manufacturing chromium-plated stands decide jointly to invest in a chromium-plating workshop.

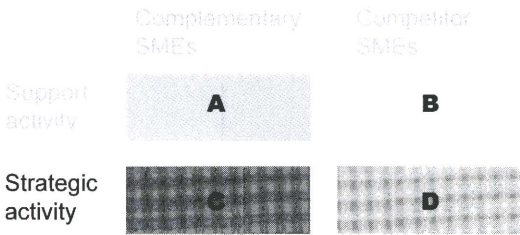
In this case, the enterprises are competitors, but the expertise involved in the chromium-plating of stands does not play a strategic part in the production of the motorcycle. Working together in this way makes it possible to achieve economies of scale and to be more competitive than other competitors from the point of view of price.

- **C:** a plastics injection firm and a moulding company decide to pool their sales activities.

Although sales activities are strategic, both enterprises are able to benefit from a larger product range.

- **D:** two competing sheet-making firms decide to forge closer links to increase their size so that they can specialise in work on sheets of different thicknesses.

An alliance between two direct competitors is much more difficult to implement. It may, however, lead in the long term to solid cooperation.



## I • The issues that alliances raise for subcontractors

II • Setting up an alliance?

III • The particular forms that alliances take in the member states of the European Union

IV • Annexes

• Subcontracting in Europe

• Changing relationships between contractors and subcontractors

• What challenges do subcontractors face?:

Specialisation and optimum size

Diversification

International development

• What is an alliance?

## • Types of alliance

## GUIDE TO INDUSTRIAL SUBCONTRACTING PARTNERSHIPS (1997)

This guide sets out the main principles of and an appropriate framework for partnerships between subcontractors.

The guidelines put forward in this guide are intended to make European industry more competitive by ensuring that relationships between suppliers and contractors are based on a spirit of cooperation and fair competition.

A further objective of the guide is to provide a starting point for parties negotiating a subcontracting agreement:

- general rules of cooperation,
- price, costs and payment conditions,
- quality,
- confidentiality and industrial property rights,
- logistical cooperation between suppliers and contractors,
- specific production methods.

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### Types of cooperation: networks, commercial and technological alliances, optimum size alliances

In practice, there are four main types of cooperation: networks, technological alliances, commercial alliances and optimum size alliances.

#### Networks

In this case a number of enterprises group together informally (as an association) to find an answer to short-term changes in a trade in a region. The objectives are more to make the local economic fabric more dynamic than to find answers to the individual strategic problems of the enterprises involved. Under the aegis of one or more major local contractors, their activities are often subsidised and managed by local authorities and can be summarised as follows:

- joint participation in national or foreign trade fairs;
- training, contacts between managers;
- pooling of skills (establishment and follow up of quality);
- giving priority to group members in business dealings.

Each enterprise retains its own autonomy and independence from the group (see the following example).

### “SME managers” Network in Romania

**Market:** industrial

**Countries involved:** France, Romania

**Sector:** subcontracting

**Type of alliance:** strategic

**Legal structure:** joint-venture

In 1992, a group of SME managers from very different types of businesses attended two days of management training every month for a year. A climate of mutual esteem and friendliness had soon developed between these 20 managers from the Rhône-Alpes area.

In order to “keep in contact”, they set up an association, BNE, to organise thematic training days for members of the group so that they could then continue to meet one another.

After a valuable seminar on exports and joint ventures, they decided to put their knowledge to the test and, through a Romanian friend, several of them set up an import/export sales company for public works materials in Romania.

This initial experiment, watched with interest by the other group members, fired the team with enthusiasm.

At the end of 1996, therefore, they entered into negotiations with the municipality of Oradéa in Romania with the aim of setting up an industrial zone. Up to now, several enterprises have been set up in partnership with local entrepreneurs (surface treatment, aluminium foundry work, etc.).

## Commercial alliances

The main aim of alliances of this type is one of joint commercial development and the establishment of a commercial network. They account for by far the largest number of alliances. They bring together competitors working in different geographical areas or enterprises having products complementing one another in the same market segment so that commercial representation can be shared.

Note : Simple commercial representation or agencies should not be confused with a commercial alliance since they generally take the form of distribution agreements.

## Technological alliances

These alliances allow for cooperation between subcontracting enterprises with substantial technological potential. They are used to develop new manufacturing methods (electronics, heat treatment, foundry work, etc.). Supported by European or national funding programmes, partner enterprises group together in order to jointly develop a process.

While links are strong during the research stage, they often come to an end once the joint project is completed.

### The Eureka project on optical diffraction technology

The recently created Finnish company HEPTAGON OY has filed an innovative patent in the field of optical diffraction technology - DEO - (hologram markets, optical disk systems, optical interconnection).

Thanks to the support of the programme EUREKA-FOTA (EU 922), Mr Jyrki Saarinen (HEPTAGON OY) established an alliance with another Finnish company, OY NANOCOLP Ltd. The latter conceived

and produced a mould-making machine, which can manufacture replicas.

A third partner from the UK, EPIGEM in Middlesborough, is currently using this mould for mass production (DEO).

All the partners had met previously and they are complementary to one another in terms of competence. This project is expected to open the doors to the North American market.

**Market:** optical interconnection, holograms, optical disk system

**Countries involved:** Finland, UK

**Sector:** optical system

**Type of alliance:** technological alliance

**Legal structure:** EUREKA Programme

## Optimum size alliances

These alliances concern a small number of enterprises. After strategic thinking about the plan to be implemented, research and selection of partners, enterprises gradually pool several functions (sales, research, production, purchasing departments, etc.). Among subcontractors, cooperation of this kind is often the result of pressure from contractors.

This kind of alliance is often difficult to manage, but the results are often worth the effort (reputation, new customers, significant increase in turnover, exports, etc.). The partners in the alliance may also become more integrated.





In Part 1, we describe the changing relationships between subcontractors and contractors and showed that alliances between enterprises are a good way of coping with the industrial problems that SMEs face.

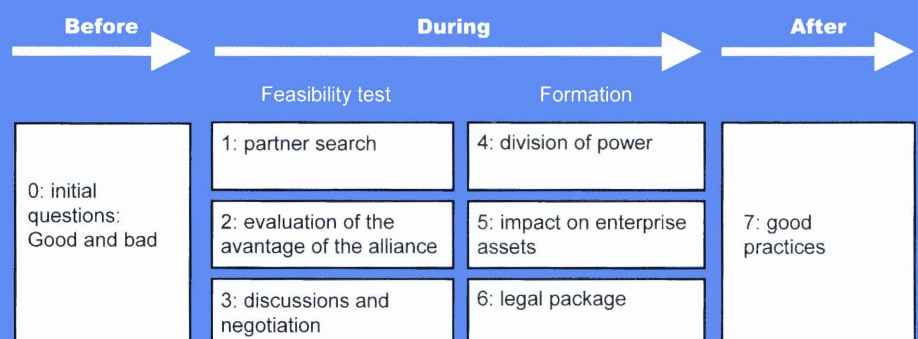
# Setting

# up an alliance?

On the basis of the experiences of 150 European enterprises, **Chapter 2** breaks down into seven stages the thinking and measures that need to take place before and during the formation of an alliance.

A distinction is made in this Chapter between alliances between complementary colleagues and between direct competitors.

When necessary, there are also comments on the differences between network alliances, commercial alliances, technological alliances and optimum size alliances.

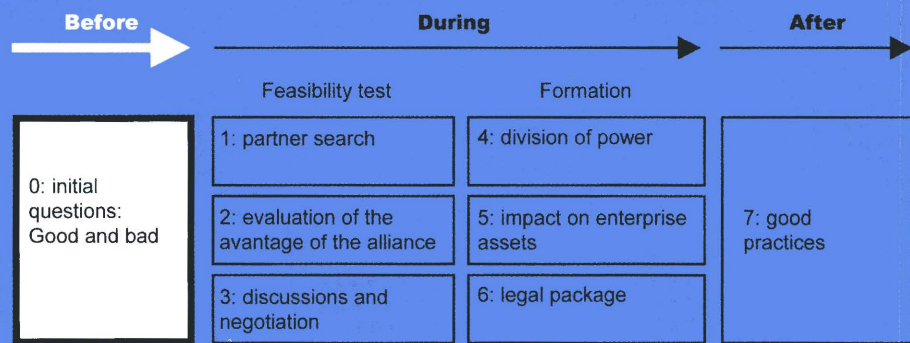


I • The issues that alliances raise for subcontractors

## II • Setting up an alliance?

III • The particular forms that alliances take in the member states of the European Union

IV • Annexes



## Before setting up an alliance

### Stage 0 : the wrong questions that managers ask

*Managers who are envisaging forming an alliance naturally ask themselves a whole range of questions some of which can lead to impasses or make them overly nervous. Here is a list, taken from the comments made by one hundred and fifty SME managers in Europe over the last two years.*

*"How can the day-to-day question of power sharing be resolved and who will be the "boss" in the long term?"*

The question of the division of power often places a barrier in the way of further discussion as SME managers are wrongly convinced that the alliance requires a single manager. Power often needs to be equally shared even when contractors make it a condition that they deal with only one interlocutor.

*"What legal structures need to be set up?"*

Initial discussions often focus on the choice of a legal structure or type of agreement when in fact the starting point for the alliance is to identify potential joint measures.

*"I am willing to consider an alliance provided that my partner shows me signs of good will as I am afraid that he is attempting to take me over."*

Alliances, especially optimum size alliances, are often set up in a "defensive" context under pressure from the market and contractors. Managers thus feel "threatened" which is hardly a basis for further discussion. It is often necessary to involve a third party from outside who can provide a degree of neutrality and pave the way for further discussion.

*"Let's start with a joint company brochure and go on from there."*

"Brochure alliances" do not work!

Many managers start, however, by drafting a joint brochure or even recruit a sales assistant to build up joint turnover. Colleagues already have a foothold in markets, however, and a joint brochure does not provide any major competitive advantages. Joint entry into a market is not advisable until rules on invoicing have been explicitly laid down and there has been agreement as to who will do what.

*"If I go into an alliance, how will I sell on my business?"*

It is necessary - but not always easy - to anticipate what the future holds for each of the companies after the alliance. If the alliance is successful and gains an edge in the market, it may be useful in the long term to set up a joint company. Careful planning in advance may even make it possible to find a financial package which makes it easier to transfer the businesses in question. Alliance agreements should also include clauses setting out conditions for the entry of new partners and explicitly regulating the conditions under which partners can enter and leave the alliance.

**Managers who have not yet formed an alliance tend to ask about the future (division of power, legal structures, etc.), .../...**

## The right questions to ask

---

*The following comments are drawn from interviews with managers of 150 SMEs who have already formed alliances with colleagues.*

*"The division of power is not the right question. It is more necessary to decide who is to be the project manager for each of the various joint actions."*

It is essential to draw up a list of joint actions and at the same time to decide who is to be responsible within each of the enterprises for progressing each of these joint actions. Working with partners from each enterprise builds up loyalty towards the alliance.

*"The legal set up is of no great importance: an alliance is a dynamic and not a legal structure that is governed by the market; either you accept this and make the necessary compromises or you do not form an alliance."*

Successful alliances are all "market driven". Consequently, it is often sensible to agree on what the market expects (by interviewing a number of customers and especially any shared customers), and to adapt each enterprise's organisational methods to customers' expectations. Building up this "shared vision" of the market has to be one of the first stages of an alliance so that individual partners cannot impose their own "visions".

*"Building up trust between the partners through joint actions is very difficult. Actions and their results must take a concrete form."*

Trust is built up gradually and requires detailed knowledge by each partner of organisational methods, the ways in which retail prices are fixed, market research methods, etc. This takes time (at least six months); a starting point may be to organise concrete actions that provide modest but immediate results, such as exchanges of purchasing conditions, introductions to clients, identification of sub-assemblies that can be jointly produced, etc. .

*"Trust is not just a matter of course and has to be won and if there is to be trust there must be a clear-cut division of business".*

All alliances entail specialisation: finding everyone's areas of excellence underpins the formation of an alliance; this may be a particularly tricky area especially when competitors are involved.

*"The key question is neither the division of power nor legal structures but the rules by which turnover from existing and new customers is to be divided up and everyone's particular responsibilities and roles."*

Even though an alliance is set up gradually, concrete results (however modest they may be) need to be achieved within six months. It may well be, however, that a year or more is needed for initial commercial successes.

*"If an alliance is to be set in motion and sustained, each partner has to gain some advantage from it and the market has to provide business for all the partners involved."*

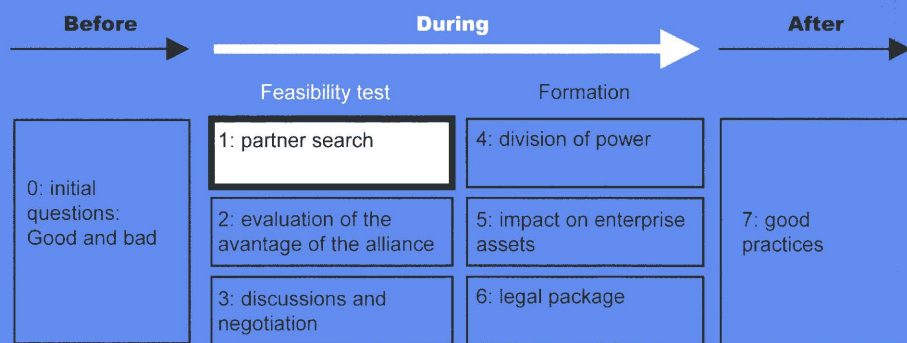
**whereas managers who are forming an alliance take market expectations (joint actions, division of turnover, etc.) as their starting point.**

I • The issues that alliances raise for subcontractors

## II • Setting up an alliance?

III • The particular forms that alliances take in the member states of the European Union

IV • Annexes



## About to set up an alliance: feasibility test

The feasibility test needs to be repeated for all three initial stages.

### Stage 1: looking for a partner

Although the search for a partner is a key aspect, what is actually crucial is the way in which partners are approached. Alliances often come about, however, from chance encounters: this explains why there are so many failures and so much wasted time - while managers may get on with one another the same does not necessarily apply to enterprises.

There are many forms of alliance and types of partner, but the most solid alliances (and the most difficult to achieve) are those that bring together:

- complementary colleagues
- direct competitors.

**Complementary alliances:** a large number of alliances are formed between complementary colleagues as any problems raised by the distribution of business and specialisation can be readily resolved: "it is easier because we are not in competition". In fact, it is always necessary precisely to lay down rules on invoicing and to avoid internal margins that are unlikely to pave the way for a solidly rooted alliance.

Potential commercial synergies between complementary SMEs are not as evident as they might appear at first glance. Purchasers may lack faith in a supplier who offers them a new range of products (their partner's products) for which they lack the necessary expertise (a mechanical engineering enterprise cannot, for instance, readily "sell" the services of a colleague in the plastics engineering field).

In the case of complementary alliances, a great deal of care needs to go into the search for and choice of a partner and it is best not to jump at the first opportunities that arise.

Finding out whether sub-assemblies can be jointly produced or whether the market perceives the range of services to be complementary are crucial in choosing a complementary partner.

Complementary alliances may well be easier to set up than alliances between direct competitors. but are more difficult to organise from a commercial point of view.

**Direct alliances:** in contrast, alliances between direct competitors provide the genuine commercial synergies that play a key part in making alliances successful. They are, however, more difficult to organise as the rules by which business is to be distributed in keeping with everyone's strengths need to be explicitly laid down.

The crucial aspect of any search for a partner is precisely whether business can be explicitly divided up.

***You should not just jump at the first partner that you meet (this is one of the reasons why so many alliances fail to get off the ground); alliances based on an extensive partner search have proved to be more solid.***

## What form should the search take and how can partners be identified?

- Informal, passive search:
  - the partner is already known,
  - a chance encounter has started the ball rolling.
- Formal, active search :
  - databases, professional directories, trade fairs,
  - list of subcontractors and colleagues of which the contractor and main customers have first-hand knowledge,
  - help from external sources (consultants, chambers of commerce, etc.),
  - others, etc.

(A standard selection grid is annexed on page 107).

*In the case of foreign markets, normal practice is firstly to identify a partner able to represent products and services. Partner searches are generally opportunistic which explains why there are so many failures.*

*"Contractors are a very important source of contacts as they have an overview of the competition".*

*Finding the names of potential partners is not particularly difficult. What is crucial, however, is the way in which the potential partner is approached.*

## How should partners be approached?

- Forge a consensus from a shared attitude towards the market:
  - share a common vision of market changes,
  - build up, together with the partner, a segmentation of customers, services/products and techniques/expertise used (product/market/technology pairing)
- Find out why the partner is interested in forming an alliance:
  - establish exactly what advantages the partner expects to obtain from the alliance (and not the opposite),
  - check that he perceives these advantages in the same way
- Agree on a strategy to find out whether mutual cooperation will be advantageous. This strategy should contain the following stages:
  - finding out about one another by exchanges of visits (including a few key workers)
  - drawing up a list of common actions,
  - deciding how business is to be divided up and laying down invoicing methods,
  - considering long-term prospects.

*Many direct approaches fail because the question is not one of selling your services or buying those of a colleague, nor of selling your business or purchasing a colleague's business. During an interview it is not therefore necessary to stress the strengths or weaknesses of your enterprise or products but to look at the ways in which you perceive market changes and explain why you are interested in an alliance on the basis of this perception of the market (successful alliances are "market-driven").*

*Rather than agreeing on the respective positions of force of each partner, forging a shared view of the market makes it possible rapidly to agree on what the market expects (thereby paving the way for joint actions).*

*A successful partner search requires expertise in describing the markets in which the alliance is going to work in order to pinpoint areas for joint action. Otherwise, there is a risk that highly appropriate partners who fail to understand what the joint project entails will be eliminated and partners will be selected on the basis of "declarations of interest" which have no future as they are too vague to be put on an operational footing.*

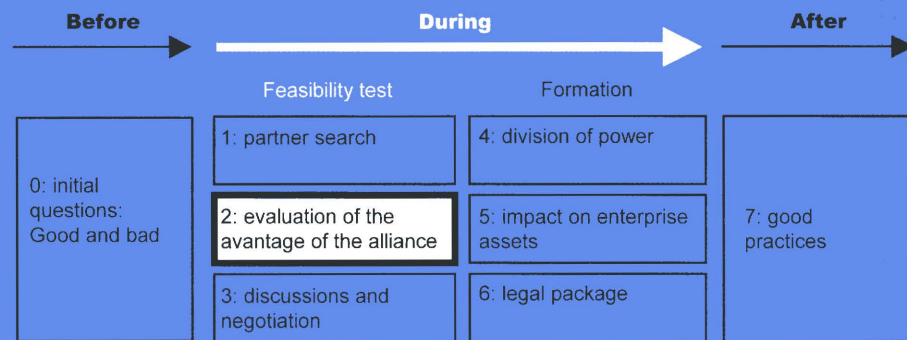
**A structured partner search based on three criteria (type of business, enterprise size, geographical area) should enable you to find thirty or so potential partners. After initial discussions you should be left with a shortlist of ten or so potential partners. Searches therefore need to be extremely disciplined and "professional" and you should not just jump at the first opportunity that presents itself.**

I • The issues that alliances raise for subcontractors

## II • Setting up an alliance?

III • The particular forms that alliances take in the member states of the European Union

IV • Annexes



## About to set up an alliance: feasibility test

### Stage 2: evaluating the advantages of the alliance

Alliances are formed gradually and the following three questions need to be tackled simultaneously:

- **are joint actions possible?**
- **how are roles to be divided and what invoicing methods are to be used?**
- **what prospects are there in the long term?**

None of these questions can be tackled directly, however, until a minimum of trust has been established between the partners.

#### Building up trust involves :

- **“giving” before “taking”,**
- sharing a vision of markets: “having the same vision of the future”,
- calling in an external consultant (a specialist) able to arbitrate and collect information on the basis of which business can be divided up,
- a minimum knowledge of each enterprise and an active search for information about the partner through discussions between a number of key workers,
- modest initial joint actions which provide initial results and improved knowledge of the partner.

Partners often hope that time will tell whether this or that partner or this or that type of cooperation is appropriate. Inexperienced partners who are envisaging working together often take a year or more (or even longer) before setting in motion genuine moves to form an alliance that will produce the expected results on the market.

**Prior or joint thinking about changes in customers' expectations and competition is a prerequisite for the construction of an alliance (see the methods described in Annex 1). This makes it possible to :**

- **share a common vision of markets**
- **decide what joint actions are needed**
- **define the boundaries of the alliance**
- **draw up specifications for the skills or products that customers will expect.**

## **Finding out whether there are advantages in working with a particular partner: organise a set of joint actions?**

- learning about your partner through an active search for information and discussions between colleagues
- identifying key workers and setting them to work in their own fields
- drawing up a list of joint actions:
  - ranking them, giving priority to actions providing rapid results (even if modest);
  - drawing up a timetable for each action;
  - dividing responsibility for these actions between the partners and dividing the workload.

*The following need, for instance, to be discussed:*

- purchasing conditions
- number of customers and their breakdown, customer contacts and introductions
- average invoice value by type of market
- types of employee by category and their methods of payment
- methods of drawing up estimates and bills of quantity
- policy on market research
- mutual subcontracting conditions
- etc.

*after which it is possible to jointly envisage:*

- implementing a quality strategy
- introducing an ABC (Activities Based to Cost) accounting system
- devising training for workers
- working out shares in any investment
- pooling sale forces
- drawing up a progress plan
- etc.

*A number of key workers in each of the enterprises need to be brought into contact and each asked to collect information in their own field (production, administration, sales, etc.).*

*An initial set of joint actions needs to be devised enabling each partner to find out about the other, without at this stage passing on strategic information (there is in fact very little such information).*

*These discussions will make it possible gradually to find out whether working with a particular partner will be advantageous and will also show what everyone is thinking: every exchange of information is a method of testing your partner, finding out about him and building up trust.*

*Further joint actions can then be implemented and will have a dynamic effect (providing a starting point for the launch of the actual alliance).*

**Human compatibility (affinity, respect, esteem) is also a prerequisite.**

**Structured (rational) and intuitive (irrational) evaluation methods both have a part to play in evaluating an alliance.**

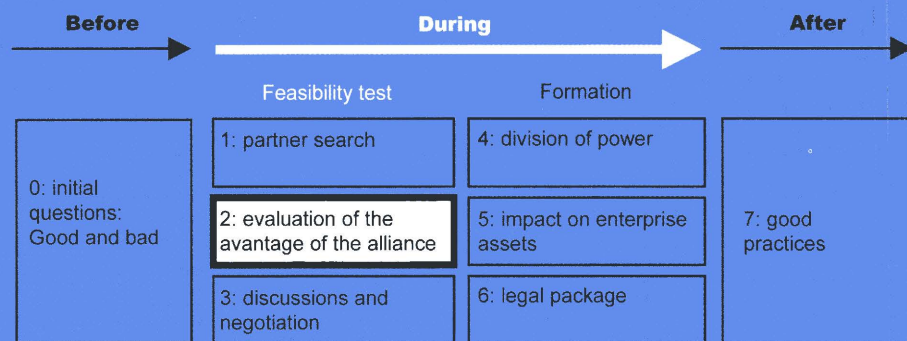


I • The issues that alliances raise for subcontractors

## II • Setting up an alliance?

III • The particular forms that alliances take in the member states of the European Union

IV • Annexes



A limited number of "target" customers or prospects need to be pinpointed by each of the partners so that purchasers (or decision-makers) can be asked for their reactions to the range of joint services or sub-assemblies that the alliance might produce. In addition to the fact that an initial commercial strategy can in this way be set in motion, contractors can also have some input into the form that the alliance takes.

To start with, it is easier to organise business dealings by setting up an internal invoicing system and applying a specific tariff. This system must be temporary, however, as a range of internal margins runs counter to the construction of solid alliances. By applying a margin to the service provided by a colleague, the overall price invoiced to customers "exceeds" the market range and the alliance does not work. In the long term, when discussions have provided a degree of "transparency" about everybody's margins, it is preferable for each partner's sales prices to be the same. Even when the customer "requires" a single invoice, there is nothing to stop the partners working without an internal margin (apart from the 2 to 4% for the alliance's operating costs).

Over four years, closer links are forged between the partners in only one out of three alliances.

Envisaging integration in the long term does not mean that the partners will not retain control over their original companies for several years.

There are no good practices or "standard" answers to this question which depend as much on the personal wishes of managers (for instance transmission of the enterprise) as on the alliance's objective development in these markets.

Envisaging integration prospects from the outset does not mean that the partners have to merge immediately. They need only to sketch out the rules on integration when such or such an event takes place (departure of a manager or transfer of workers or machinery or establishment of a holding company, etc.) or even when the alliance has enough resources gradually to buy back each manager's shares.

## How can operating methods be determined and their balance over time assessed?

- Deciding on joint ranges of services or **joint sub-assemblies** (in the cases of **alliances** between **complementary** colleagues),
  - deciding on target customers or prospects,
  - dividing up visits to such customers (separately or jointly),
  - finding out what kinds of business or which sub-assemblies can be researched by the grouping,
  - determining everyone's role in each project.
- determining **rules on the breakdown and allocation of turnover** and carrying out a prototype simulation. This relates more specifically to **alliances** between **direct competitors** (see table below).
  - Drawing up explicit invoicing rules :
    - firstly, drawing up a tariff for services within the grouping,
    - establishing the rules for drawing up estimates,
    - deciding which partner will issue invoices: one or other partner or both separately (depending on each customer's position),
    - systematically circulating information on business obtained and business lost within the grouping in order to learn about everyone's skills and check whether the chosen activities have been correctly allocated,
    - applying a coefficient of 2 to 4% to joint business (this represents the "cost" of the alliance) in order to provide "pocket money" that can be used to finance initial joint operations (foreign trade fairs, etc.).

## How can long-term prospects be anticipated?

- **Integration** needs to be envisaged from the outset but is not **inevitable**. it will be necessary :
  - if the joint actions mean in the long term that neither of the partners can "back-pedal",
  - when the partners are no longer seen as separate entities in their market (as a result, for instance, of the supply of joint sub-assemblies),
  - if one or more managers are in favour of integration (in the case, for instance, of a transfer).

If, however, the managers are not in favour of integration when the market or the alliance's operating conditions mean that there is no other option, there is a risk in the long term of imbalance. The strongest or fastest of the partners will then be in a position to impose their power.

- Finding out whether or not the partners are envisaging integration clarifies long-term prospects and promotes loyalty to the alliance and its success.

Criteria for breaking down and allocating turnover	Example	Company A	Company B	Company C	Company D	Turnover after allocation
By sector of activity	. automobile . Domestic electrical goods . railways					
By type of technical skills	. research . tool making . manufacture, assembly					
By production criterion	. size of production run . diameter of components . weight					
By geographical area	. region X . region Y					
By type of contractor or type of market access	. direct purchase . wholesalers, distributors . major accounts/SMEs					
Turnover before allocation						

- drawing up a **grid of the skills** (see table above) and expertise of each of the enterprises (differentiating where necessary between types of market or customer);
- from this grid, pinpointing the **turnover** of each of the enterprises by type of **skill**, type of specific activity or sector of activity (the breakdown criteria are specific to each case) over the last six months and carrying out the same exercise for the next six months;
- depending on this comparative breakdown of turnover, identifying those areas in which the turnover of one of the partners is much higher (at least double) than the turnover of the other partner and identifying those areas in which the turnover of both partners is more or less the same;
- in cases in which one of the partners is a "leader" in a particular field, all the group's turnover must be allocated to that partner (for simulation purposes);
- in areas in which each partner's turnover is comparable, new rules for dividing this turnover (for instance by geographical area) need to be decided so that turnover can be allocated to each partner on the basis of these new criteria (in order to complete the simulation);
- totalling each enterprise's business from this breakdown of turnover then makes it possible to find out whether the new distribution will lead to major imbalances (60/40 or more) and needs to be modified, or whether, in contrast, this breakdown is acceptable to each of the partners;
- over time, this new distribution of activities among the partners may lead to transfers of personnel or equipment;
- distributing activities on the basis of skills and turnover (and not solely on declarations of skills) reflects market laws.

*This is more specifically the case of alliances between direct competitors.*

*In every successful alliance, each partner has their own specialisation.*

*Actual or potential turnover is a good indicator of the actual skills of one partner in comparison with the other.*

*"Skill centres or centres of excellence", i.e. areas in which one partner has a much higher turnover than the other partner, often start to emerge.*

*When such cases of direct competition are identified, expertise needs to be broken down further using new criteria such as geographical area or even type of distribution circuit or sector of activity (aeronautical, engineering, automobile engineering, agri-foodstuffs, etc.) or by component size or even size of production runs, etc.*

*There are consequently very few cases in which it is impossible to pinpoint areas of specialisation for direct competitors.*

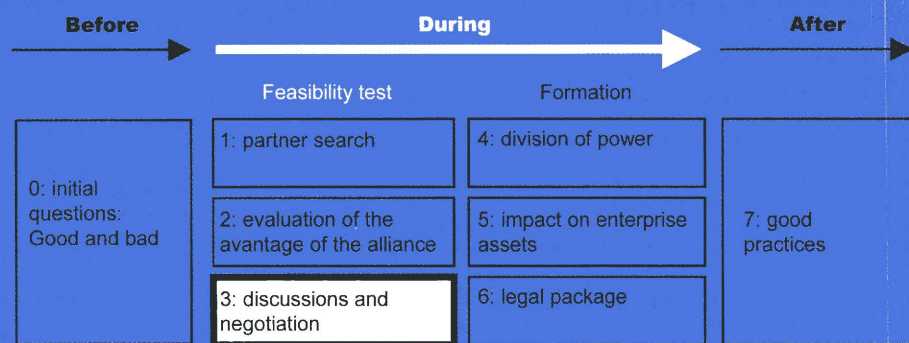
*Following this breakdown, each partner should be in top position in areas in which he was already strong and should have specialised even further so that any investment that he makes can be targeted strictly on his areas of specialisation (this makes it possible to reconstitute both partners' margins while remaining competitive on the market).*

I • The issues that alliances raise for subcontractors

## II • Setting up an alliance?

III • The particular forms that alliances take in the member states of the European Union

IV • Annexes



## About to set up an alliance: feasibility test

### Stage 3: discussions and negotiations

**Negotiations** between partners in order to set up an alliance are very **particular**: the issue is not one of **purchasing services from or selling services to** a colleague, **nor of acquiring or transferring** an enterprise. Discussions tend in many cases to drag on because the key issues involved in setting up an alliance are not tackled head on. It is unrealistic, however, immediately to start discussing issues such as margin breakdowns before a common vision of the future has been forged.

Initial discussions should therefore focus on perceptions of market development. As noted in the paragraph dealing with searches for partners, it is much better for partners to agree in advance that they perceive markets and the way in which they are developing in the same way than immediately to start talking about the advantages of an alliance and their enterprise and its products. Lastly, it is crucial to **check** that expected **strengths** do actually exist as “a bird in the hand is worth two in the bush”.

It is also necessary to **agree** on the **way in which the alliance is to be approached** (as described in the preceding paragraph), i.e.:

1. **A shared view of the market** and its development based on a comparable segmentation by both partners.
2. **Deciding on joint actions**: the first type of action will largely be intended to help each partner to find out more about the other partner; the second type of action will aim to provide immediate results (however modest) in order to build up trust (for instance exchanges of purchasing conditions) and subsequent actions will genuinely be part and parcel of the alliance (for instance recruitment of a joint sales representative).
3. **Deciding who is to do what** (this often requires several meetings and may even require mediation by a third party) and **drawing up rules on invoicing and margin breakdowns** (the first step is to draw up an internal tariff for services in order to find out about each partner's margins and retail prices).
4. **Discussing the prospects for integration** in the light of market changes, the joint actions envisaged (some of which will be irreversible) and managers' wishes.

Finally, this presentation would be incomplete if it did not mention the state of mind in which alliance negotiations should be approached: the aim is not to obtain a win/lose agreement (since this would weaken both partners and it would be difficult for the alliance to operate correctly) but a “win/win” agreement.

***In successful negotiations, the stress is placed on how business can be shared and on devising a timetable. In negotiations that fail (or that do not very rapidly lead to an alliance), the stress is placed on capital packages.***

***One of the reefs against which alliance negotiations founder is the pressure exerted by the need to succeed. Approaching a partner is no easy task and***

Consequently, it is not just necessary to find out whether your partner actually possesses the strengths that you are expecting but also to ask: "of what interest can my enterprise be to my partner, **what can I offer my partner**". This kind of approach may well depart from the norm.

**Give and take** is needed if alliance negotiations are to be successful. Without give and take discussions are likely to drag on for ever.

### **What form should discussions and negotiations take?**

- Discussing the value of the various enterprises is not the starting point. Exchanges of shares between enterprises are nothing more than an obstacle.
- Sharing a common vision of the trade and the way in which each segment is likely to develop, agreeing on the various joint actions, allocating responsibility for these actions to the various workers and establishing a breakdown of turnover.
- Rules on invoicing, drawing up bills of quantity and retail prices can be formulated gradually, but form the core of the discussions and negotiations that precede the actual formation of the alliance.
- Starting to talk about long-term prospects is useful since any doubts, which do little to establish a climate of trust between the partners, can be resolved.
- Taking time to understand your partner and his motivations and clearly explaining your own will pave the way for a sustainable alliance.

*"Exchanges of shares lead to discussions about the value of enterprises - such discussions are irrelevant since joint actions need to be tried out first."*

*"It is easier to agree on a working plan to ascertain the advantages of the alliance than to agree on prices."*

*"The simpler the operating rules are and the more they are laid down in advance, the longer the alliance is likely to last".*

*"Ensure that each partner shares a common vision of the future".*

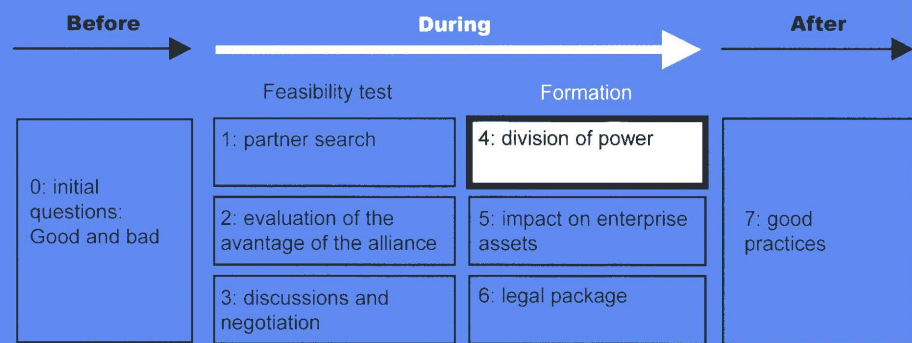
**issues connected with alliances are often strategic: all these factors mean that managers desperately want to succeed. While managers may get on with one another, cooperation between their enterprises may be of little advantage: it is paramount to remain lucid and to move on from declarations of intent.**

I • The issues that alliances raise for subcontractors

## II • Setting up an alliance?

III • The particular forms that alliances take in the member states of the European Union

IV • Annexes



## During the launch of the alliance: formation

### Stage 4: the division of power

The question of the division of power is often wrongly presented as a key issue in setting up an alliance. This point of view is put forward largely by managers who are envisaging setting up an alliance and who tend to perceive matters as sole traders who are used to being their own bosses.

People who have set up alliances consider that dividing up power is the wrong route to take since it is more important to allocate responsibility for each of the common actions to managers within each enterprise: the approach here is one of **several projects to be run and not a single power to be divided up**.

Not all these actions, however, are of equal importance: whoever has **customer contacts**, relations with contractors or whoever is in control of turnover will **hold power in the long term**.

Pooling commercial resources in a way that is of benefit to only one enterprise therefore leads to company integration, unless the skills, technology and expertise of one partner are such that they make it possible to offset the relationship of strength held by the partner with the customers.

Alliances of the type "my enterprise has a high powered production workshop and I am looking for a partner who will provide me with a foreign market " are not alliances, but simply point to the lack of an appropriate commercial strategy. They inevitably work for the commercial enterprise and against the producer partner.

***Power lies in the long term with the partner who is in contact with the customer;***

## How can power be divided?

- In the first instance dividing up power means sharing out joint actions :
  - identifying joint actions (drawing a line between those intended to find out about one another, those intended to build up trust by providing immediate, even if modest, results and those that are genuinely "structuring");
  - finding the key workers in each enterprise able to carry out these joint actions;
  - drawing up a timetable;
  - allocating actions to workers in both enterprises.
- The division of power also depends on the importance of customers:
  - listing joint or target customers and establishing rules on customer contacts: each separately, both at the same time, only one of the two?
  - if a customer will deal only with one enterprise, it is either possible to divide up customers, or reasonable to envisage partial or total integration as long as negotiation is still possible.
- The division of power also depends on enterprise size:
  - initial comparisons should be based on each enterprise's added value rather than its turnover;
  - balance is not about enterprise size but about relationships of strength. These are specific to each case: one partner may have rare technological expertise that will offset a difference in size (thereby balancing the alliance);
  - it is often preferable to try to maintain a balance even when one partner appears to be much stronger as otherwise the partners are not motivated to the same extent with the result that the alliance does not work;
  - if, over time, one partner fails to live up to the conditions that have been decided, it is better to organise his departure than to maintain a fictitious balance.

*"The alliance does not have one leader, but several project managers responsible for each action".*

*"It is common practice to rely on a close colleague to carry out certain operations".*

*" The alliance does not mean that all resources are pooled but that some are shared. The companies remain independent".*

*"From the moment that our partner became responsible for sales for the three enterprises, he became the uncontested leader of our grouping."*

*"Although our partner undertakes most of the work, we are keen to keep direct markets so as to maintain a balance in our dealings and not lose our grip."*

*"You need to be sensible and if your partner is better placed than you with a client, it is better to let him get on with it - if all customers are like that then it is not an alliance that you need but a merger!"*

*"At the outset, it may be in a stronger partner's interest to negotiate a balanced 50/50 alliance if he wants to gain the benefit of his colleague's services as otherwise there will be little reason for the latter to work with him."*

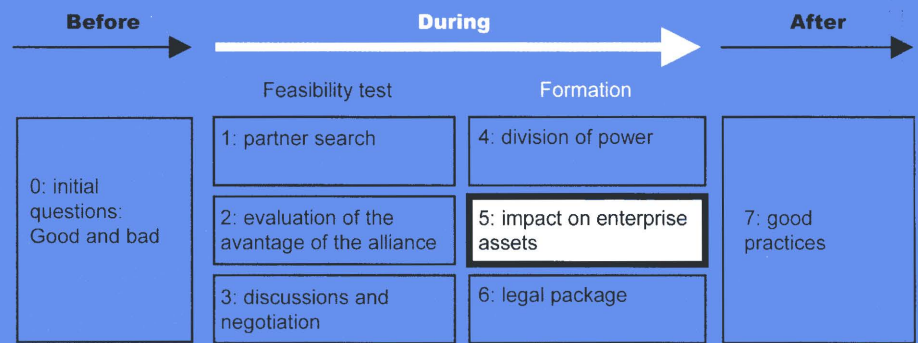
*"All agreements are 50/50 which means that we have to understand one another which is very motivating."*

I • The issues that alliances raise for subcontractors

## II • Setting up an alliance?

III • The particular forms that alliances take in the member states of the European Union

IV • Annexes



## During the launch of the alliance: formation

### Stage 5: impact on enterprise assets

**All alliances have repercussions on the assets of enterprises**, although the extent of these repercussions differ. Doing nothing or not wishing to think about the future (a choice in itself) therefore entails two risks:

- the launch of the alliance is likely to be delayed because no account has been taken of long-term prospects (since both partners are playing a “wait and see” game);
- the partners are in an increasingly vulnerable situation and may have to negotiate a transfer to their partner at the worst possible time with no prospect of making the most of the situation.

**Doing nothing** (in legal terms) has only one **law**, the **survival of the fittest**. Anticipating what stages cooperation will take helps, however, gradually to build up trust.

The question of long-term integration makes it necessary to draw up rules on valuation applicable to both companies. The earlier this question is tackled, the more chance the alliance will have of succeeding and both partners will have an explicit framework for valuing their respective and joint assets.

Consequently, an alliance that might seem initially to place an obstacle in the path of the unencumbered transmission of an enterprise can be converted into an opportunity to build up assets.

In general, there are **three formulae**:

- 1. remaining independent**, although the principles by which the partners will operate need to be laid down in a protocol (from 0 to 24 months),
- 2. setting up a joint company**, (with a 50/50 or other holding) after a trial period,
- 3. organising a merger or transfer**, where one company is integrated into the other, or both are integrated into a new company (joint venture).

However, **mutual exchanges of shares** at the beginning of an alliance, in addition to the fact that they do not represent any value for the various partners, focus discussions on the value of the enterprises which is not a key element in the launch of an alliance. This practice tends in fact to **place obstacles in the way of cooperation** and its development (especially if one of the partners leaves or is taken over).

### Formula 1: Remain independent

- Doing nothing

This is the most **widespread** and ... simplest solution. Each manager remains independent and autonomous.

If it continues, however, this **solution** may be **risky** as situations change; the alliance may gain the upper hand. When the time comes to give up the enterprise it may then be necessary to gain your partner's approval before the new owner can be coopted. An undesirable competitor could also take over your former partner and place the alliance at risk.

- Drawing up a protocol

It is therefore better at least to **draw up protocols of agreement** which provide an explicit (but flexible) framework for each partner's commitments.

### Formula 2: Set up a joint company

- Profiting from the alliance in order to realise some assets and organising the time scale for integration of the partners.

*(Annex 2 gives details of possible packages).*

### Formula 3: Organise a merger or transfer

This formula is to be preferred whenever there are or may be risks of a medium-term imbalance between the partners (differences in performance, gradual control of turnover or customer contacts, ability to integrate the partners' know-how, the manager's wish to give up the enterprise, etc.).

If the alliance represents a significant outlet for each partner, and if one partner is in an increasingly vulnerable position, the question "with whom should I form an alliance" will tend to become "what can I do to keep my partner". The stronger partner will ultimately be able to offer a recovery deal to the weaker partner who will not be in a good negotiating position. There should therefore be detailed discussions about future transfers right from the outset, i.e. at a time when the partners still have a margin of manoeuvre within negotiations.

Long-term transfer operations can be linked to the results of the alliance and therefore allow a weaker partner to obtain an appropriate (and in any case much better than he would have obtained if nothing had been negotiated at the outset) value in the medium term.

*"For a long time it did not seem necessary to place cooperation on a formal footing as everyone was satisfied and there was a high level of agreement. Then it became necessary jointly to invest and we failed to realise that what we were actually setting up was a new company. It would have been better to set up the company since that would have avoided all the subsequent discussions."*

*"We had not laid anything down and I was in a position where I suddenly had to work with my competitor when there was an upturn in my colleague's business."*

*"The more there are plans as to what will happen at each stage of the alliance if a partner decides to leave, the stronger the alliance will be. "*

*"It is better to agree on a valuation method rather than on the values of the enterprises themselves as what is most important are the relative values of each of the companies with respect to one another and not their absolute value."*

*"Since the values of the enterprises had been discussed from the outset, discussions leading to the creation of a joint company soon reached a conclusion."*

*"When we set up a joint subsidiary after two years of working together, it was possible to obtain loans that one enterprise would not have been able to obtain on its own."*

*"It was laid down from the outset that the three companies would group together after five years. A single consultancy also valued the three enterprises and it was agreed that the same valuation method would be applied whenever the joint company bought shares in the three companies. Lastly, any difference between the original value and the value at the time of purchase was shared three ways so that it was in each partner's interest for the whole, and not just his own enterprise, to increase in value."*

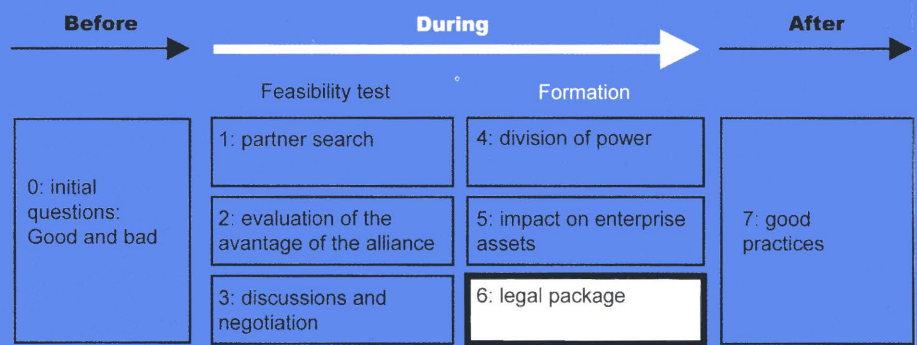


I • The issues that alliances raise for subcontractors

**II • Setting up an alliance?**

III • The particular forms that alliances take in the member states of the European Union

IV • Annexes



## During the launch of the alliance: formation

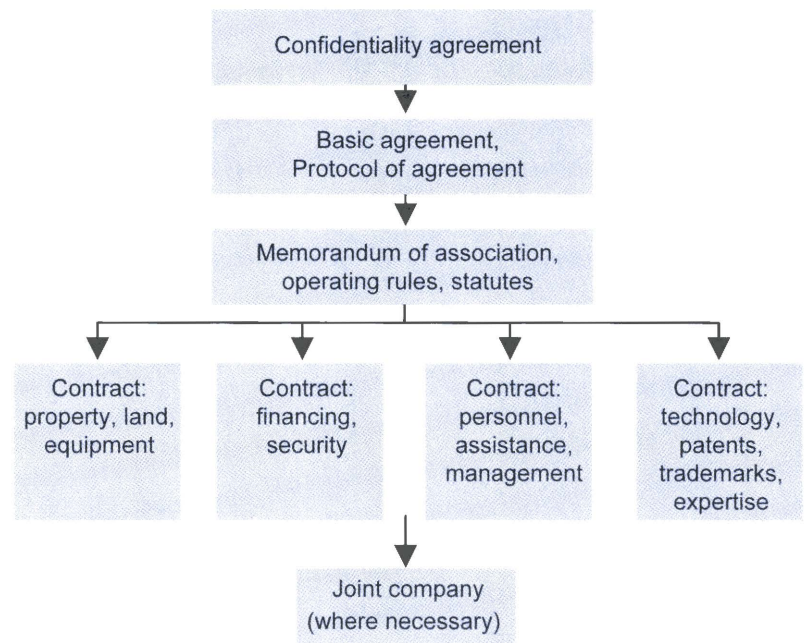
### Stage 6: the legal package

One of the main features of alliances is that **there is no standard legal set up. Each case is different.**

Nevertheless, successful alliances generally observe the following rules:

- 1• No legal structure is set up before the partners have worked together and ironed out any teething troubles (two years or thereabouts). **Legal packages** therefore take the form mainly of **protocols covering the initial years.**
- 2• **Setting up a joint company** may be warranted if the market (customers) require it or if the partners are envisaging integration **in the long term.**

Similarly, successful alliances would tend to show that 50/50 distributions are to be preferred unless one of the partners unquestionably has the upper hand. **What needs to be analysed is not the power ratio when the alliance is launched, but the effort that each partner has channelled into joint success.** An equitable division encourages the weaker partner to catch up and promotes a greater degree of loyalty towards the alliance which will be of benefit to both partners. A **50/50 distribution**, however, needs to be accompanied **by clauses** which make it possible to resolve impasses in cases of disagreement.



**Getting each company's lawyers together to draw up an agreement often blocks discussions, as the issue is not one of defending the interests of one**

*The main aspects of the legal set up of an alliance are:*

- A confidentiality agreement:  
(especially in the case of technological alliances)
  
- Protocols of agreement which deal with at least the following issues:
  - the conditions under which new partners can be coopted and “rights of pre-emption” as in the case of an **agreement between partners**,
  - rules on the **division of turnover**, margins and invoicing;
  - **joint actions** and their timetable,
  - depending on this timetable, **the rules on withdrawal**, if there is disagreement, at the end of each stage,
  - where necessary, rules on the use and allocation of industrial property.
  
- Specific contracts that deal with particular issues that can be modified without calling the agreement itself into question:
  - provision of personnel,
  - leasing of buildings, workshops, materials, equipment,
  - industrial property covering each partner’s own expertise and any expertise that is created or pooled,
  - internal tariff for services,
  - financing of joint investments,
  - etc.
  
- In the long term, a joint company if the market so requires or if the partners want to become integrated.

*“ The purpose of a confidentiality agreement is to limit dissemination of information in the market.”*

*“ We spent a great deal of time discussing the alliance’s objectives and the choice of legal structures whereas what actually mattered in hindsight was the allocation of business and invoicing rules. Without the assistance of an external consultant, we would have wasted a great deal of time: we were bogged down.”*

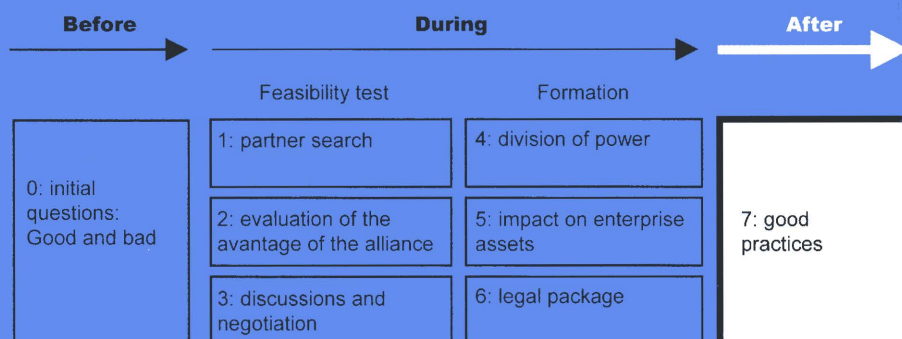
**partner against those of the other partner, but of paving the way for joint operation.**

I • The issues that alliances raise for subcontractors

## II • Setting up an alliance?

III • The particular forms that alliances take in the member states of the European Union

IV • Annexes



## After formation

### Stage 7: good practices

Interviews with 150 European managers show that cooperation between SMEs takes different forms in every case. The examples of successful alliances show, however, that it is important to take account of cultural differences.

Management, financial concepts (retail price, margins, cashflow, etc.) and the notion of time and deadlines are not understood in the same way in every country or by every partner and to some extent explain the problems that communication between colleagues raise, leaving aside the very real obstacle of foreign languages, mastery of which varies from one country to another.

Time therefore needs to be taken to understand your partner and his environment before drawing up the alliance's operating rules.

*The following "good practices" stand out:*

- 1/ **Learning to learn** in order to **find out** about your partner.
- 2/ **Building up trust** through **exchanges of information** and joint actions
- 3/ **Relying on key workers** in each company.
- 4/ **Being patient and flexible.**
- 5/ **Giving and then taking.**

Many managers also gave their view on "**bad practices**":

- 1/ **Waiting** until the **partner** shows signs of good will and in particular waiting until he **passes on business** before sending him any. Give first and then take.
- 2/ **Starting** by drafting a **joint commercial brochure** without having previously laid down rules on invoicing and role and task distribution or checked whether markets would react well to cooperation.
- 3/ **Remaining uncertain** about the division of tasks, markets, invoicing, long-term prospects and the rules on valuation and withdrawal. The more **explicit** the cooperation **framework**, the **stronger the alliance will be**. Without placing matters on too formal a footing, a protocol is a necessary document which provides a framework for cooperation.
- 4/ **Showing an appetite** for external growth or simply for **domination**. In any alliance between colleagues, one partner will always try to profit from the alliance to the detriment of the other partner. Consistent behaviour promotes the success of the alliance and the emergence of mutual trust.
- 5/ **Willingly passing on information** without expecting anything in return and leaving sales tasks in the hands of your partner is a source of imbalance and dysfunction in the long term.

Tensions are a positive sign.

## *Good practices*

### **1| Learning to learn**

Obtaining information about your partner by exchanging information about your enterprises makes it possible to understand the constraints under which everyone is working. This makes it possible to "steer" your partner by separating out what is possible from what is not: hence the need for frequent discussions (at least one half day per week).

An alliance is a team affair and it is not just managers who need to learn to communicate with one another.

### **2| Building up trust**

Trust is not just a matter of course and needs to be built up through joint actions.

Starting by identifying actions to exchange information and find out about one another has an immediate (even if modest) effect and makes it possible to test whether you and your partner really want to do business together without taking any significant risks (for instance: exchanging purchasing conditions or discussing information systems) while obtaining a few results likely to build up trust.

### **3| Relying on key workers in each company**

One of the key factors in an alliance that works well is that managers must be readily available so that the alliance can be advanced; this makes it necessary to delegate responsibility for joint actions to key workers in each enterprise who are therefore the genuine anchors of the alliance.

Sharing responsibility for joint actions among workers in each enterprise also makes them more loyal to the alliance.

### **4| Being patient and flexible**

Forecasts are often optimistic and the actual formation of the alliance may take longer than planned.

Measures that are envisaged initially often prove to be inappropriate as they are put into practice and need to be regularly updated to take account of market developments.

A successful alliance does not necessarily provide financial benefits in the short term but provides a competitive advantage in the long term.

### **5| Giving and then taking**

Give and take and win/win situations are important in the launch of an alliance.

To launch an alliance, business information should be given before it is received (a sign of good will).

This means that information needs to be passed on as the alliance progresses, starting with important but not strategic information (for instance, purchasing conditions, customer portfolio, list of products or industrial skills, inventory of machinery, etc.).

In the long term, a partner will know how bills of quantity are drawn up and what his colleague's internal margins are (and vice versa).

### **6| Other good practices**

Jointly recruit workers.

Organise joint training.

Organise regular meetings between each partner's workers responsible for specific joint actions.

Approach new customers jointly, especially those abroad.

Jointly acquire a sister company or set up a joint venture in a foreign market, etc.



# The particular forms that alliances take in the Member States of the European Union

**This Chapter** looks at the particular forms that subcontracting and alliances take in each EU Member State. As it is important to take account of cultural aspects when setting up an alliance, we look at management methods in each country, focusing on practices of communication, decision-making, concerted action and organisation within enterprises.

## The importance of cultural differences

A reality for all enterprise managers dealing with foreign customers, suppliers or partners, these cultural differences are also widely used as an excuse for failed negotiations and cooperation.

Detailed observation and precise knowledge of your partner should make it possible to identify and analyse these differences. In order to characterise and differentiate managers and therefore identify a number of different types of management, many approaches tend to focus on people's attitudes and practices as regards the main aspects of day-to-day business life, in particular business relations.

Although this is interesting because it takes a very concrete form and is comprehensible to everyone, this kind of approach is nevertheless inadequate on its own as other more structural factors also explain these differences in attitude, approaches and behaviour. The economic and social structure of a country or an industrial sector necessarily shape a certain vision of the position and future of this sector and the enterprises belonging to it. Similarly, the history, structure and organisation of an enterprise help to forge its present manager's vision of the future. Within the same sector, the owner of a small enterprise will not have the same view of the future of his trade and his enterprise as a manager employed by a larger company.

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## Dealing with cultural differences

Through its review of the cultural features specific to each European country, this third part of the guide is intended to shed light on each European country and its management methods in order to provide a picture of the attitudes and practices of current or potential partners and a better understanding of the way in which they are likely to operate.

The following are therefore examined for each country:

- **the subcontracting environment,**
- **types of alliances,**
- **management methods,**
- **information resources,**
- **enterprises' experiences.**

### **The subcontracting environment**

The very different ways in which subcontracting is understood throughout Europe are reflected by a lack of comparable and standard statistical data for each country. As a starting point, therefore, we examine the way in which the subcontracting sector operates in each country.

### **Types of alliances in each country**

Enterprise practices in the area of cooperation and alliances obviously differ. We have therefore supplemented our description of enterprises by reviewing their main practices in this area.

### **Management methods in each country**

Bearing in mind the important part that discussions, negotiations and relationships play in any attempt to forge cooperation links or set up alliances, we have attempted to pinpoint management methods in each country, focusing on communication, decision-making, concerted action and organisational practices within enterprises. In this way it is possible to pinpoint the management methods prevalent in each country. Using the same variables makes it easier to compare the different countries. Differences as regards a particular variable may point to cultural differences and should be seen as a warning that risks are involved. The larger the gap, the more it is necessary to take account of this aspect of the relationship between the partners and the more it will be necessary to put in time and bring about changes in order to forge closer links between one another.

### **Information resources**

Since it is constantly outdated by the ongoing and rapid development of markets and competition, general factual and statistical information on industries and enterprises is of little interest. We have therefore given, for each country, some sources of useful information that are regularly updated and may well be able to provide answers to each enterprise's particular questions. It is particularly advisable to consult these resources when taking steps to find out about or look for partners. They provide initial information on the country, sector and enterprises in question. This information can then be used to refine targets, prepare for a direct approach and understand what potential partners are really saying.



I • The issues that alliances raise for subcontractors

II • Setting up an alliance?

**III • The particular forms that alliances take in the member states of the European Union**

IV • Annexes

**Population**

79 500 000

**Area**

357 000 km<sup>2</sup>

## Germany

### Subcontracting and alliances

#### Subcontracting

- As the leading European economic power, Germany is predominantly an industrial country. Industry accounts for 16% of enterprises with employees, 45% of employment and 46% of turnover. Known for its major industrial groups such as Daimler Benz in the automobile, aeronautical and armaments industries, Siemens in electrical engineering, electronics, computing and railway equipment, Bosch in the automobile parts industry, Volkswagen in the automobile industry and BASF, BAYER and HOECHST in chemicals, Germany is also a country of medium-sized enterprises, known in German as the "Mittelstand". Highly specialised in their trades, these SMEs are often internationally-based and are major partners in economic development. They also form the backbone of the system of subcontractors and component manufacturers.

- Like German industry in general, German subcontractors are nowadays facing major challenges from the point of view of competitiveness and profitability. Increasingly international competition has meant that German contractors are permanently on the lookout for a new competitive edge, especially from the point of view of quality, products that match consumer demand, services and costs. Often handicapped by cost, German enterprises are looking for more efficient ways of working with their subcontractors with the result that the customer/supplier relationship is undergoing far-reaching change.

- Outsourcing and subcontracting are important factors in making enterprises more competitive and lowering their profitability thresholds. This trend, although promising in itself, is tending to go together with attempts to reduce numbers of direct suppliers and give them greater responsibility, for instance by commissioning a complete system rather than a single component. These practices, very clear-cut in the automobile industry, are becoming true of more and more industrial sectors.

- If enterprises are to become successful subcontractors, they have to possess major development and investment capacity at a time when price and deadline pressures are mounting. Not all enterprises are in such a position. Restructuring, closures, concentrations and alliances will certainly be the key words of this sector in the next few years in Germany. In the automobile industry, for instance, the most pessimistic forecasts point to the disappearance of 50% of subcontractors.

#### Types of alliance

- Alliances are still not very widespread among German subcontractors, for whom independence and autonomy are often the prime movers of the enterprise and the entrepreneur. Faced with these threats of restructuring and concentration, all the partners, whether contractors, subcontractors or public authorities, are working together to formulate support programmes. Schemes to make subcontractors more competitive have for instance been set in motion in North Rhine-Westphalia, Baden-Wurtemberg, Hesse and Lower Saxony which account for two thirds of German automobile industry suppliers.

**GNP (ECU billions) - 1996**

1 759.34

**Imports (ECU billions) - 1996**

349

**Exports (ECU billions) - 1996**

404

**Language**

German

The regional public authorities have involved representatives from the major manufacturers and equipment suppliers in these programmes and are funding schemes in the areas of production organisation, human resource management, technology, logistics and cooperation (alliances, joint ventures, etc.) .

- In this context, informal relationships between suppliers are supplanting more structured forms of cooperation. The same applies from an international point of view as enterprises often export directly without looking for closer links with a local partner. The migration strategies currently being implemented by German car manufacturers mean, however, that their subcontractors are also having to make much more of a commitment abroad.

- Small and medium-sized German enterprises clearly tend to be keener on enterprise networks and clubs and commercial alliances. Technological alliances between enterprises are very uncommon. More likely to involve an enterprise and a public or semi-public university research centre, they usually take the form of a one-off contract for a single piece of research whose term is fixed. Strategic alliances tend to be limited to large, highly international, enterprises.

- When German subcontracting enterprises look for foreign partners, they tend to look chiefly in France, Italy and the United Kingdom. Their aims also tend to be conventional, for instance extending their markets and increasing product outlets, finding suppliers offering lower prices and/or jointly developing new technical solutions.

## Cultural features

- Based on facts and figures, communication is of an explicit type, i.e. it is not assumed that interlocutors know about the context being discussed. It is often reflected by very full notes or exposés that often take a problem or a project back to first principles.

- Often intended to pave the way for a decision, meetings are generally formal. Agendas are therefore formal and strictly respected with the result that it is often difficult to add an item at the last minute.

- Time is managed in very strict ways in German enterprises. Punctuality is an obsession and the respect of undertakings (appointments, lengths of meetings, length of interviews, deadlines) is a genuine rule of life. Agendas are therefore very rarely changed to deal with pressing problems. The rule by which German managers work is that they should not try to deal with more than one issue at a time.

- Organisation is both very formal (responsibilities and tasks are often divided up in very explicit ways) and very perceptible in enterprises. Widely practised, delegation is often set out in writing. Large numbers of procedures are intended to organise and plan in order to leave the minimum possible scope for improvisation.

	Score from 1 to 4
<b>Communication</b>	
Prevailing practice: oral (1) to written (4)	●●●○
Type: implicit (1) to explicit (4)	●●●○
<b>Meetings</b>	
Agenda	
- none (1) to always (4)	●●●○
- informal (1) to formal (4)	●●●○
- unimportant (1) to very important (4)	●●●○
Objectives: discussion (1) to decision-making (4)	●●●○
<b>Decision-making:</b>	
individual and autocratic (1) to collective and consensual (4)	●●○○
<b>Time management</b>	
- Punctuality: unimportant (1) to very important (4)	●●●○
- Changes to agendas to deal with pressing problems: very uncommon (1) to very frequent (4)	●●○○
- Working sessions (meetings, individual work, etc.): focusing on a single issue (1) to dealing with several issues at the same time (4)	●●○○
<b>Organisation</b>	
- Structure: little hierarchy (1) to very hierarchical (4)	●●●○
- Respect of hierarchy: low (1) to high (4)	●●●○
- Operating rules and procedures: rare and informal (1) to numerous and formal (4)	●●○○
- Delegation: informal and oral (1) to formal and written (4)	●●○○

These comments are not fixed in stone - entirely different practices may be encountered.

I • The issues that alliances raise for subcontractors

II • Setting up an alliance?

### III • The particular forms that alliances take in the member states of the European Union

IV • Annexes

Population

79 500 000

Area

357 000 km<sup>2</sup>

## Germany

### Developing product ranges so that several enterprises can gain a foothold in the European market

**Markets:** Industrial equipment

**Countries involved:** Germany, Austria, Denmark

**Trades:** Electricity supply, electronic components

**Type of alliance:** Complementary colleagues, commercial and optimum size

**Legal structure:** No formal structure, contracts

**The Partner:**

- Prof. Alfred GmbH & Co. KG (Eberbach, Germany) – 82 employees, DM 20 million

- Dräger GmbH (Vienna, Austria) – 20 employees, DM 10 million

- Safeguard (Birkerød, Denmark) – 15 employees, DM 10 million

The alliance set up by Prof. Alfred Krauth GmbH & Co. KG and the Austrian and Danish enterprises Dräger GmbH and Safeguard APS is a commercial and relatively informally structured alliance.

#### Background to the alliance

The alliance can be traced back to the particular situation of the electronic components market. The electronic components market works in such a way that enterprises in this sector (especially in the areas of electricity supply and traffic light control systems) have to set up alliances in order to find customers. The enterprise Prof. Alfred Krauth GmbH & Co. KG was experiencing problems in finding customers in Austria and Denmark. It therefore decided to look for partners in these countries.

#### Main objectives

The main challenges facing Prof. Alfred Krauth GmbH & Co. KG were to find new customers in the European market and increase its product range. The partners were chosen because they were not direct competitors, but manufactured complementary products. It was decided to find foreign partners because there was no other way of gaining a foothold in these markets from Germany. Motivations were as follows: new trade outlets, sophisticated technology and cost reductions.

#### Outcome of the alliance

The alliance has had commercial and technological results. From a commercial point of view, all the enterprises gained improved access to international

markets and, from a technological point of view, they were able to adopt the same strategies and reduce their costs.

#### Setting up the alliance

Steps to set up the alliance were both active and passive, from contacts that came about by chance and existing business relations. The main approach that the managers took was a strategic approach based on human relations. A strategic plan was officially drawn up to take account of the vision shared by the alliance partners. This alliance was set up without external support. Prof. Alfred Krauth GmbH & Co. KG received no public financial aid. No confidentiality agreement was signed. Negotiations did not lead to any conditional agreement. Respecting European competition regulations did not entail any problems for the alliance. A conciliation procedure was set up to deal with disputes. The alliance managers meet twice a year.

The alliance's future activities will be to adopt new strategies, look for new partners and improve their market penetration. The Austrian and the Danish partners are not experiencing any particular problems.

The alliance is assisted by a number of factors and practices, such as open communication between the enterprises and the motivating nature of joint projects. Lessons learnt from everyone's experience tend to build up day-to-day interest in the alliance.

### Sources of useful information

• Yearbook of German exporter industrial enterprises: *Die Deutsche Industrie*.

• Information on German enterprises with a turnover of more than DM 2 million or employing more than 20 people and on their activities. Over 73 000 enterprises listed: *Hoppenstedt*.

• Yearbook of German enterprises in the electrical engineering and electronics industry: *ZVEI*

• Balance sheets and accounts of German industrial enterprises: *Creditreform Bilanzdatenbank\**

• Financial and legal information on German enterprises registered in the Trade Register: *Creditreform\**

• "Who belongs to whom?" lists links between and financial holdings of German enterprises: *Wer gehört zu wem?\**

• Legal information on German enterprises registered in the Trade Register: *Eco Register\**

• Legal announcements published in the Trade Register: *Eco Novo.\**

• For further information, please contact your public agencies, trade associations, Euro Info Centres, etc

**GNP (ECU  
billions) - 1996**

1 759.34

**Imports (ECU  
billions) - 1996**

349

**Exports (ECU  
billions) - 1996**

404

**Language**

German

**An association of European "pressure sensor" leaders  
to combat worldwide competition****The partners:**

- Envec Mess und Regeltechnik GmbH (Well am Rhein, Germany) – 60 employees, DM 80 Million
- Ettore Cella SPA (Milan, Italy) – 48 employees, DM 12 Million

The alliance set up by Envec Mess-und Regeltechnik GmbH and the Italian enterprise Ettore Cella SPA has commercial and technological aims. It is an association with a relatively informal structure.

**Background to the alliance**

The alliance can be traced back to the particular situation of the electronics market. There has been growing competition, from Asia and the United States in particular, in the market for pressure sensors and transmitters over the last five years. High R&D expenses and falling margins and prices have made cooperation between European manufacturers a necessity. German and Italy occupy a key position in this field, which explains why Envec decided to form an alliance with an Italian partner.

**Main objectives**

Finding new customers in the European market and international development were the main challenges facing Envec. Envec chose its partner because it was not a direct competitor but was a major market player, which minimised the risks of the alliance. Envec chose a foreign partner because it could not find a suitable partner in Germany. Motivations were as follows: new commercial outlets, sophisticated technology and cost reduction.

**Outcome of the alliance**

The alliance has had commercial and technological results. From a commercial point of view, both enterprises gained improved access to international markets and, from a technological point of view, they were able to adopt the same strategies and reduce their costs.

**Setting up the alliance**

Steps to set up the alliance were both active and passive, from contacts that came about by chance and existing business relations. The main approach that the managers took was a strategic approach based on human relations. A strategic plan was officially drawn up to take account of the vision shared by the alliance partners. The alliance was set up with external help from GWZ, Baden-Württemberg's agency for international cooperation. Envec came up with a profile for the kind of enterprise that it was seeking and GWZ was commissioned to find a partner. No confidentiality agreement was signed. A conciliation procedure was, however, set up to deal with disputes. The managers of the alliance meet several times a year. The future activities of the alliance will be to adopt new strategies, look for new partners and improve market penetration. The most serious problems are connected with the conduct of business and fixing of prices in Germany and Italy. Open communication between the enterprises, joint products and lessons drawn from everyone's experience are factors that have helped to consolidate the alliance.

**Markets:** Industrial equipment**Countries involved:** Germany, Italy**Trades:** Measurement and instrumentation**Type of alliance:** Complementary competitors, commercial and technological**Legal structure:** Agreement, conciliation procedure**The Partner:**

- Envec Mess- und Regeltechnik GmbH (Well am Rhein, Germania) – 60 employees, DM 80 Million

- Ettore Cella SPA (Milano, Italia) – 48 employees, DM 12 Million

Deutscher Industrie- und Handelstag (DIHT)  
Adenauerallee 148 – D 53113 BONN  
Tel. (0228) 104-0 Fax (0228) 104158

Association covering all Chambers of Commerce and Industry in Germany (and abroad)

Bundesstelle für Aussenhandelsinformation (BfAI)  
Schamhorststrasse 36 – D 10115 BERLIN  
Tel. (030) 201 45 201 – Fax (030) 201 45 204

National information office for foreign trade

GWZ Baden-Württemberg mbH  
Willi-Bleicher-Strasse 19 – D 70174 STUTTGART  
Tel. (0711) 22 78 70 – fax (0711) 227 87 22

Baden Württemberg promotion agency, fostering exchanges and closer links with foreign enterprises

Wirtschaftsverband Industrieller Unternehmen Baden e.V.  
Postfach 1748 – D 79017 FREIBURG I. BR.  
Tel. (0761) 708 680 – fax (0761) 708 68 77

Professional organisation offering its members advice, promotion and business assistance

**Bibliography**

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I • The issues that alliances raise for subcontractors

II • Setting up an alliance?

**III • The particular forms that alliances take in the member states of the European Union**

IV • Annexes

**Population**

7 700 000

**Area**

84 000 km<sup>2</sup>

## Austria

### Subcontracting and alliances

#### Subcontracting

Austrian subcontracting has developed around industrial goods (VOEST ALPIN group) and utilitarian vehicles (agricultural tractors and all-terrain vehicles for the army). As it does not have its own automobile manufacturers, skills have been developed in subcontracting and the supply of parts to European (MERCEDES, BMW, RENAULT) and American companies (GENERAL MOTORS).

Set up originally to promote Austrian SMEs among Japanese automobile contractors, the AOEM association brings together most of the main Austrian subcontracting enterprises - around one hundred or so. AOEM's task is to promote mechanical engineering, plastics, electronics companies, etc., by taking part in trade fairs (automobiles, aeronautics, aerospace) throughout the world.

#### Types of alliance

Austria's substantial foreign trade deficit in recent years has led it to develop major export schemes (Asia, South America). Initiatives are currently underway to set up clusters for strategic activities. Highly efficient groupings with complementary skills that incorporate a service dimension (computing, etc.) into more conventional subcontracting activities are now starting to emerge.

### Cultural features

#### Main characteristics:

- Austrian management is very similar to the German model from the point of view of principles and operating methods. Intensive trading relations with Germany, the large number of German enterprises in Austria and a shared language are among the main explanatory factors.

- The proximity of Italy means, however, that business relations are less formal and in some ways more Latin.

### Sources of useful information

*Hoppenstedt Österreich\**

Information on Austrian enterprises registered in the Trade Register and on their activities. 10 000 enterprises with a turnover of more than AS 100 million or employing more than 200 people are listed.

*Kreditschutzverband von 1870\**

Economic, legal and financial information on Austrian enterprises registered in the Trade Register.

*Verband der Vereine Creditreform Österreich\**

Economic and financial information on Austrian enterprises registered in the Trade Register.

*AOEM*

*Schwindgasse 16/12 – A 1040 WIEN  
Tel.: 43 1 505 50 92 – fax 43 1 505 50 91*

Association to promote and advise Austrian exporters of subcontract products: market expertise, subcontracting databases.

**\* For further information, please contact your public agencies, trade associations, Euro Info Centres, etc.**

**GNP (ECU  
billions) - 1996**

170,93

**Imports (ECU  
billions) - 1996**

53

**Exports (ECU  
billions) - 1996**

45

**Language**

German

## A partnership to make the most of technological advances in plastics precision micro-injection

### Background to the alliance

The Micro-Moulding and Machining (MMM) project was launched to meet market demand and as a result of personal relationships forged during previous projects. Current small-scale injected component applications are not generally below a few cubic millimetres. With the application of LIGA technology, the demand for injected plastic components of very small dimensions has increased, raising new problems in the areas of surface quality, precision and variety of shapes for mould manufacturers.

Applications in industry are in the medical, automobile, information technology and office automation markets, to mention only several of the largest. Demand is growing rapidly for components whose size is permanently decreasing but which are still produced to a high standard. In order to meet this trend head on and to find appropriate solutions, partners from industry and research formed a multidisciplinary development team.

### Objectives of the alliance

MMM can run a joint project for its customers, leading ultimately to complete solutions in the area of technical micro-components and their design,

manufacture, installation and handling.

### Setting up the alliance

An active strategy making the most of a number of useful contacts was used to locate partners. One of the main criteria by which partners were selected was their "state of mind". The alliance received financial assistance from the National Science Founding Fund.

An agreement was signed by the partners (Geheimhaltungsvertrag) and the alliance was set up in three months.

### The day-to-day alliance

No company has been set up. There is only a contract that covers cooperation for a set period. Dealings largely take the form of meetings and technical reports (four per year). No independent team has been set up and each enterprise has retained its own activities. The main motivations for setting up the alliance were chiefly the rapid results that the synergies between the enterprises would make it possible to obtain.

**Markets:** Telecommunications, automobile, medical

**Countries involved:** Austria

**Trades:** Plastics injection machinery

**Type of alliance:** Complementary competitors, technological, optimum size

**Legal structure:** Contract

### Alliance:

*Micro-Moulding and Machining (Vienna), Institut für Feinwerktechnik (coordinator) – no employees of its own*

### The partners (4 companies and 1 university):

- Zumtobel Licht, Unternehmensber. Werkzeugbau GmbH, 1 300 employees,

- HB Plastic GmbH, 70 employees,

- Battenfeld Kunststoffmaschinen GmbH, 330 employees.

## Cooperation to create new components using technical textiles (carbon, glass, metal, etc.)

### Background to the alliance

The alliance was set in motion by the Italian company specialising in the forming of plastic composites. Its main objective was to find a partner/producer of technical textiles.

### What were the strategic issues for the enterprise?

The challenge facing the enterprise was to develop its products internationally and to find new outlets. The alliance made it possible for the company to open up export markets (Italy, Greece, Spain and Denmark) and to limit the risks entailed in setting up local sites.

Finding foreign partners made it possible for the enterprise to develop new products, to acquire expertise and to share technologies.

### Objectives of the alliance

The main objective was to research and develop reinforced plastic composites for automobile applications.

### Outcome of the alliance

From a technical point of view, the alliance made it possible to create products from new fibres.

From an economic point of view, the alliance made it possible to gain a foothold in international markets.

### Setting up the alliance

Active steps were taken to find partners using information gathered from databases (European Union offers).

Managers met initially to discuss the project's prospects. A strategic plan was then drawn up setting out the profile of the alliance and each partner's objectives and tasks. The alliance received external assistance from consultants, Chambers of Commerce and the International Labour Office and also received public financial aid. Following negotiations, a joint project was set up for a fixed period. Invoicing rules were drawn up. The alliance is subject to a written agreement. It took between six and eight months to set up the alliance.

### The life of the alliance

The team works independently. The partners have pooled the computerised research tools that are needed to develop and test the materials designed.

Several partners have retained activities outside the alliance. The alliance managers meet three times a year and remain in contact (fax, telephone and Internet).

Future development of the alliance will depend on the interest that each partner has in future projects.

**Markets:** Automobile, aerospace, sports, plastics industry

**Countries involved:** Austria, Italy

**Trades:** Technical textiles (ceramic, carbon, glass)

**Type of alliance:** Technological, process

**Legal structure:** Agreement, technological contract

### Partners:

- Obermosterer Strickstoffe GmbH (Darnbim, Austria) – AS 30 Million, 15 employees

- M & G Ricerche SpA (Pozzili, Italy) – Coordinator

- Several partners throughout Europe (University of Naples, University of Patras, Fiat, Gaiker/Spain).

I • The issues that alliances raise for subcontractors

II • Setting up an alliance?

**III • The particular forms that alliances take in the member states of the European Union**

IV • Annexes

**Population**

9 980 000

**Area**

30 500 km<sup>2</sup>

## Belgium

### Subcontracting and alliances

#### Subcontracting

• Industry accounts for 16% of enterprises with employees. It provides employment for 38% of the working population and accounts for 36% of the total turnover of all sectors. Small enterprises predominate both within industry and the economy as a whole. Over 92% of industrial enterprises have less than 50 employees.

• As a result of very strong and very consolidated regionalism, each of Belgium's three main regions - Flanders, Wallonia and Brussels - has its own economic life. 50% of Belgian contractors are in Flanders, with 11% in Brussels and 32% in Wallonia.

• As in other countries, Belgian contractors' strategy is nowadays to reduce the number of suppliers, and therefore subcontractors, with whom they deal. Selection criteria linked to quality, respect of deadlines and financial solvency are increasingly important, although geographical proximity (100 km) and cultural similarity are key factors in any success.

### Sources of useful information

#### Hoppenstedt Benelux\*

Information on Belgian, Luxembourg and Dutch enterprises and their activities.

The database contains 95 000 enterprise profiles.

#### Bisnes Plus Belgian Companies\*

Financial information (accounts and balance sheets) on over 700 000 Belgian enterprises.

#### Chamber of Commerce and Industry of Belgian Luxembourg

Grand'rue 1 – B 6800 LIBRAMONT

Tel: +32 61 22 26 80

Fax: +32 61 22 40 20

General and specialist information.

\* For further information, please contact your public agencies, trade associations, Euro Info Centres, etc.

#### Types of alliance

Enterprise networks and clubs are organised chiefly around trades and sectors of activity. Employers' associations are a very widespread form of this. Commercial alliances, which are less common, are to be found among small enterprises in particular.

The main aim of technological alliances is to mobilise joint or complementary resources in order to carry out research and development programmes. Strategic alliances tend to be placed on a formal footing by setting up a GIE (Economic Interest Grouping). From an international point of view, geographical and cultural proximity is important for Belgian enterprises which look for partners chiefly in Luxembourg, France and the Netherlands.

### Belgian road hauliers band together to gain European markets

#### Markets:

**Countries involved:** Belgium (3 companies)

**Trades:** International road haulage

**Type of alliance:** Direct competitors, search for optimum size

**Legal structure:** GIE

#### Alliance:

Groupement INTERNAT (Les Bulles) – 75 employees

#### The partners:

- EUROGAUME SA (Samaigne) – 35 employees

- CHARLIER Nicolas SPRL – 20 employees

- HERBEUVAL & Fils Transport SA – 30 employees

#### Background to cooperation / the alliance

An alliance was seen as a way of developing markets and expanding the fleet of vehicles.

The alliance was set up by the three hauliers EUROGAUME, Nicolas Charlier and Herbeuval et fils Transport.

#### What were the strategic issues for the enterprise?

In all three enterprises, the key issues were to achieve a sufficient size to keep up with their competitors and to attract larger customers.

Setting up an alliance seemed to be an ideal way of offering more competitive prices and increasing customer availability in as flexible a way as possible.

#### Outcome of the alliance

Initially, the partners tried to optimise vehicle loading by jointly monitoring the load plans of their three companies. Attempts were also made to improve the group's planning so that the situation was as profitable as possible for all three enterprises.

At present, cooperation is providing them with an improved view of market potential and enabling these hauliers to offer better coverage of their main destinations: France, Spain, Northern Italy.

#### Setting up the alliance

Charlier and Herbeuval had already been cooperating for ten or so years. Herbeuval then contacted Eurogaume, an enterprise of the same size.

**GNP (ECU billions) - 1996**  
198,58

**Imports (ECU billions) - 1996**  
127

**Exports (ECU billions) - 1996**  
136

**Language**  
German/French/Dutch

## Cultural features

Flanders and Wallonia tend to have a major impact on management practices.

Communication tends to be of an explicit type, i.e. interlocutors are not expected to know about or understand a context in either Flanders or Wallonia. Belgian managers consequently seem to be inspired more by the German model, when an implicit style might have been expected to be more important in Wallonia bearing in mind its Francophone traditions.

French culture can be seen, however, in other areas. Decision-making processes are much more individual in Wallonia (1) and more collective in Flanders (3). Similarly, meetings play a much more important role in Flanders where one of the main objectives is to find a consensus or compromise. Differences between the two regions can also be seen as regards organisation. Organisation is much more informal in Flanders where staffing charts tend to be very linear and where there are few procedures (2).

Both regions manage time in similar ways. In Wallonia, as in Flanders, punctuality and the respect of times and deadlines are very important and necessary in developing a relationship of trust.

Management practices	Scores from 1 to 4
<b>Communication</b>	
Prevailing practice: oral (1) to written (4)	●●●○
Type: implicit (1) to explicit (4)	●●●○
<b>Meetings</b>	
Agenda	●●●●
- none (1) to always (4)	●●●●
- informal (1) to formal (4)	●●●●
- unimportant (1) to very important (4)	●●●●
Objectives: discussion (1) to decision-making (4)	●●●●
<b>Decision-making</b>	
Individual and autocratic (1) to collective and consensual (4)	●○○○ } ●●●○ }
<b>Time management</b>	
- Punctuality: unimportant (1) to very important (4)	●●●●
- Changes to agendas to deal with pressing problems: very uncommon (1) to very frequent (4)	●●○○
- Working sessions (meetings, individual work, etc.): focusing on a single issue (1) to dealing with several issues at the same time (4)	●●●○
<b>Organisation</b>	
- Structure: little hierarchy (1) to very hierarchical (4)	●●○○ } ●●●○ }
- Respect of hierarchy: low (1) to high (4)	●●●●
- Operating rules and procedures: from rare and informal (1) to numerous and formal (4)	●○○○ } ●●●○ }
- Delegation: informal and oral (1) to formal and written (4)	●○○○

These comments are not fixed in stone - entirely different practices may be encountered.

One of the key factors in the establishment of the alliance was the enterprise BURGO which became aware that it was wasting too much time dealing with small hauliers and wished to deal with only one supplier. A strategic plan setting out the grouping's development was formally drawn up. The grouping has the option, however, of modifying and amending this plan. The alliance received external help from the Chamber of Commerce and Industry of Belgian Luxembourg: advice and premises. The alliance also received public financial aid from the Walloon Region.

Negotiations took place in a climate of trust. A confidentiality agreement was signed. This agreement forms part of the grouping's articles of association. The grouping was set up in one year.

### The life of the alliance

The legal structure chosen was a GIE (economic interest grouping). Disputes are resolved by a majority.

The joint resources shared by the three partners are vehicle colours, a logo and legal advice. Premises are not shared. All three enterprises have retained the customers that they had prior to the alliance.

The alliance managers meet approximately once a month. The alliance's future objective is to find new customers.

The alliance raised specific problems for all three hauliers. Perceiving each other as partners rather than competitors is no easy task. Time will be needed to dispel their fears and almost automatic self-protective reactions.

Factors that play a part in keeping the alliance afloat are the similar size of the three enterprises and the different resources that they possess, making it possible for them to complement one another.



I • The issues that alliances raise for subcontractors

II • Setting up an alliance?

**III • The particular forms that alliances take in the member states of the European Union**

IV • Annexes

**Population**

5 100 000

**Area**

43 000 km<sup>2</sup>

## Denmark

### Subcontracting and alliances

#### Subcontracting

- Among enterprises with employees, industry accounts for 19% of Danish enterprises, provides 39% of employment and accounts for 33% of turnover in the Danish economy. Enterprises with less than 50 employees are in the majority and account for over two thirds of employment in industry.
- Subcontracting accounts for 55% of output and 15% of jobs in Danish manufacturing industry.
- Competitiveness and quality are the two main criteria by which subcontractors are selected. The need to be competitive is encouraging Danish contractors to extend their panels of suppliers, in particular calling on German suppliers when mass production work is involved. Close on 3000 Danish enterprises began the process to obtain ISO 9000 certification in 1990 and 1991.

#### Types of alliance

- Relationships between contractors and subcontractors are moving towards more intensive partnerships. As subcontractors are increasingly having to develop final products, they are making substantial investments in technology. There are still major issues as regards personnel training and marketing.

### Sources of useful information

*Dun & Bradstreet Nordic\**

Economic and financial information on Scandinavian enterprises.

*Danish Companies: Full Financial data  
Kampmannsgade 1 – 1780 COPENAGHEN V  
Tel.: 45 33 30 77 00 – fax 45 33 30 77 99*

Financial information (accounts and balance sheets) for Danish limited liability companies, i.e. approximately 20% of the companies registered in the Trade Register.

*The Danish Chamber of Commerce  
Boersen – 1217 COPENHAGEN K  
Tel. + 45 33 95 05 00 – fax: + 45 33 32 52 16  
Email: [handelskammeret@commerce.dk](mailto:handelskammeret@commerce.dk)*

Private agency promoting Danish international trade (legal, industrial, technical, training, etc.). Operates on a network basis ("International Chamber of Commerce", "Eurochambers/Eurocommerce", "Baltic Sea Chambers of Commerce", "The Nordic Chamber of Commerce").

*Confederation of Danish Industries  
H.C. Andersens Boulevard 18  
1553 COPENAGHEN V  
Tel. + 45 33 77 33 77 – fax + 45 33 77 33 00*

Promotion of sales of Danish industrial products in domestic and export markets.

**\* For further information, please contact your public agencies, trade associations, Euro Info Centres, etc.**

**GNP (ECU  
billions) - 1996**

124,65

**Imports (ECU  
billions) - 1996**

34

**Exports (ECU  
billions) - 1996**

39

**Language**

Danish

**Cultural features**

- Meetings are organised around clear-cut objectives and structured and formal agendas. They play a direct role in decision-making which is highly collective and consensual.
- Time is strictly managed and punctuality and task planning are key aspects. Punctuality is part of life and lateness is considered to be very bad form. Meetings are often planned long in advance - it is common for appointments to be arranged several months in advance - and the Danish are unlikely to be perturbed by pressing problems.
- Danish enterprises tend to be organised as linear and unhierarchical structures. Although delegation is very widespread and is generally formal, it takes place in a very flexible framework in which there are very few procedures.
- Communication is of an explicit type, gives priority to content and is written rather than oral.

	Scores from 1 to 4
<b>Communication</b>	
Prevailing practice: oral (1) to written (4)	●●●○
Type: implicit (1) to explicit (4)	●●●○
<b>Meetings</b>	
Agenda	
- none (1) to always (4)	●●●○
- informal (1) to formal (4)	●●○○
- unimportant (1) to very important (4)	●●○○
Objectives: discussion (1) to decision-making (4)	●●●○
<b>Decision-making</b>	
Individual and autocratic (1) to collective and consensual (4)	●●●○
<b>Time management</b>	
- Punctuality: unimportant (1) to very important (4)	●●●●
- Changes to agendas to deal with pressing problems: very uncommon (1) to very frequent (4)	●●○○
- Working sessions (meetings, individual work, etc.): focusing on a single issue (1) to dealing with several issues at the same time (4)	●●●○
<b>Organisation</b>	
- Structure: little hierarchy (1) to very hierarchical (4)	●●○○
- Respect of hierarchy: low (1) to high (4)	●●●○
- Operating rules and procedures: from rare and informal (1) to numerous and formal (4)	●●○○
- Delegation: informal and oral (1) to formal and written (4)	●●●○

These comments are not fixed in stone - entirely different practices may be encountered.

Secretariat for Foreign Trade Ministry of Foreign Affairs

Statistisk Plads 2 - D 1448 COPENHAGEN K  
Tel. + 45 33 92 00 00 - fax: + 45 31 54 05 33

Invest in Denmark, Ministry of Business and Industry

Slotsholmsgade 10-12-1216 COPENHAGEN K  
Tel. + 45 33 92 45 52 - fax: + 45 33 12 37 78

Copenhagen Capacity

Østergades Nytorv 6 - 1050 COPENHAGEN K  
Tel. + 45 33 33 03 33 - fax: + 45 33 33 73 33

Statistics Denmark

Vejrøgade 11 - 2100 COPENHAGEN Ø  
Tel. + 45 39 17 39 17 - fax: + 45 31 18 48 01

Links between Danish and foreign enterprises (information on Danish exports).

Information on :

- Specific investment conditions in industry,
- Regional, national and European assistance,
- Potential partners and locations.

Information and services (free) for foreign investors. Contacts with partners, local authorities, property agencies, etc.

General Danish and foreign statistical information.

I • The issues that alliances raise for subcontractors

II • Setting up an alliance?

**III • The particular forms that alliances take in the member states of the European Union**

IV • Annexes

**Population**

5 100 000

**Area**

43 000 km<sup>2</sup>

**Denmark**

**Eight specialist Danish subcontractors get together to offer a global supply**

**Markets:** Electronics, communications, medical, hydraulics

**Countries involved:** Denmark (8 companies)

**Trades:** Research, mechanical engineering, sheet metal production, foundry work, tools, surface treatment

**Type of alliance:** Complementary and network

**Legal structure:** Framework agreement

**Alliance:**  
INDUSTRIGRUPPEN (Svendborg) – 180 million Danish crowns

**The partners:**  
-A/S Kurt Hansen -(Electromechanical research and assembly) – DKR 20 million, 25 employees

-A/S Kurt Hansen Maskin Fabrik Ltd - (Sheet metal production, robotics) – DKR 55 million, 75 employees

-CEROPA A/S - (Zinc and aluminium foundry) – DKR 28 million, 75 employees

-DANCAST A/S (Zinc and aluminium foundry) – DKR 12 million, 35 employees

-Ejde Nielsen Vaerktojsfabrik A/S (Tools) – DKR 13 million, 30 employees

-Richter Hansen Maskinfabrik A/S (Machine tools) – DKR 20 million, 45 employees

-MEDEQ I/S -(Machine parts) – DKR 14 million, 24 employees

- Svendborg Industrilakering A/S (Surface treatment) – DKR 5 million, 6 employees

**The alliance**

Members of the Industrigruppen group have been working together closely for several years and have the following features in common: ISO 9000 certification, employees with varying skills, ultramodern production plant, high level of specialisation, many years of experience as subcontractors, experience in developing new products, ability to manage small or large production volumes, project management and expertise deriving from experience in export markets. Industrigruppen Svendborg sees itself as the provider of a full service, offering its customers a single contact for the whole of the production process or simple technical advice. This alliance therefore combines the capacity of a large enterprise with the flexibility of a small enterprise in an exemplary way.

**Background to the alliance**

At an exhibition in Sweden in 1987, the managing director of A/S Kurt Hansen Maskin Fabrik became aware that the company could become larger and more profitable if it were part of a larger group. The aim of an alliance was chiefly to market products and gain a foothold in new markets.

He invited three partners to envisage setting up an alliance. They discussed the possibility of gaining new markets and obtaining public financial aid. Their first step was to analyse the Swedish market. A further objective of the alliance was to make the partners more competitive and to enable them generally to make economies. A budget was then drawn up and a contract, renewable every two years, was signed in April 1988. The partners agreed that all expenditure would be divided equally between them. The alliance has an office at the premises of the alliance's founder and has taken on a coordinator who finds outlets and acts as a contact. New partners have subsequently joined the alliance. The managing directors of each member enterprise of the alliance knew each other

beforehand and had also worked together as suppliers. When the alliance was being set up partners and product lines were therefore selected on the basis of their complementary nature in order to be able to offer customers a complete manufacturing service (including R&D). When one of the partners travels, he takes his partners' trade brochures with him and therefore also acts as an ambassador.

All orders are treated as conventional subcontracts and each member retains his normal margin. The advantages for customers lie in faster delivery and lower costs (for instance transport).

There has also been a great deal of cooperation from the production point of view. After discussing new production systems at their meetings, some members were encouraged to try them out. Members have also formulated joint training programmes in which managing directors were also involved.

**Future of the alliance**

Personal knowledge of the other partners and human relations, i.e. the fact that trust has already grown out of past acquaintance, played a key part in the formation of the alliance. A strategic plan is drawn up every three years by the partners who analyse their weaknesses, strengths and prospects. The future of the alliance is viewed very optimistically and many ways of developing cooperation are being examined, not only from the point of view of production and sales, but also in the areas of personnel training, insurance and retirement. The alliance also plans to forge cooperation links with the Baltic countries, Poland and possibly Ireland. It is also envisaging taking on new members that it meets at exhibitions and trade fairs in order to conquer new markets. It will try in the future to concentrate on contracts with manufacturers and possibly to find partners in Finland.

**GNP (ECU billions) - 1996**

124,65

**Imports (ECU billions) - 1996**

34

**Exports (ECU billions) - 1996**

39

**Language**

Danish

**Viewing process and technology for the seed industry****Alliance**

In order to improve the quality of its grass seed processing, the Dutch enterprise Advanta contacted the Danish enterprise Damas with which it had already had business dealings. It asked Damas if the company wished to cooperate by pooling its technical skills and developing a Qseed process monitoring system. A third partner, Kjærgaard, joined the alliance subsequently.

**Background to the alliance**

The main challenges for the Dutch enterprise were to reduce costs and eliminate the risk of wastage and defective batches when cleaning seeds.

The alliance was set up on a technical basis. After reaching agreement, the three partners discovered that they were eligible for funds under the Eureka programme because they came from two or more European countries.

Although only a few expenses have been incurred up to now from the commercial and economic points of view, from the technical point of view it has been possible to develop a new product. Some refinements are still needed. A confidentiality agreement was signed. The contract was proposed by the Dutch enterprise and then adapted by the Danish partners to reflect their interests. The contract was therefore designed by the partners themselves but as the Dutch enterprise had its own lawyer, the latter approved the contract.

The alliance came into being following signature of the contract eighteen months after the idea had first been broached. The team of employees involved in the alliance were transferred away from their normal work in order to work full-time for the alliance. Each partner enterprise therefore has a contact person, all of whom meet regularly. The alliance has now entered a new phase: the original contract setting out the alliance's development objectives has expired and each partner has obtained the funds to which he was entitled. The partners have now entered a practical stage during which they will have to turn the project into a

marketable product. They meet as often as necessary.

**Future of the alliance**

There are no plans at present for future development of the alliance. The main focus of the alliance is currently to market the product that it has developed. It may well be that new projects are set up in future since the partners now know one another and cooperation on this project has been fruitful.

However, the main partner in the alliance has been taken over by a differently structured enterprise with different objectives. What does the future hold for the alliance?

**Outcome of the alliance**

The division of power did not pose any problems for the three partners as it was decided at the outset that Advanta would be the general coordinator. Cultural differences did not raise any problems either, as Dutch and Danish mentalities are fairly similar and distance was not a problem.

The fact, however, that this was a two-tier alliance (general economic control by the main partner and practical responsibility for the project at technical level) called the continuation of the project into question on a number of occasions. Periods of intense activity were followed by periods of less intense activity which delayed the project.

The general feeling is that this product could not have been successfully developed by a single enterprise and that cooperation within an alliance steps up people's commitment to one another so that they become more involved in the project. Each partner is able to learn from the other partners' experience. While no partner necessarily obtains rapid results, they have to be flexible, listen to the other partners and take their suggestions on board, all of which are valuable experiences. Staff at different levels of each partner enterprise also learn to communicate.

**Markets:** Agriculture and horticulture**Countries involved:** Denmark and the Netherlands**Trades:** Monitoring and process equipment**Type of alliance:** Technological**Legal structure:** Specific contract**The partners:**

-DAMAS A/S (Monitoring and industrial equipment development -Faaborg, Denmark) – 100 employees

-KJÆRGAARD Industria-Automazione (Acoustic and vision control engineering – Løsning, Denmark) – 60 employees

- ADVANTA - (Production and distribution of seeds for agriculture - AA Kapelle, The Netherlands) – 988 employees

I • The issues that alliances raise for subcontractors

II • Setting up an alliance?

### III • The particular forms that alliances take in the member states of the European Union

IV • Annexes

#### Population

39 000 000

#### Area

505 000 km<sup>2</sup>

## Spain

### Subcontracting and alliances

#### Subcontracting

Enterprises with less than 50 employees dominate the Spanish economy, accounting for 98% of enterprises in all sectors and 96% of industrial enterprises. These enterprises employ close on 50% of employees in industry.

The sectors that call most upon subcontracting are heavy engineering, plastics, rubber, electrical and electronic engineering, textiles, glass, wood, chemical products and ceramics. Although little is known about the subcontracting sector and there are few analyses, it accounted in 1990 for some ESP 4 billion.

Spanish subcontracting enterprises, located chiefly in Catalonia, Madrid, the Basque country, Andalucia and Valencia, are for the most part small enterprises. 85% employ less than 25 people and 77% have a turnover of less than ESP 250 million.

#### Types of alliance

One of the initiatives of the autonomous governments has been to set up "cluster" networks in order to meet priority objectives such as assisting economic development, encouraging groupings and international development (see the following page: "Methods of setting up a cluster"). More difficult to place on a concrete footing, technological partnerships often come up against problems of confidentiality and industrial property, especially when each enterprise's main activity is involved.

Strategic alliances are less common because they are complicated to set up. They come up against the family dimension which is still strongly rooted in Spanish SMEs.

Spanish subcontractors tend to look for their foreign partners in Italy, France, Portugal and Germany.

### Sources of useful information

*Dun & Bradstreet Spain\**

*Information on economic research, lists of enterprise by activity, foreign trade, trade fairs, commercial missions, etc.*

*Camara de Comercio de Barcelona  
Commercial Information Department  
Diagonal, 452 – 08006 BARCELONA  
Tel.: (343) 416 93 00*

*Information on economic research, lists of enterprise by activity, foreign trade, trade fairs, commercial missions, etc.*

*Camara de Comercio de Madrid  
Commercial Information Department  
Huertas, 13 – 28012 MADRID  
Tel.: (341) 538 35 00*

*Run by the Ministry of Industry and the Government of Catalonia. Information on industrial locations, assistance, legislation, patents, technology, markets, industrial and technological relationships with other countries, etc.*

**\* For further information, please contact your public agencies, trade associations, Euro Info Centres, etc.**

**GNP (ECU  
billions) - 1996**

443,46

**Imports (ECU  
billions) - 1996**

88

**Exports (ECU  
billions) - 1996**

79

**Language**

Spanish

## Cultural features

Interpersonal relationships are very important in Spanish society and in the Spanish business world. This explains why so much emphasis is placed on oral communication. Of an implicit type, communication presupposes that the interlocutor is already well aware of the issue that is being discussed.

Few in number, meetings are not common practice. Organised chiefly for discussion purposes, few preparations are made for meetings (there is often no agenda) and discussions may range widely.

Largely the prerogative of the head of the enterprise, decisions are made more by individual and autocratic than by collective and consensual methods.

Punctuality is not a rule of life. Delays or postponements of meetings or appointments are common. Like the rhythm of life in general, the working day extends well into the evening.

Although Spanish enterprises have very hierarchical structures, their operation is much less formal. Spanish enterprises, which are highly centralised and in which delegation is not a common practice, operate with few procedures.

	Scores from 1 to 4
<b>Communication</b>	
Prevailing practice: oral (1) to written (4)	●○○○
Type: implicit (1) to explicit (4)	●●○○
<b>Meetings</b>	
Agenda	
- none (1) to always (4)	●●○○
- informal (1) to formal (4)	●○○○
- unimportant (1) to very important (4)	●○○○
Objectives: discussion (1) to decision-making (4)	●○○○
<b>Decision-making</b>	
Individual and autocratic (1) to collective and consensual (4)	●●○○
<b>Time management</b>	
- Punctuality: unimportant (1) to very important (4)	●●○○
- Changes to agendas to deal with pressing problems: very uncommon (1) to very frequent (4)	●●●●
- Working sessions (meetings, individual work, etc.): focusing on a single issue (1) to dealing with several issues at the same time (4)	●●●○
<b>Organisation</b>	
- Structure: little hierarchy (1) to very hierarchical (4)	●●●●
- Respect of hierarchy: low (1) to high (4)	●●○○
- Operating rules and procedures: from rare and informal (1) to numerous and formal (4)	●○○○
- Delegation: informal and oral (1) to formal and written (4)	●○○○

These comments are not fixed in stone - entirely different practices may be encountered.

CIDEM (Enterprise Information and Development Centre) – Information Area  
Foreign Investment Area  
Provenza, 339 – 08037 BARCELONA  
Tel: +34 3 476 72 00

Ministry of Industry  
Castellana, 160 – 28071 MADRID  
Tel: +34 1 349 40 00

ICEX (Foreign Trade Institute) – Information Department  
Castellana, 14 – 28046 MADRID  
Tel: +34 1 349 61 76  
Economic and financial information on Spanish enterprises.

Economic and financial information on Spanish enterprises.

Industrial, economic, energy and environmental analyses and information.

Information on services and markets in Spain and elsewhere. Services for Spanish exporters. Distribution in Spain for foreign enterprises.

## Financial assistance:

Financial aid (ranging from regional to European) is available for the establishment of alliances. The amount of such aid depends on the nature of enterprises, sectors of activity and types of alliance. For any further information, please contact: CIDEM – Information Area Provenza, 339 – 08037 BARCELONA/Spain – Tel: +34 3 476 72 00

I • The issues that alliances raise for subcontractors

II • Setting up an alliance?

### III • The particular forms that alliances take in the member states of the European Union

IV • Annexes

#### Population

39 000 000 ab.

#### Area

505 000 km<sup>2</sup>

## Spain

### Setting up a cluster

#### Technical development of plastic sub-assemblies by 31 european suppliers and 8 leading scooter manufacturers.

The aim of the ACEM (Association Européenne de Constructeurs de Motocycles - European Association of Motorcycle Manufacturers) project set up by CLUSTER COMPETITIVENESS is to restructure the network of European scooter suppliers. Thirty-one European suppliers of scooter components and eight leading manufacturers are taking part in this project.

The project includes case studies of many interesting initiatives likely to help to achieve the final objective (prefabricated handlebar components, technical development of new exhaust silencers, customisation of different suppliers' engines, standardisation of components such as front forks or dashboards, etc.).

#### How have the enterprises taking part in the project been evaluated?

Several methods have been used during this project to evaluate the performance of all the suppliers taking part. A team of consultants and manufacturers' representatives made a first set of visits to each supplier's works in order to obtain information on their performance. In order, moreover, to make the most rational use of this information, a list of ten criteria measuring each enterprise's individual performance in its key sectors was drawn up. These criteria, called "performance evaluation indicators", were each associated with an objective value. The information collected was then analysed for the purposes of evaluation of each supplier and the conclusions of the analysis were presented by the team of consultants during a second set of visits to each supplier. In addition to this presentation of each supplier's practical and strategic performance and the challenges that they faced, there was an open discussion to select the cooperation initiatives (listed in a questionnaire) that were of interest to each enterprise and the particular enterprises with which such cooperation could take place.

In the case examined below, the information showed that the two suppliers had similar levels of performance in key sectors (marketing times, manufacturing times, stock management, quality, design process, etc.) and that they were very interested in long-term cooperation. During the final stages of the third phase of the project, when working groups were selected to implement each initiative, the two enterprises therefore worked out the methods of this cooperation and offered their services on the market.

#### This initiative required a great deal of work. What were the stages prior to the first set of visits to each supplier ?

The first stage of the project was to select those suppliers most likely to achieve the objectives. Starting from an initial list of potential participants (some 300 suppliers), CLUSTER COMPETITIVENESS chose, following presentations of the project and on the basis of objective selection criteria, 31 enterprises (6 French, 14 Italian and 11 Spanish) to take part in the final project.

During this period, all the selection and project presentation stages were supplemented by analysis work by a team of consultants in order to pinpoint key factors in the success of European scooter manufacturers. The conclusion that this analysis work reached was that suppliers had two different strategic choices:

- on the one hand, a customisation strategy for manufacturers of external scooter components (plastic components, dashboard, mirrors, seats, lights, etc.).

Key factors in the success of this strategy are marketing times, logistical costs and customer relations. Fifteen of the final selection of participants adopted this strategy.

- on the other hand, a standardisation strategy for manufacturers of components connected with the technical performance of the scooter (engine components, front forks, brakes, etc.). Key factors in the success of this strategy are standardisation of R&D, technological ability, the world market and design. Sixteen of the final selection of 31 participants adopted this strategy.

These two groups remained in place for the remainder of the project. The objective values associated with the performance evaluation indicators therefore differed for each group as did the objectives and content of seminars and the subsequent selection of cooperation projects.

**GNP (ECU  
billions) - 1996**

443,46

**Imports (ECU  
billions) - 1996**

88

**Exports (ECU  
billions) - 1996**

79

**Language**

Spanish

## Development of plastic components for the scooter industry

### Context:

Production times and costs are two of the most important factors in the success of scooter manufacturers. Plastic component suppliers play a key role in improvements in these areas. At present, the size of enterprises makes it impossible to improve the times needed to manufacture all the plastic components of a scooter and to reduce the costs involved.

### Challenge:

Suppliers of plastic materials need to pool their efforts to supply the whole range of plastic components at lower cost and in shorter times, thereby increasing the contractor's added value.

### Solution provided by the alliance:

Cooperation between two plastic injection enterprises (Italy and Spain) and an Italian engineering company should make it possible to produce all the injected components of a scooter

and should increase added value by improving manufacturing times and reducing costs. All the stages involved in the design of moulds by the engineering company and their manufacture will be coordinated by all three enterprises (the Italian plastic injection enterprise also manufactures moulds). When the moulds are ready, the two injection enterprises will carry out their own injection tests, calling, if necessary, for help from the engineering company. Once the components have been tested, the engineering company will be responsible for final evaluation and will approve dimensions and/or operation. Following acceptance of certification or type-approval by the customer, production will start in Italy and in Barcelona under the terms of an agreement, concluded beforehand, on component distribution. Each injection enterprise will be responsible for the quality control of its components.

**Markets:** Scooter industry

**Countries involved:** Italy, Spain

**Trades:** Plastics injection, engineering

**Type of alliance:** Complementary competitors, optimum size

**Legal structure:** Limited liability company

### The partners

(105 employees and ECU 13 million):  
*CLIPTERPLAST (plastics injection – Spain),  
 THEMA-PLAST/DELTA (plastics injection and moulding – Italy)  
 SPM (engineering – Italy)*

### What other initiatives formed part of the project?

Several initiatives were implemented as a result of meetings of working groups of the manufacturers and suppliers selected. There were two types of initiative. On the one hand, horizontal cooperation initiatives which included suppliers (whether or not direct competitors) and manufacturers wishing to take part in a project likely to affect the whole of the European scooter industry and, on the other hand, pre-competitive cooperation agreements between enterprises that involved only those suppliers particularly interested in cooperation.

- Horizontal pre-competitive cooperation initiatives
- Single quality system: a quality standard for the scooter industry.
- Standardisation of components: the aim is to standardise components that offer no added value for customers (front forks, dashboards).
- Pre-competitive agreements between enterprises
- Customisation of engines: starting from a standard engine, suppliers of engine components are adapting engines to each customer (involving one French supplier and six Italian suppliers).
- Pre-competitive cooperation to develop new exhaust silencers (involving three Italian suppliers).
- Sub-assembly of handlebar components in all the countries covered by the project.  
One supplier is responsible for the sub-assembly of all the handlebar components not far from the customer's works (involving two French suppliers, two Spanish suppliers and nine Italian suppliers).
- Restructuring of European suppliers of front forks.  
Discussions are underway at meetings of working groups (involving one Spanish supplier and four Italian suppliers).



I • The issues that alliances raise for subcontractors

II • Setting up an alliance?

### III • The particular forms that alliances take in the member states of the European Union

IV • Annexes

#### Population

39 000 000 ab.

#### Area

505 000 km<sup>2</sup>

## Spain

### Competitive production and respect of the environment by Spanish leather producers

**Markets:** Leather users

**Countries involved:** Spain (8 enterprises)

**Trades:** Leatherworking

**Type of alliance:** direct competitors, technological, production

**Legal structure:** Company

**The alliance:**

MIGUEL VILA GUITART (Igalada, Spain) – ECU 36 million

**The partners:**

CURTIDOS FARRÉS, EQUIPIEL, FONTANELLAS Y MARTI, MIGUEL FARRÉS ROJAS, MIRET & CIA, PRAYMA, VIVAPEL

In 1993, the imminent introduction of European environmental legislation posed a threat for the Catalan leather industry. Catalan enterprises ran the risk of EU fines of up to ECU 65 million. The investment needed to reduce pollution threatened to increase production costs well above those of competitors.

Over 90% of Catalan enterprises are in Igalada, near Barcelona. In 1993, they were feeling the effects of increased competition from other regions of Spain and Italy and from the developing countries. Many of them had small and old works in the town centre. Any change of location would have been extremely expensive since it would have entailed moving away from the water purification station shared by Igalada's enterprises.

In Igalada, the largest enterprise had annual sales of some one million m<sup>2</sup> (10.4 million square feet). The next two enterprises, of identical size, had annual sales of some 0.5 million m<sup>2</sup> (4.4 million square feet), the fourth had annual sales of 0.3 million m<sup>2</sup> (2.8 million square feet) and the fifth had annual sales of 0.25 million m<sup>2</sup> (2.4 million square feet). Joint investment was therefore the only way of financing a new cleaning and tanning works.

The largest enterprises in Igalada decided to join together to construct this new works. Each enterprise invested a sum proportional to its average annual sales and, if they wished to leave the alliance, had first to sell their shares.

The new works operates as an independent enterprise, selling its services at market prices to its partners and to any other enterprise in the sector. It is entirely financed from its own funds.

This alliance has made it possible for the partners to stay competitive and to respect environmental legislation. In addition, they are able to concentrate on those stages generating the most added value. Sharing a tanning works has provided them with a cost advantage, while they remain competitors in the final market.

The involvement of enterprises of different sizes guarantees plurality, as nobody holds the majority of shares. The fact that Miguel Vila (from one of the smallest enterprises) spontaneously took the helm of this initiative from the outset was also important. His reputation as an honest and impartial man meant that he played a crucial role.

This project was a non-exclusive and open idea from the outset. Objective and non-confidential discussions took place between the enterprises. The enterprise owners met over a long period. This made it possible to shorten and facilitate the decision-making process. Avoiding timetables and the pressures imposed by deadlines are key factors in successful work.

Two issues may well play a key part in future development. Once the works starts to operate at full capacity, simultaneous orders from a number of enterprises (as a result, for instance, of seasonal variations) could be a source of delay and conflict. Another issue that may raise problems, even though it is regulated in theory by the agreement, is what will happen if one of the major shareholders wishes to leave the alliance?

#### Stages of leather production



The leather production process includes various stages: cleaning, tanning, paring, dyeing and finishing. Cleaning and tanning generate a great deal of pollution and require substantial investment in infrastructure and economies of scale. Enterprises differentiate their products during the final three stages which create the most added value. These stages require highly qualified workers but relatively limited investment in infrastructure.

In 1993, a modern factory of sufficient size to carry out cleaning and tanning operations while respecting the environment required an investment of between ECU 4.6 and 6.6 million, with a production output of 2 million m<sup>2</sup> per annum (22 million square feet).

**GNP (ECU  
billions) - 1996**

443,46

**Imports (ECU  
billions) - 1996**

88

**Exports (ECU  
billions) - 1996**

79

**Language**

Spanish

I • The issues that alliances raise for subcontractors

II • Setting up an alliance?

**III • The particular forms that alliances take in the member states of the European Union**

IV • Annexes

**Population**

5 000 000 ab.

**Area**

338 000 km<sup>2</sup>

**Finland**

**Subcontracting and alliances**

**Subcontracting**

In 1995, 95% of the 23 000 industrial enterprises surveyed had less than 50 employees. They provided work for 24% of employees and accounted for 14% of turnover. Finnish industry contains both very large enterprises employing over 1000 people and a multitude of very small enterprises with less than 10 employees. Medium-sized enterprises with 50 to 250 employees are, however, few and far between.

This structure explains why there are several major contractors, in particular in the areas of paper industry equipment, wood, mining, electronics and telecommunications, and why there are so few local subcontractors able to meet the development and investment challenges posed by the need to offer sub-assemblies or systems rather than single components or parts. The various sectors account for the following proportions of the Finnish economy:

- Metals industries, engineering and electronics: 38% of added value.
  - Wood industry: 20% of added value.
  - Energy, gas, water: 10% of added value.

For several years the major contractors have been attempting to reduce numbers of subcontractors by imposing a range of criteria:

- above average size, whether in terms of turnover or personnel;
- financial autonomy and capacity;
- technological capacity for product development;
- high-level skills in logistics and purchasing;
- flexibility and customer service.

These selection criteria have now been added to the traditional, but no less essential, criteria of price, quality and deadlines.

**Types of alliance**

Subcontracting enterprises are generally keen to be independent, but alliances do exist, in particular in the form of clubs and commercial alliances. Finns tend to prefer commercial alliances to technological alliances which are less common. Strategic alliances are set up within the framework of horizontal cooperation where there is no division of work or take a vertical form where work is divided and strategic investment pooled.

When looking for partners abroad, Finnish subcontracting enterprises tend to look in Europe to Germany, Sweden and Estonia. They are also active in Asia.

**GNP (ECU  
billions) - 1996**

82,46

**Imports (ECU  
billions) - 1996**

24

**Exports (ECU  
billions) - 1996**

31

**Language**

Finnish/ Swedish

## Cultural features

- Communication is direct and based on facts and figures. Although generally informal, preparations are always made for meetings and an agenda is generally drawn up. At meetings the same amounts of time are allocated to discussion and decision-making. Many major issues are nevertheless tackled outside meetings.

- Time management is very strict and punctuality in all its forms (appointments, length of meetings, etc.) is very important. There have to be very good reasons for any changes.

- Decision-making is always based on consensus within a working group so that decisions can be rapidly implemented.

- Organisation is not very formal. It is very flexible and often decentralised. Delegation is a very widespread managerial practice and agreements, or even contracts, between individuals play a key role. Hierarchical procedures are not formally observed.

	Scores from 1 to 4
<b>Communication</b>	
Prevailing practice: oral (1) to written (4)	●○○○
Type: implicit (1) to explicit (4)	●●○○
<b>Meetings</b>	
Agenda	
- none (1) to always (4)	●●○○
- informal (1) to formal (4)	●●○○
- unimportant (1) to very important (4)	●●○○
Objectives: discussion (1) to decision-making (4)	●●○○
<b>Decision-making</b>	
Individual and autocratic (1) to collective and consensual (4)	●●○○
<b>Time management</b>	
- Punctuality: unimportant (1) to very important (4)	●●○○
- Changes to agendas to deal with pressing problems: very uncommon (1) to very frequent (4)	●●●●
- Working sessions (meetings, individual work, etc.): focusing on a single issue (1) to dealing with several issues at the same time (4)	●●○○
<b>Organisation</b>	
- Structure: little hierarchy (1) to very hierarchical (4)	●●○○
- Respect of hierarchy: low (1) to high (4)	●●○○
- Operating rules and procedures: from rare and informal (1) to numerous and formal (4)	●○○○
- Delegation: informal and oral (1) to formal and written (4)	●○○○

These comments are not fixed in stone - entirely different practices may be encountered.

I • The issues that alliances raise for subcontractors

II • Setting up an alliance?

### III • The particular forms that alliances take in the member states of the European Union

IV • Annexes

#### Population

5 000 000 ab.

#### Area

338 000 km<sup>2</sup>

## Finland

### Wood industry: extended product range and export expertise

**Markets:** Wood industry, wood equipment industry

**Countries involved:** Finland

**Trades:** Engineering, manufacture of materials, woodworking

**Type of alliance:** strategic, optimum size

**Legal structure:** None

**The alliance:**

saw mill, ply/glued products, wood processes – ECU 20 million, 185 employees

**The partners: 4 partners (+ 2 subsidiaries) + 1 export company**

- LEKOPA OY (wood machines) – 33 employees, ECU 44 million

- PASSIMO OY (wood drying, planing) – 50 employees, ECU 6 million

- MASA MATALLI OY (wood process materials) – 10 employees, ECU 1 million

- HT ENGINEERING LTD (process design) – 50 employees, ECU 7 million

- BAND LINE OY L + A (bands, belts, straps) – 7 employees, ECU 1 million

**Background to cooperation/the alliance**

In the Finnish wood industry, cut-throat price competition in the domestic market is causing many enterprises to look to export markets (Germany, United States, Canada, etc.). Although some export markets have their own domestic supply, demand doubles every year and these markets offer sufficiently high margins and large numbers of outlets.

The aims of the alliance were to increase exports and to be able to launch larger calls for tender. Outside the alliance, each partner continues to work in its own area of specialisation.

The board of directors of Lekopa Oy and Mr Uurinmäki (independent consultant prior to the alliance), now the alliance's managing director with responsibility for exports, were instrumental in setting up this alliance.

The alliance has now reached a sufficient size. It is chiefly a "supplier of projects". A pre-qualification system therefore has to be respected prior to each delivery, and the whole process has to obtain certification before it is approved. Independent subcontractors must have obtained ISO 9000 certification if they wish to work for the alliance. Provision has been made one product innovation every year.

**Challenges facing the enterprise**

The financing constraints to which all the enterprises were subject led to the choice of an alliance. The risks entailed in pooling expertise were discussed and accepted. The partners have now decided to sign a confidentiality agreement, not just to forestall internal problems, but also to protect the alliance from other companies.

**Outcome of the alliance**

The alliance has obtained the following results :

- from the commercial and financial points of view: very satisfactory results,
- from the technical point of view: better mutual understanding,
- from the point of view of production: increased and improved subcontracting capacity, more personal relationships with customers,
- from the point of view of innovation: design of new production methods,

- from the point of view of the growth of all the group's enterprises: some enterprises have found it difficult to cope with the speed at which they have grown,

- from the point of view of managers' personal experience: mutual support and back-up by the partners.

**Setting up the alliance**

An active approach was used to find partners and potential partners were carefully vetted. Selection was based on the personal qualities of enterprise managers.

The initial strategic plan, purely verbal and based on intuitions about the future, was adapted as business grew. The alliance now intends to set up a joint distribution enterprise.

Outside assistance was provided by the Foreign Trade Association (funding and contacts).

Negotiations related to :

- evaluation criteria for partners, in particular from the point of view of probity;
- rules on forecasting and invoicing;
- division of power and allocation of management tasks.

The alliance took three years to set up and is continuing to grow.

**The day-to-day alliance**

All the companies in the alliance have remained independent, although mutual holdings have been envisaged.

The alliance shares the following resources: compact discs and videos for marketing purposes, market research reports, purchase orders, secretariat, AUTOCAD software.

Communication does not raise any problems and there are frequent discussions. If there are problems arising from cultural differences between the enterprises, they are considered to be interesting and treated with humour.

Each enterprise also markets and sells its partners' products and techniques. Progress is therefore beneficial for all the partners and there seems to be a degree of synergy within this alliance, whose future seems secure.

## Sources of useful information

*Dun & Bradstreet Nordic\**

Economic and financial information on Scandinavian enterprises.

*Ostrobothnia T & E Keskus Employment and Economic Development Centre  
Mr Matti Malka Development Manager, Business Department*

General and specialist information.

*Pitkätatu 55, FIN 65100 VAASA, Finland  
Tel. 358 6 312 1549 – fax 358 6 312 1643*

\* For further information, please contact your public agencies, trade associations, Euro Info Centres, etc.

**GNP (ECU  
billions) - 1996**

82,46

**Imports (ECU  
billions) - 1996**

24

**Exports (ECU  
billions) - 1996**

31

**Language**

Finnish/ Swedish

## Penetrating the German market and optimising product range

**Background to cooperation/the alliance**

NIVAVAARAN SAHA OY's German exports were limited to a few traditional activities such as saw timber and conventional window frames. The enterprise produced only a very limited range of products with the result that there was substantial wastage of raw materials during production. The company, Nivavaaran Saha Oy, decided to find new customers for a wide variety of wooden raw materials. This cooperation made it possible to develop new products and new production methods, to promote a new attitude towards R&D and to eliminate waste.

The idea of stepping up the subcontracting side of the business came from the managing and commercial director, Mr Matti Vaara, who was aware that design and R&D activities have to be developed with customers. As mentioned above, the main challenges were to cut down on raw materials and to speed up the R&D process in order to win new customers.

Although the production of too wide a range of products may entail risks in the future, reducing dependence on the domestic market by developing exports will be of benefit.

German partners were an obvious choice: the market offered interesting prospects, the enterprise was already exporting traditional products to Germany and there are few cultural differences.

**Aims of the alliance**

The alliance was chiefly intended to promote international business and to generate new ideas and new products.

**Outcome of the alliance**

- From the commercial point of view: the results are positive overall.
- From the point of view of innovation: a new way of thinking has made it possible to formulate new production methods.
- From the point of view of production: over 50% of machinery has been replaced and the production process has undergone a complete overhaul. Quality has improved.
- From the point of view of managers' personal assets: the owners have re-invested their own capital in the enterprise.
- From the point of view of managers' personal experience: all the directors have had further experience of German culture and practices. While

- Germans and Finns have much in common, they tend to work by different principles: Finns tend to take a broader view, whereas Germans are more likely to adhere to basic rules.

**Setting up the alliance**

The enterprise received help from the Foreign Trade Association and exploited its own contacts in order to find new partners. They were selected after careful vetting of their businesses and their desire to take part in the project. A financial and commercial plan was also drawn up.

Negotiations covered raw material quality, delivery deadlines and samples (particularly important for the Germans).

The enterprise received outside help (Ministry of Commerce and Industry and Enterprise Development Fund) with its discussions with potential partners. The government also helped with funding. No confidentiality agreement was needed at the outset, but this issue is currently being studied. Competition did not raise a problem at the outset, but could be problematic in the future.

**The day-to-day alliance**

No specific legal structure has yet been set up.

In cases of dispute, the conciliation procedure is the task of the normal court responsible for settling company disputes.

The partners do not as yet have common resources, but have discussed this issue (telecommunications, CAD-CAM programmes, etc.).

They meet three to four times a year.

The future of the alliance is seen in a favourable light in Germany, and the enterprise has taken the strategic decision to launch new activities in other countries.

Cultural differences were not an obstacle to the establishment of the alliance. The main difference was that Germans pay particular attention to detail, while Finns concentrate on the final result.

**Markets:** Joinery industry**Countries involved:** Finland and Germany**Trades:** Joinery production, wood**Type of alliance:** Partnership, export**Legal structure:** Association contract**The partners:**

- NIVAVAARAN SAHA OY (manufacture of semi-finished wood products, Finland) – 12 employees, ECU 1 million

- Partner 1 – confidential (research into innovative wood solutions, Germany) – ECU 100 million

-- Partner 2 – confidential (manufacturers of pianos, wood components, Germany) – 7 employees, ECU 1 million

## Financial information:

Aid may be available for projects that combine consultancy, research, quality, organisation, marketing, research and product research and development.

Aid may cover both investment and product development costs. Expenditure covered by this aid includes expert consultancy, purchases of machines and buildings, rental of premises and equipment and wage and travel expenses (up to 75% of total expenditure).

Federation of Finnish Metal, Engineering and Electrotechnical Industries FIMET

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General and specialist information.

General and specialist information.

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Tel. 358 204 6951 – fax 358 204 695 535

I • The issues that alliances raise for subcontractors

II • Setting up an alliance?

### III • The particular forms that alliances take in the member states of the European Union

IV • Annexes

**Population**  
57 500 000 ab.

**Area**  
549 000 km<sup>2</sup>

## France

### Subcontracting and alliances

#### Subcontracting

• Large enterprises occupy a predominant place in all sectors of the French economy. Although few in number, they employ over half of employees and account for close on half of turnover. This percentage is even higher in industry where enterprises with more than 250 employees account for close on two thirds of turnover and slightly over half of employment. Over 92% of industrial enterprises have less than 50 employees.

<b>Breakdown of turnover by trade in 1995 (enterprises &gt;20 employees)</b>	<b>Turnover (FF million)</b>	<b>%</b>
Plastics processing	33 797	14,6
Electronics	32 800	14,2
Foundry	27 055	11,7
General mechanical engineering	23 629	10,2
Cutting and drawing	20 641	8,9
Elastomer processing	17 201	7,5
Textiles – Clothing	16 980	7,4
Surface heat treatments	9 731	4,2
Lathe work	7 834	3,4
Forging, stamping, sintering	7 632	3,3
Boiler making, metal construction	6 922	3,0
Moulds and patterns	5 512	2,4
Packaging	3 700	1,6
Fastening, cold forging	3 050	1,3
Special tools	2 127	0,9
Springs	1 636	0,7
Gears, transmissions	1 622	0,7
Precision mechanics, bearings	997	0,4
Other	8 070	3,5
<b>Total</b>	<b>230 936</b>	<b>100</b>

• Industrial subcontracting accounts for close on 11% of French industrial output according to SESSI (the Ministry of Industry's Statistical Office). In 1995, SESSI estimated the turnover of the 6 000 subcontractors with over 20 employees to be FF 230 billion and the turnover of enterprises with between 10 and 19 employees to be FF 35 billion. There are many annual professional trade fairs for subcontractors (MIDEST in Paris and ALLIANCE in Lyon, etc.)

• The Ile de France and Rhône-Alpes regions are the two main locations for subcontracting enterprises.

• In 1995, the sectoral breakdown of subcontracting purchases was as follows:

<b>Sector</b>	<b>% purchases</b>
Automobile and parts manufacturers	39
Aeronautics and armaments	13
Railways, agricultural and earth-moving materials	10
Electrical engineering, electronics and computers	12
Mechanical engineering	8
Textiles, clothing, leather	6
Domestic electrical goods	4
Chemistry, parachechemistry, foodstuffs	4
Packaging	1
Other	3

**GNP (ECU billions) - 1996**

1 170,84

**Imports (ECU billions) - 1996**

226

**Exports (ECU billions) - 1996**

237

**Language**

French

**Types of alliance**

• Internationalisation is nowadays one of the main challenges faced by French subcontractors. Although 77.5% of subcontractors say that they have foreign contractors, over half have only occasional contracts outside France. Finding new outlets is by far their main motivation. 13% already have sites abroad. French enterprises tend to look to Germany for partners.

- Four types of alliance are to be found among French subcontractors:
  - enterprise networks and clubs,
  - commercial alliances,
  - technological alliances,
  - strategic or critical size alliances.

At events such as ALLIANCE in Lyons, SMEs therefore group together to exhibit their global subcontracting supply in line with changes in demand from contractors.

**Cultural features**

• One of the main features of French management methods is that communication is always of an implicit type. Interlocutors are assumed to know about the context and, despite the fact that communication often tends to be formal and in writing, it is often not very factual and only rarely reviews the basic data of the problem being examined.

• Team work is not part of French culture and little stress is placed on it in the education system. Often formal, meetings are not really forums for discussion. They are often very hierarchical in form, leaving the members present very little freedom. Meetings for discussion purposes rapidly become disorganised and unstructured forums. The agenda, when there is one, is often disregarded and meeting times often overrun.

• Often centralised and bureaucratic, the decision-making process is not geared towards finding a consensus.

• Punctuality is not a value in itself. It depends to a large extent on the context and the person with whom the appointment has been made. There is little respect for deadlines and work plans are constantly being changed to deal with pressing problems. It is fairly standard practice to carry out several tasks at once.

• Organisation is relatively formal and structures tend to have relatively large numbers of hierarchical channels. Procedures and operating rules are informal with the result that initiatives take place outside the hierarchy.

Management practices	Scores from 1 to 4
<b>Communication</b>	
Prevailing practice: oral (1) to written (4)	●●●○
Type: implicit (1) to explicit (4)	●○○○
<b>Meetings</b>	
Agenda	
- none (1) to always (4)	●●○○
- informal (1) to formal (4)	●●○○
- unimportant (1) to very important (4)	●●○○
Objectives: discussion (1) to decision-making (4)	●●○○
<b>Decision-making</b>	
Individual and autocratic (1) to collective and consensual (4)	●●○○
<b>Time management</b>	
- Punctuality: unimportant (1) to very important (4)	●●○○
- Changes to agendas to deal with pressing problems: very uncommon (1) to very frequent (4)	●●●○
- Working sessions (meetings, individual work, etc.): focusing on a single issue (1) to dealing with several issues at the same time (4)	●●●○
<b>Organisation</b>	
- Structure: little hierarchy (1) to very hierarchical (4)	●●●○
- Respect of hierarchy: low (1) to high (4)	●●○○
- Operating rules and procedures: from rare and informal (1) to numerous and formal (4)	●●○○
- Delegation: informal and oral (1) to formal and written (4)	●●○○

These comments are not fixed in stone - entirely different practices may be encountered.



I • The issues that alliances raise for subcontractors

II • Setting up an alliance?

### III • The particular forms that alliances take in the member states of the European Union

IV • Annexes

#### Population

57 500 000 ab.

#### Area

549 000 km<sup>2</sup>

## France

### A Franco-Spanish alliance develops an innovative process in order to supply the Spanish iron and steel industry

**Markets:** Iron and steel

**Countries involved:** France - Spain

**Legal structure:** Limited liability company

**Type of alliance:** Direct competitors, strategic

**Trades:** Surface treatment

**The alliance:**

-CROMO EUROPA SA (production unit in Bilbao)  
– 12 employees, ECU 1.2 million

**The partners:**

-CHROMALPES (hard chromium plating, France)  
– 48 employees, ECU 5 million

-VILA ELECTROQUIMICA (chromium plating, Spain)  
– 40 employees, ECU 4 million

**Background**

During the 1980s, Mr GUIGUET (managing director of CHROMALPES – FF 10 million) travelled to the United States on a number of occasions and visited many enterprises.

Very curious by nature and very interested in technical innovations in his trade, he discovered a Canadian process for the hard chromium plating of rolling mill cylinders that was not yet known in France.

From 1983 onwards, he carried out technical tests and started to market the process. Success soon followed. After a period of process development, he set up an initial factory in Nantes for CARNAUD Basse-Indre and a second in Thionville (in partnership with his Canadian partner) for SOLLAC.

This was a major innovation that was very profitable for the customer: the service life and quality of rolling mills were drastically improved, making substantial savings possible.

In 1988, he offered his process to a rolling mill company in Bilbao. The latter, working with a local subcontractor, encouraged him to enter into partnership with this subcontractor.

In 1990, the alliance between CHROMALPES and VILA ELECTROQUIMICA (50/50) led to the company SA CROMO EUROPA with an initial five-year contract with the local contractor.

**Setting up cooperation**

The local iron and steel contractor arranged for Mr GUIGUET to meet his counterpart, Mr VILA. The Spanish were very circumspect and obtained a great deal of information on the French enterprise and its manager. The fact that the Spanish enterprise was a family-run concern meant that the alliance had little chance of getting off the ground without the agreement of the "patriarch" (the father of the Spanish company's manager).

Advice from consultants, contracts with the contractor and the establishment of a legal structure paved the way for the creation of a production unit, CROMO EUROPA SA.

Cordial dealings with the Spanish company encouraged Mr GUIGUET and his commercial director to learn Spanish. Technical, commercial and management supervision meetings were regular and frequent (once a month). The company was managed chiefly by the Spanish.

Over five years, the very complementary division of power and management paved the way for the growth of CROMO EUROPA SA and its two partners.

**What the partners put in**

Spanish :

-setting up the factory (obtaining bank loans),  
-human resource management (local financial aid for employment),  
-production unit management

French :

-technical innovation,  
-production process,  
-commercial work.

Equal financial commitment.

**Legal aspects of the alliance**

Five-year contract with the iron and steel contractor in Bilbao on an exclusive subcontracting basis.

Joint production company (company capital FF 1 million) shared by the two subcontractors (50/50): CROMO EUROPA SA (12 employees, ECU 1.2 million).

**Results and winding up of the alliance**

1990 to 1995:

The alliance enabled the Spanish partner to make use of a new technology and continue to work with his contractor.

On the French side, the alliance made it possible to use a technological innovation to create a network of European enterprises.

It was planned from the outset that the partners' commitment to the alliance would be re-negotiated depending on the terms under which the contract with the iron and steel contractor were renewed. Following these negotiations, Mr GUIGUET sold his shares to his partner on good terms. The innovation had become standard practice and the new contract with the contractor reduced prices and required substantial re-investment. Margins were becoming smaller.

The managers separated on good terms. In 1997, there were still subcontracting relationships between the two companies.

## Sources of useful information

*Kompas*

Yearbook of French enterprises and very detailed information on their activities and products.

*French Companies : Full Financial Data*

Financial information (accounts and operating results) on French enterprises.

\* For further information, please contact your public agencies, trade associations, Euro Info Centres, etc.

*SESSI*

*Ministry of Industry – Paris*

National industrial statistics and specific studies.

**GNP (ECU  
billions) - 1996**

1 170,84

**Imports (ECU  
billions) - 1996**

226

**Exports (ECU  
billions) - 1996**

237

**Language**

French

## An association of subcontractors manufactures a steam vacuum cleaner for the general public

### Aim of the alliance

To industrialise and manufacture a competitive (price and performance) range of steam vacuum cleaners for the general public through cooperation between a proactive, flexible and innovative team of suppliers and subcontractors.

### Background and establishment of the alliance

Mr REYNAUD, managing director of STILO, runs a group of enterprises active in research, marketing and subcontracting (plastics moulding, metal sheet making, plastics injection).

In 1993, encouraged by his successful design of a women's depilatory device for SILKEPIL, Mr REYNAUD was asked by Mr PRINDER whether he would like to help develop a steam vacuum cleaner for the domestic market.

The Austrian company CLEANSER specialising in aeraulic components, in which Mr PRINDER was a shareholder, was also invited to take part in the project.

French social security charges and wage costs ruled out the possibility of setting up a production unit in the Grenoble region. An Italian enterprise, TPA IMPEX specialising in the assembly and testing of domestic electrical goods, with which VAP Industrie had had dealings, then took over the assembly project for which it received local economic aid.

In this project, VAP Industrie's task is to market the products among the main names in domestic electrical goods such as SINGER, MOULINEX and others. Through its subsidiaries PAROLAI and ANRO, STILO is responsible for producing the moulds and for plastics injection.

The Austrian company is responsible for aeraulic research and the supply of standard components. The product is assembled, tested and despatched from Italy.

Messrs PRINDER and REYNAUD had known and had a good opinion of one another for a number of years. All four companies are highly motivated and have up to now invested substantial sums in the project. Complementing one another very well, they have learnt over the last year to work together and to resolve the various technical problems that have arisen. A team of managers and engineers from the various enterprises deals with technical and organisational problems.

### Legal structure

Mr PRINDER is the project leader.

The legal structure is set out in a protocol of agreement in which the STILO group companies undertake to use their moulding and plastics injection skills to help industrialise the product (technical tests + free materials tests) and TPA IMPEX undertakes to purchase all plastic components from ANRO.

### Results up to now

Up to now, research has been carried out. Even though there are still problems with the moulds which are being manufactured in Taiwan for cost reasons, prototypes have been produced and tested and the assembly line is being developed. Sales of the initial product are scheduled to start in September 1998 among the VAP MONDE, IMCO, TPA and SINGER network.

**Markets:** Domestic electric goods

**Countries involved:** France, Austria, Italy

**Trades:** Design, moulding, plastics injection

**Type of alliance:** Complementary colleagues, strategic

**Legal structure:** Contract

### The partners:

-VAP INDUSTRIE (commercial company working for SINGER), Aubagne, France - 35 employees, ECU 20 million - Mr PRINDER

-STILO Group (security and leisure component design and product manufacture, moulding and plastics injection subcontractor), Grenoble, France - 108 employees, ECU 12 million - Mr REYNAUD

-CLEANSER (aeraulic component research and supply), Austria

-TPA IMPEX (domestic electrical goods assembly and testing), Italy - 60 employees, ECU 12 million - Mr AMORETTI

## Bibliography:

- Guide méthodologique "L'alliance: un projet moteur" - (Lyons Chamber of Commerce and Industry) - 1995
- Mettez du réseau dans vos pyramides (Hervé SERIEYX) - Village Mondial - 1996
- Sous-traitance à l'aube du XXIe siècle - Evolutions et perspectives - (Claude Altherson) - L'Harmattan
- Alliances et partenariats: les fruits de l'expérience (Revue Française de Gestion No 114) - August 1997
- Les dirigeants de PME: enquête et chiffres (B. Duchêneaut) - Maxima - 1996
- Profession: cadre international (J.M. Grange) - Editions d'Organisation - 1997
- Vivre dans un monde multi-culturel (Geert Hofstede) - Editions d'Organisation - 1994
- Les différences culturelles dans le management (Daniel Bollinger) - Editions d'Organisation - 1989
- Cerveau droit, cerveau gauche - Cultures et civilisations (Prof. L. Israël) - Plon - 1995
- Pratique de management en Europe (Jean Simonet) - Editions d'Organisation - 1992

## Financial aid:

- Network Initiatives (Rhône-Alpes region). To promote alliances between SMEs: maximum financial aid of FF 500 000.
- Advisory Assistance Fund (DRIRE). For help with the design of an alliance project.
- Various types of local, regional and national aid promoting enterprise partnerships in various sectors (innovation, environments, etc.).

Chambers of Commerce and Industry  
(by Department)

Various Departmental research and information.  
Aid, assistance and advice for enterprise directors.  
Partner searches.

Employers' associations (national coverage)

Sectoral studies, assistance for members

I • The issues that alliances raise for subcontractors

II • Setting up an alliance?

### III • The particular forms that alliances take in the member states of the European Union

IV • Annexes

#### Population

57 500 000 ab.

#### Area

230 000 km<sup>2</sup>

## United Kingdom

### Subcontracting and alliances

#### Subcontracting

• Large enterprises dominate employment and turnover, especially in industry, where enterprises with over 250 employees account for 55% of employment and close on 70% of turnover. 90% of industrial enterprises have less than 50 employees. They employ just under a quarter of employees and account for less than 20% of turnover.

• British subcontractors are rarely parts manufacturers. They are either capacity or speciality subcontractors. Made up chiefly of small enterprises, British subcontracting is not, according to surveys conducted in recent years, very customer-dependent.

#### Types of alliance

• British enterprises are keener on the first three of the four types of alliance discussed in Chapter 1 (clubs and networks, commercial alliances and technological alliances) and less likely to enter into the fourth type (optimum size alliances).

• Only one third of British subcontracting enterprises are exporters. The global dimension of their partner searches nevertheless marks them out from their European counterparts. As preferred countries, the United States, Japan and Korea all come in front of the other European countries.

• Exchanges of technology, improved competitiveness and access to new markets are the main objectives of partnerships and alliances.

### Sources of useful information

*ICC British Company Directory*

Information on British enterprises and their activities.

*Kompass UK*

Information on the activities of British enterprises from a nomenclature of 45 000 products.

*ICC British Company Financial Datasheets*

Financial information (accounts and operating results) on British companies with a turnover of more than GBP 500 000.

\* For further information, please contact your public agencies, trade associations, Euro Info Centres, etc.

**GNP (ECU billions) - 1996**

909,20

**Imports (ECU billions) - 1996**

225

**Exports (ECU billions) - 1996**

203

**Language**

English

## Cultural features

- Oral communication tends to be the norm. Reasoning is inductive, moving from the specific to the general and where necessary reviewing the context, with the result that communication is relatively explicit. Issues to be tackled are rarely tackled head on. As a rule, there is a reserve about personal and private matters.

- Frequent and important, the purpose of meetings is to prepare for decision-making, make decisions and follow them up. Decision-making processes may vary, however, from one enterprise to another, especially as regards the degree of consensus sought.

- Punctuality is important and advance planning of appointments reflects a desire to plan tasks and commitments.

- British enterprises are often organised in decentralised ways and lack hierarchical structures. Delegation and contracts with individuals are common management practices.

Management practices	Scores from 1 to 4
<b>Communication</b>	
Prevailing practice: oral (1) to written (4)	●●○○
Type: implicit (1) to explicit (4)	●●●○
<b>Meetings</b>	
Agenda	
- none (1) to always (4)	●●○○
- informal (1) to formal (4)	●●●○
- unimportant (1) to very important (4)	●●●○
Objectives: discussion (1) to decision-making (4)	●●●○
<b>Decision-making</b>	
Individual and autocratic (1) to collective and consensual (4)	●●●●
<b>Time management</b>	
- Punctuality: unimportant (1) to very important (4)	●●●●
- Changes to agendas to deal with pressing problems: very uncommon (1) to very frequent (4)	●●○○
- Working sessions (meetings, individual work, etc.): focusing on a single issue (1) to dealing with several issues at the same time (4)	●●○○
<b>Organisation</b>	
- Structure: little hierarchy (1) to very hierarchical (4)	●●○○
- Respect of hierarchy: low (1) to high (4)	●●●○
- Operating rules and procedures: from rare and informal (1) to numerous and formal (4)	●●○○
- Delegation: informal and oral (1) to formal and written (4)	●●●○

These comments are not fixed in stone - entirely different practices may be encountered.

WELSH DEVELOPMENT AGENCY

Principality House – The Friary

Cardiff CF1 4AE

tel: +44 (0) 1443 845 500 Fax: +44 (0) 1443 845 589

DEPARTMENT OF TRADE AND INDUSTRY (DTI)

Victoria Street – LONDON SW1H 0ET

tel: +44 (0) 171 215 5000 Fax: +44 (0) 171 215 8451

Development of cooperation between Welsh and foreign enterprises.

Information, assistance and technical publications to promote business development in the United Kingdom.

### Bibliography:

-Technology Foresight "Progress through partnership" - HMSO Publications – 1993 (analysis by sector)

### Financial aid:

No general financial aid. In some regions, however, grants may be available from local authorities.

I • The issues that alliances raise for subcontractors

II • Setting up an alliance?

**III • The particular forms that alliances take in the member states of the European Union**

IV • Annexes

**Population**  
57 500 000 ab.

**Area**  
230 000 km<sup>2</sup>

**United Kingdom**

**British example CALSONIC**

<b>Market:</b> automobile
<b>Countries involved:</b> Wales
<b>Sectors:</b> aluminium, plastics, rubber, electricity, etc.
<b>Type of alliance:</b> complementary network
<b>Legal structure:</b> association

As a supplier of cooling and air conditioning systems for the European automobile market, Calsonic Llaneli Radiators (CLLR) has shown record growth in a highly competitive market.

With its programme to reduce supplier numbers and to improve quality and logistics in 1988, CLLR was already a "best practice" leader in the industry. In 1991, however, increasingly demanding customers and new competition from Eastern Europe made CLLR aware that relations with suppliers were very important.

*"Worldwide competitiveness has to be underpinned by an appropriate network of suppliers. We were looking for a way of achieving precisely this when Source Wales contacted us about setting up a suppliers' association".*

CLLR's substantial supply costs, resulting from increases in the price of raw materials and semi-finished products, made the company aware of the importance of a climate of positive cooperation with suppliers.

Based on the Japanese "Koryaku Kai" model, CLLR's suppliers' association was the first of its kind to be set up in the United Kingdom.

*"The client-supplier relationship works only if there is two-way communication, mutual trust and integrity".*

CLLR focused on suppliers of strategic importance assessed from their added value, degree of dependence, innovative capacity and interpersonal relationships.

The first association of CLLR suppliers was set up in 1991 with members based exclusively in the United Kingdom. A second association, set up nine months later, merged with the first association of British enterprises in 1992.

Since enterprises in the association were competitors, the circulation of information was subject to confidentiality rules.

*"Because it was important to find where we stood in relation to the competition, our first step was to commission Source Wales to carry out a benchmarking project to identify all our strengths and weaknesses".*

- Benchmarking related to:
- commercial forecasts,
  - quality management and quality research,
  - operational management,
  - human resource management,
  - cost system.

"The findings of this benchmarking were used to target weaknesses and as a basis for workshops or measures needed to implement quality. These findings formed the basis for the programme".

<b>GNP (ECU billions) - 1996</b>	<b>Imports (ECU billions) - 1996</b>	<b>Exports (ECU billions) - 1996</b>	<b>Language</b>
909,20	225	203	English

#### **Selection criteria for the partners:**

- Contribute to the production of radiators (aluminium, logistics, plastic/rubber moulding, electric engines).
- Be strategic suppliers, influential on prices.
- Need to develop a competitive advantage within the supply chain – represent an important percentage of the final production cost.

#### **Main objectives of the association:**

- Establish “best practice” systems in the suppliers.
- Training and development – capacity to learn together.
- Continuous development.

#### **Results of the alliance:**

- Contribute to a raise in benefits.
- Integration of the specific needs of CALSONIC
- Development of logistics – delivery in the supply chain, Kan-ban systems, distribution centre.

#### **Weaknesses of the alliance:**

- Not all suppliers were able to make improvements.
- Difficulties in reflecting the policy of the client throughout the supply chain.
- Transparency of costs and technologies always difficult.

There were major benefits :

- establishment among suppliers of a culture of total quality (TQM) and ongoing improvement of key enterprise functions: quality, costs, delivery, design and management;
- introduction of open book accounting (making quality more transparent);
- development of more efficient R & D;
- improved relationships between and with suppliers.

*“Source Wales underpinned this operation. It was pivotal in setting up the association”.*

Source Wales is an initiative of the Welsh Development Agency which has the task of making Wales into a “centre of industrial excellence”. To achieve this objective, Source Wales has introduced programmes of excellence for Welsh enterprises. These programmes have been formulated so that they are entirely in keeping with the needs of Welsh enterprises wishing to obtain a competitive edge.

*“The suppliers’ association was one of the key factors in the introduction of a purchasing strategy and in the establishment of best practice techniques among our chain of suppliers”.*

I • The issues that alliances raise for subcontractors

II • Setting up an alliance?

### III • The particular forms that alliances take in the member states of the European Union

IV • Annexes

#### Population

10 100 000 ab.

#### Area

132 000 km<sup>2</sup>

## Greece

### Subcontracting and alliances

#### Subcontracting

It is estimated that 17 660 enterprises (employing 3 or more people) out of a total of 57 182 enterprises (employing 3 or more people), i.e. 30.9%, are subcontractors.

- 21% of the turnover of these subcontracting enterprises comes from exports. Most of this international business is in the clothing sector, where exports account for 80% of turnover.

- The main sectors in which there are high levels of subcontracting are:

- the clothing and fur industry
- metalworking
- production of wood articles
- manufacture of electrical machinery and apparatus, radio and television
- rubber and plastic articles
- construction
- computer services.

- Subcontractors are concentrated in the Thessaloniki region and, to a smaller extent, in eastern Macedonia.

#### Types of alliance

- The four target countries of Greek enterprises looking for foreign partners are Germany, Italy, France and the United Kingdom.

- Access to new markets and technology are the main objectives.

### Sources of useful information

*Hellenic Organization for Small and Medium Sized Enterprises and Handicraft*  
16. Xenias Street – 115 28 ATHENS

General and specialist information.

*Athens Chamber of Small and Medium Sized Industries (B.E.A.)*  
18 Acadimias Street – 106 71 ATHENS

General and specialist information.

**GNP (ECU  
billions) - 1996**

73,26

**Imports (ECU  
billions) - 1996**

20

**Exports (ECU  
billions) - 1996**

8

**Language**

Greek

## Cultural features

• Interpersonal relationships play a key role in social and business life. Greatly favouring the spoken word, Greek communication is nevertheless fairly explicit.

• Meetings are informal and very few preparations are made. Meetings are a forum for discussion and debate, during which personal opinions can be aired. Important issues are often discussed, however, behind the scenes.

• The head of the enterprise is an omnipresent player and decision-maker, even when he looks for a degree of consensus.

• Although appointments are fixed in advance, punctuality is not always a rule. Building up in-depth personal relationships means that time has to be spent with your interlocutor.

• Organisations tend to lack formality, from the point of view of both structures and procedures. Networks of interpersonal relationships are very important.

Management practices	Scores from 1 to 4
<b>Communication</b>	
Prevailing practice: oral (1) to written (4)	●●○○
Type: implicit (1) to explicit (4)	●●●○
<b>Meetings</b>	
Agenda	
- none (1) to always (4)	●●○○
- informal (1) to formal (4)	●●●○
- unimportant (1) to very important (4)	●●●○
Objectives: discussion (1) to decision-making (4)	●●●○
<b>Decision-making</b>	
Individual and autocratic (1) to collective and consensual (4)	●●●○
<b>Time management</b>	
- Punctuality: unimportant (1) to very important (4)	●●○○
- Changes to agendas to deal with pressing problems: very uncommon (1) to very frequent (4)	●●○○
- Working sessions (meetings, individual work, etc.): focusing on a single issue (1) to dealing with several issues at the same time (4)	●●○○
<b>Organisation</b>	
- Structure: little hierarchy (1) to very hierarchical (4)	●●○○
- Respect of hierarchy: low (1) to high (4)	●●●○
- Operating rules and procedures: from rare and informal (1) to numerous and formal (4)	●●○○
- Delegation: informal and oral (1) to formal and written (4)	●●○○

These comments are not fixed in stone - entirely different practices may be encountered.

UROPA SA  
driani, DRAMA

General and specialist information.

OMMEX  
6 Xenias Street - 115 28 ATHENS

General and specialist information.

## Bibliography:

-Commission of the European Communities, Pan-European Forum on Subcontracting, Economic Importance of Subcontracting in Greece,  
-K. Albanis, The Problem of Subcontracting,  
-S. Katsouras, Fashion and Subcontracting.

## Financial assistance:

Financial assistance for SMEs. EOMMEX industrial sub-programme 4, action 4.2.4, promoting alliances and network creation.



I • The issues that alliances raise for subcontractors

II • Setting up an alliance?

### III • The particular forms that alliances take in the member states of the European Union

IV • Annexes

**Population**

10 100 000 ab.

**Area**

132 000 km<sup>2</sup>

## Greece

### Answering a European call for tender with a local partner

**Markets:** Public

**Countries involved:** Italy, Greece

**Type of alliance:** Strategic

**Trades:** Electromechanical machinery manufacture

**Legal structure:** Partnership agreement

**Partner:**

- SELMO (Greece) – Expertise in special machinery

- RIBALDI (Italy) – Manufacturers of ticket stamping machines

#### The partners

The Greek enterprise SELMO and the Italian enterprise RIBALDI cooperated in order to supply ticket stamping machines to the Greek Urban Transport Organisation in Athens. The consortium set up by the SELMO and RIBALDI companies commissioned the Greek enterprises ELKAM and EBO to manufacture certain components of these ticket stamping machines.

#### Background and skills

SELMO's director was looking for partners in Italy and asked whether the RIBALDI enterprise was willing to work with him.

While RIBALDI possessed the skills needed to manufacture stamping machines, one of the criteria for taking part in this project was that at least 60% of the product's added value had to be achieved in Greece. RIBALDI considered, however, that this cooperation was an excellent way of gaining a foothold in the Greek market.

Although SELMO knew the Greek market and had some (limited) skills as regards the manufacture of ticket stamping machines, the company knew that these two factors would not be enough to establish a viable business because of the specific nature of this sector. It was for these reasons that SELMO and RIBALDI set up a consortium to manage the manufacture and sale of the ticket stamping machines.

The fact that both partners were very keen to draw up an agreement meant that they tended to disregard potential risks. They were borne out, however, by time as the partnership has not raised any particular problems. Indeed, the results obtained have reinforced their cooperation.

#### Outcome

From the commercial point of view, results have been surprising. The high quality of the product has

demonstrated that SELMO possessed the expertise needed to manufacture such products. From the financial point of view, results have not been as good because of the specific problems raised by cooperation with a public body. Lastly, from the technological point of view, cooperation has made it possible to produce very high quality products (no defects have been discovered in the machines).

#### Legal aspects

The partnership agreement drawn up by the two enterprises' legal advisers specified both partners' obligations and rights in detail, thereby preventing any disputes. There was very close cooperation during the planning, manufacturing and delivery stages, which took up at least 90% of SELMO's time. Articles 85 and 86 of the Treaty of Rome in no way hampered this partnership.

#### What the alliance has achieved

The minimum objective laid down for this partnership, i.e. the supply of ticket stamping machines, was successfully achieved. Setting up a factory to produce machines of this type is, however, problematic in Greece because of the sector's particular features. The demand for manufactured products in this sector reaches a peak at specific times (when the purchaser issues an order), then drops off. During the period between two orders, which may be relatively long, the enterprise does not produce new machines but simply repairs old machines.

More generally, transnational partnerships are of benefit to all their partners. They make it possible to transfer expertise between different countries, promote trade, reduce production costs, make the alliance's products more competitive and thus improve the standard of living of the inhabitants of the European Union.

**GNP (ECU billions) - 1996**

73,26

**Imports (ECU billions) - 1996**

20

**Exports (ECU billions) - 1996**

8

**Language**

Greek

## Pooling European skills to optimise a tool-making technology

The Greek enterprise MIKRON and the German enterprise KURZMODELLBAU manufacture prototypes and several types of tools using various materials. They have to satisfy various specifications as regards precision, surface quality, morphology, strength, etc. Both enterprises have found it necessary in recent years to improve the process by which prototypes are produced, to improve material properties from the point of view of quality and to improve the cost and delivery terms of the services that they provide.

They therefore contacted two specialist technological consultants, the Greek company HUMANTEK SA and the Swedish company SWEMODEL, as well as local universities and research institutions in order to explore their skills.

After getting together, the partners decided to cooperate to design and produce a software resource which could help them to step up their expertise in prototype production and small-scale and renewable manufacture.

Cooperation between the enterprises listed above led them to prepare and draw up a joint proposal under the European Union's research programme CRAFT BRITE EURAM III. The aim of this proposal was to develop DERP, a resource aiding decision-making and selection of technologies and materials for prototype production and small-scale and renewable manufacture. This proposal was accepted and will receive financial assistance from the European Commission.

The cooperation described above was extended through the inclusion in the project of a third manufacturing company, the Swedish company SCANCON, which manufactures machine parts, parking meters and other products.

Cooperation between SMEs from different European countries was a necessary step in providing the enterprises with a full picture of the different market requirements in relation to problems connected with prototype manufacture.

The fact that SMEs, research institutes and technological consultants are taking part in the project should ensure the development of DERP.

The enterprises involved in this cooperation consider that the main advantages provided by the partnership and the development of the tool will be:

- to reduce the time needed to prepare the supply (including the appropriate technique selection process);
- to reduce the overall prototype manufacturing period and to increase added value;
- to reduce the financial risks connected with larger programmes or cases where it is necessary to develop mixed product/service activities.

**Markets:** Automobile**Countries involved:** Greece, Germany, Sweden**Trades:** Tools, prototypes**Type of alliance:** Technological**-The partners:**

- MIKRON (Greece) – Tool manufacturer

- KURZMODELLBAU (Germany) – Tool manufacturer

- HUMANTEK SA (Greece) – Research with local universities

- SWEMODEL (Sweden) – Research with local universities

- SCANCON (Sweden) – Machine manufacturer

## Association of Greek industrial subcontracting enterprises (AGEIS)

The AGEIS Association was set up by 21 subcontracting enterprises.

The Association's main aim is to help industrial subcontracting enterprises to develop and to resolve specific problems.

The Association's aims are to:

- 1) collect and disseminate technical, commercial, legal and economic information to members,
- 2) monitor State measures concerning industrial subcontracting and to take action to defend

members' interests,

- 3) monitor international developments and take part in trade fairs and international conferences, organise scientific, cultural and community events and educational programmes for members (seminars, symposia, etc.) and to set up a club and a shared documentation facility.

The Association should soon have 70 members.

**Markets:** Industrial**Countries involved:** Greece**Trades:** Subcontracting**Type of alliance:** Enterprise network

I • The issues that alliances raise for subcontractors

II • Setting up an alliance?

### III • The particular forms that alliances take in the member states of the European Union

IV • Annexes

#### Population

3 500 000 ab.

#### Area

70 700 km<sup>2</sup>

## Ireland

### Subcontracting and alliances

#### Subcontracting

- The subcontracting market is estimated at approximately IEP 3 billion; a market of IEP 800 million, for which non-Irish subcontractors account, needs to be added to this figure.
- The sectors in which subcontracting is most widespread are metals and machinery, instrumentation and electronics, electrical devices, chemical and pharmaceutical products and computer services.
- Subcontractors are generally small and medium-sized enterprises working for a wide range of customers.
- The industrial sectors that make the most use of subcontracting are transport, instrumentation and electronics and metals and machinery.

#### Types of alliance

- Alliances among Irish enterprises tend to take the form of enterprise networks and clubs.
- Irish enterprises entering into commercial alliances generally wish to gain export markets. Only a small number of enterprises are involved.
- Technological alliances tend to focus on research and development and are set up chiefly to obtain funds from European programmes.
- Strategic alliances are uncommon among Irish enterprises.
- Irish enterprises have a very international attitude since they do not look for partners solely in Europe (Germany, United Kingdom, Benelux), but also in the USA.

### Sources of useful information

#### Irish Companies & Businesses\*

Economic, legal and financial information on over 320 000 Irish enterprises and their activities.

#### The Irish Trade Board

Merrion Hall, Strand Road, Sandymount

PO Box 203 IRL – DUBLIN 4

Tel: +353 1 206 64 10 Fax: +353 1 206 64 97

General and specialist information.

\* For further information, please contact your public agencies, trade associations, Euro Info Centres, etc.

	Scores from 1 to 4
<b>Communication</b>	
Prevailing practice: oral (1) to written (4)	●●○○
Type: implicit (1) to explicit (4)	●●○○
<b>Meetings</b>	
Agenda	
- none (1) to always (4)	●●○○
- informal (1) to formal (4)	●●○○
- unimportant (1) to very important (4)	●●●○
Objectives: discussion (1) to decision-making (4)	●●●○
<b>Decision-making</b>	
Individual and autocratic (1) to collective and consensual (4)	●●●○
<b>Time management</b>	
- Punctuality: unimportant (1) to very important (4)	●●●●
- Changes to agendas to deal with pressing problems: very uncommon (1) to very frequent (4)	●●○○
- Working sessions (meetings, individual work, etc.): focusing on a single issue (1) to dealing with several issues at the same time (4)	●●○○
<b>Organisation</b>	
- Structure: little hierarchy (1) to very hierarchical (4)	●●○○
- Respect of hierarchy: low (1) to high (4)	●●○○
- Operating rules and procedures: from rare and informal (1) to numerous and formal (4)	●●○○
- Delegation: informal and oral (1) to formal and written (4)	●●○○

These comments are not fixed in stone - entirely different practices may be encountered.

### Cultural features

- Placing the stress on oral communication, the Irish are generally warm and convivial and not at all reluctant to talk about more personal issues or matters, even within business dealings.
- Meetings are important, especially as team work is a widespread practice. While informal and interpersonal exchanges are important, simple discussion may not be the sole objective.
- The decision-making process varies greatly from one enterprise to another, and may range from participative to more centralised and autocratic.
- The Irish are very receptive and manage their time in very flexible ways. This flexibility is also to be found in organisations which tend not to be very centralised.

**GNP (ECU  
billions) - 1996**

41,51

**Imports (ECU  
billions) - 1996**

26

**Exports (ECU  
billions) - 1996**

36

**Language**

Irish/ English

## Supply of sub-assemblies to the PC industry

### BACKGROUND TO COOPERATION/THE ALLIANCE

During the 1980s, these three enterprises separately manufactured electronic equipment chiefly for the Irish market.

Feedback from their main customers made the enterprises aware that customers were tending to look for complete or "made to measure" solutions and did not just want to purchase components. They also became aware that their customers were becoming increasingly international and that they needed to provide them with support in a number of markets if they were to survive and prosper. They decided to form an alliance in order to meet these challenges head on. All three enterprises knew that they did not have sufficient resources to offer a complete service to their current customers. On their own, moreover, the enterprises would not have been able to operate internationally.

### OBJECTIVES OF THE ALLIANCE

The initial objectives of the alliance were to increase sales to existing customers and to consolidate their status as the preferred suppliers of these customers.

### OUTCOME OF THE ALLIANCE

All three enterprises and their managers benefited from the alliance from the commercial and financial points of view. Profits (although not disclosed) have increased at a faster pace than turnover.

Exchanges of ideas at regular weekly meetings between the managers also made it possible to improve production and quality control systems. All three enterprises have obtained ISO 9002 certification. Statistical process control, which they implement on behalf of their customers, is an important part of their work.

### SETTING UP THE ALLIANCE

The three companies formed the alliance at the suggestion of a number of joint customers, including Apple Computers.

The alliance project was designed by the three enterprises' senior managers who met and adopted a strategy to develop the alliance in the micro-computing and electronics markets.

A strategic plan was officially drawn up from a commercial plan based on theoretical research and field studies in Europe and the United States.

During negotiations, the managers decided that the alliance would be constructed on a project-by-project basis.

The enterprises were assisted by the Irish Trade Board and the Industrial Development Agency. These agencies offered financial aid in order to help them to implement their commercial plan.

Each partner expects to make only a single profit on joint business: if Ballymount Precision is the project manager, it purchases products manufactured by the other two alliance partners at normal cost and the margin is invoiced to the final customer.

The partner who will liaise with the final customer is decided by agreement.

The alliance does not have its own capital at present. Each partner pays a proportion of the expenditure connected with the alliance's day-to-day operation.

It took about a year to set up the alliance.

### THE DAY-TO-DAY ALLIANCE

The partners have not entered into a formal agreement, but have formed a kind of temporary consortium. There is no body for outside conciliation in the event of disputes. No separate and independent team has been set up.

The partners share commercial strategy, research and quality standards. Each partner has retained activities outside the alliance.

The alliance owes its strength to intensive formal and informal exchanges: there are weekly meetings between each partner's production and quality control managers. Production and consumption reports are e-mailed every day to all the partners. All the senior managers of the three enterprises attend the two-monthly board meetings.

Monthly feedback sessions on suppliers' performance from the point of view of quality are attended by all the key staff of all three enterprises. There are quarterly studies of suppliers.

### THE FUTURE OF THE ALLIANCE

The alliance intends in future to study how it can take on a genuinely international dimension by selling its services in North America and the Far East. It may well be that its main customers will also require a more official alliance making it necessary to set up a separate legal entity with its own capital.

If this were to be case, the alliance's main problem would be to decide who should control individual products.

An organised system of communication and frequent discussions between the partners have been crucial in maintaining and developing the alliance. The ability to draw on the experience of the other partners in fields such as quality systems or the resolution of production problems have also helped to cement the alliance. The fact that the partner enterprises are of the same size is an important, but not indispensable, factor. The attitudes of the people involved in setting up the alliance is the key factor. Ultimately, results will depend on sound management of time and financial resources.

**Markets:** Computer equipment**Countries involved:** Ireland**Trades:** Cutting/drawing, plastics injection, electronics, assembly**Type of alliance:** Optimum size, complementary colleagues**Legal structure:** Informal**The partners**

-Rennicks Ireland Limited (plastics injection - Dublin) - 330 employees, ECU 85 million

-Ballymount Precision Engineering (presswork, tool-making - Dublin) - 250 employees - ECU 12 million

-Toptech Ireland Limited (electronic cards - Dublin) - 100 employees - ECU 8 million

I • The issues that alliances raise for subcontractors

II • Setting up an alliance?

**III • The particular forms that alliances take in the member states of the European Union**

IV • Annexes

**Population**  
57 700 000 ab.

**Area**  
301 000 km<sup>2</sup>

**Italy**

**Subcontracting and alliances**

**Subcontracting**

With 57 enterprises per 1000 inhabitants, Italy has one of the highest enterprise densities in Europe. In most cases, these are very small enterprises. 94% of these enterprises have fewer than 10 employees and the percentage is still above 80% in industry. Close on three quarters of employees in industry work in companies employing less than 50 people.

Over 8000 subcontractors with over 5 employees have a turnover of ITL 51 270 billion, 10% of which is abroad, principally in Germany and France. These enterprises tend to be located in the North of Italy as the "Region" table shows. Italian subcontracting involves a wide range of trades as the "Activity" table shows.

There are three main outlets for Italian subcontracting, as shown in the "Market" table.

In recent years, Italian subcontracting enterprises have shown a very dynamic attitude towards investment in industrial equipment. Over the last two years, investment has been at an average level of between 10 and 25% of turnover. The quality of their industrial equipment has consequently become one of their strengths and enlargement or expansion projects abound.

**Types of alliance**

International development is one of the major concerns of many subcontractors. Germany and France are the two main target countries. Measures of this type are also strengthening links and partnerships between Italian enterprises in the same region and helping to improve each enterprise's prospecting policy (see the example "Italian district organisation and relationships"). This kind of networking is matched by the considerable amount of groundwork carried out by SME managers.

More formal alliances are less widespread, especially among enterprises with less than 50 employees. There are more commercial and technological alliances than strategic alliances which nowadays involve only the larger companies.

When looking for foreign partners, the target countries are always Germany and France. Increasing numbers of enterprises are, however, looking to the Eastern countries, in an attempt to reduce production costs. The North African countries are being targeted by a smaller number of enterprises.

Region	%
Lombardy	25
Piedmont	20
Veneto	17
Tuscany	14
Emilia Romagna	13
Liguria	11

(Source: Agenzia Industriale Turin in Usine Nouvelle, 22 May 1997)

Activity	%
Metalworking	44
Foundry, forging, sintering	21
Assembly	10
Plastics	9
Moulds and patterns, tools	7
Electrical and electronic engineering	6
Other	3

Market	%
Machine tools, public works and agricultural machinery	39
Automobiles, heavy goods vehicles	24
Electromechanical engineering and electronics	16
Other industries	21

**Bibliography:**

Some regions produce studies/guides/CD ROMs on the subcontracting supply.

**Sources of useful information**

\* For further information, please contact your public agencies, trade associations, Euro Info Centres, etc.

*Dun & Bradstreet Italy\**

*Economic information on Italian enterprises.*

*Chambers of Commerce and Industry*

*General and specialist information.*

**GNP (ECU  
billions) - 1996**

969,80

**Imports (ECU  
billions) - 1996**

162

**Exports (ECU  
billions) - 1996**

197

**Language**

Italian

## Cultural features

- Reflecting economic and social life in general, Italian management methods have a strong regional dimension. The highly industrialised North has a longer tradition and greater experience of management. Two major characteristics are nevertheless true throughout the country and especially in SMEs:

- flexibility and adaptation in order to make enterprises more dynamic;
- the important role of the family.

- Based on very strong and very far-reaching interpersonal relationships, communication mixes the emotional and the factual. Communication is highly implicit and generally tends to take an oral form.

- Although relatively formal, meetings are chiefly for discussion. Many and varied, they are also very long. Decisions are taken behind the scenes and not at meetings with the result that decision-making tends to be individual. The managers of small enterprises are omnipresent with the result that the decision-making process tends to be autocratic. Networks and relationships of mutual dependency between enterprises are also key factors in decisions.

- Punctuality is not always respected, but a great deal of time is spent getting to know partners. Dealing with pressing problems often disturbs agendas and greatly disrupts work organisation.

- Organisations are very informal and have little hierarchy. They operate without precise rules or procedures. Delegation takes place but is not precisely circumscribed; tasks are delegated, however, only to people in whom there is trust.

Management practices	Scores from 1 to 4
<b>Communication</b>	
Prevailing practice: oral (1) to written (4)	●●○○
Type: implicit (1) to explicit (4)	●○○○
<b>Meetings</b>	
Agenda	
- none (1) to always (4)	●●●○
- informal (1) to formal (4)	●●●○
- unimportant (1) to very important (4)	●○○○
Objectives: discussion (1) to decision-making (4)	●○○○
<b>Decision-making</b>	
Individual and autocratic (1) to collective and consensual (4)	●○○○
<b>Time management</b>	
- Punctuality: unimportant (1) to very important (4)	●●○○
- Changes to agendas to deal with pressing problems: very uncommon (1) to very frequent (4)	●●●○
- Working sessions (meetings, individual work, etc.): focusing on a single issue (1) to dealing with several issues at the same time (4)	●●○○
<b>Organisation</b>	
- Structure: little hierarchy (1) to very hierarchical (4)	●●○○
- Respect of hierarchy: low (1) to high (4)	●●○○
- Operating rules and procedures: from rare and informal (1) to numerous and formal (4)	●●○○
- Delegation: informal and oral (1) to formal and written (4)	●○○○

These comments are not fixed in stone - entirely different practices may be encountered.

## Italian “district” organisation and relationships

One of the main features of Italian subcontracting is undoubtedly its geographical organisation. Almost all subcontractors for finished product processing industries are concentrated in a few small areas.

This is true of the suppliers’ networks associated with the major industries. The automobile sector network is a typical example, as a large number of suppliers are concentrated in the Turin region.

The geographical concentration of suppliers’ networks is even greater in Italian “industrial districts”. From an economic point of view, these industrial districts share the following features:

- considerable influence on local manufacturing activities (resources used and wealth generated),
- a fabric of enterprises formed largely by SMEs,
- most enterprises use the same production process.

I • The issues that alliances raise for subcontractors

II • Setting up an alliance?

### III • The particular forms that alliances take in the member states of the European Union

IV • Annexes

#### Population

57 700 000 ab.

#### Area

301 000 km<sup>2</sup>

## Italy

### TEXTILES IN BIELLA (PIEDMONT): ONE OF THE OLDEST ITALIAN INDUSTRIAL DISTRICTS

In an area of 830 km<sup>2</sup> with a population of 191 000 inhabitants, 2000 textile enterprises employ 28 000 people. They generate a turnover of US\$ 4 billion and account for two thirds of Italy's total output of worsted yarn and fabric. The entire chain, from initial processing of the wool to production of the fabric, including all the intermediate and complementary processes typical of textile subcontracting, takes place in the area.

The product chain is often supplemented by specialist technologies which have been developed by enterprises located in the same industrial districts. In Biella, 200 enterprises employing 2500 employees produce machinery and equipment for the textile industry and themselves provide work for mechanical engineering subcontractors. The combination of technologies and products and the location of the main entrepreneurs and subcontractors in the same area are features common to 200 or so Italian industrial districts.

This model can be found in many sectors, for instance the manufacture of spectacle frames in Belluno in the Veneto and the production of agricultural machinery in Modena and Reggio Emilia.

Industrial districts enable an optimum division of work between enterprises. Large numbers of finished product manufacturers provide work for a whole range of subcontractors with high levels of specialisation in the various stages of the production process.

The major enterprises can therefore call upon an almost complete range of subcontractors and can choose, for each specific need, between various local suppliers. Similarly, subcontractors are able to contact a large number of potential customers in their area of activity.

*An industrial district: a small geographical area with a close network of customer/supplier relationships.*

## Transnational alliance to supply a joint range of rubber products

**Markets:** Transport, various industries

**Countries involved:** Germany, Italy

**Trades:** Rubber processing

**Type of alliance:** complementary products, joint commercial representation

**Legal structure:**

**The partners (the names of the companies are not given for reasons of confidentiality):**

-Italian subcontractor (60 employees), technical rubber components

-German subcontractor (20 employees), technical rubber components

### Objectives and features of the alliance

Both enterprises were keen to set up an alliance in order to find synergies from the point of view of products and their distribution and in particular to offer a more technically varied range of products in their sectors of activity.

The fact that they had similar interests shaped their equal involvement in setting up the alliance. The strategic foundation of the alliance was the product. The two enterprises have neighbouring areas of application and sell to the same types of users, but their products do not generally overlap and, when this is the case, each partner can offer its customers an alternative and various product and price options.

The key objective, shared by both enterprises, is to develop two types of market:

- foreign markets, by stepping up sales of their own products;
- domestic markets, by finding new solutions, for instance by integrating the partner's product ranges and services.

This kind of alliance obviously entails risks, especially when the partners are in direct competition. In practice, this alliance involves an exchange of information on each partner's market: competition, price, costs, prospects. The partners nevertheless felt that there might well have been competition if the alliance had not been set up.

The alliance made it possible in this case to limit competition.

It was not a priority or absolutely necessary for the partner to be foreign. The choice of the partner was shaped by the key factor in the alliance, i.e. the product, and it turned out that this product was being manufactured by a foreign company. The fact that the partner was foreign nevertheless offered further advantage: greater synergy from the point of view of commercial outlets.

If the agreement had been concluded between two companies in the same country, it would have been more difficult to apply for the simple reason that their areas of commercial influence would have been too close. When looking at ways in which they could cooperate, the two enterprises envisaged various options for the alliance:

- mutual purchases of their products
- bilateral representation, with product exchanges
- creation of a new and independent commercial enterprise
- joint holdings.

These possibilities were not felt to be alternative: but were seen as possible stages in the construction of the alliance. Transition to the following stage will make it necessary not only to monitor economic results, but also the working methods that the two enterprises have decided jointly to adopt.

GNP (ECU billions) - 1996	Imports (ECU billions) - 1996	Exports (ECU billions) - 1996	Language
969,80	162	197	Italian

Formal and informal networks in these districts tend to lead to spontaneous mechanisms promoting the rapid circulation of market information and the prompt and widespread dissemination of innovations and technical skills.

**The fact that a large number of competitors are located in the same district intensifies competition and encourages enterprises (customers and subcontractors) to maintain a high level of efficiency.**

The production specialisation and division of work in the same sector that this local organisation enables provides a number of advantages, such as the possibility of training skilled and unskilled workers so that they become familiar with all aspects of product culture.

This specialist industrial knowledge provides a kind of "common ground", even outside enterprises: local institutions and authorities, professional associations, banks and service enterprises within this comparable and integrated structure are well equipped to interpret enterprise needs and operate more efficiently.

**Local industrial networks which to a large extent share technologies and markets generate the economies needed to provide specialist services for enterprises:** training resources, test and analysis laboratories, centres specialising in technology transfers and help with innovation, promotional agencies and consortia which are all to be found to varying extents in Italy's various industrial districts.

The networks available to many Italian subcontractors working in these districts undoubtedly provide them with a considerable competitive edge. While this kind of network differs from an alliance, in which relationships are consciously built up, it is as important as an alliance.

#### Outcome of the alliance

This is a recent alliance that is only in its initial stages. Nevertheless, there have already been some positive results:

- from the commercial point of view, the enterprises have gained further expertise by comparing and sharing their various methods of expanding into different markets.

- from a technical and production point of view, the results are felt to be promising. Discussions have made it possible for the enterprises to discover potential new solutions and have more clearly delineated the sectors in which they might overlap. The enterprise owners consider that the experience they have had up to now has also been valuable from a personal point of view.

#### Setting up the Alliance

The **alliance plan** reflected both enterprise's objectives and the assurance that they were shared. The key factor initially was intuition; the formulation of a genuine strategy came about only later. The quality of the human relationships between the owners of the two enterprises was also a key factor in the decision to mount a joint project. A **strategic plan** has been officially drawn up.

There have been many meetings between the enterprises in order to pinpoint the type of product, possible synergies and, more importantly, the philosophy, principles and prospects of a joint project. Important points emerging at meetings have been recorded in order to act as a basis for subsequent checks. The strategic plan is periodically revised and updated.

During **negotiations**, the two enterprises examined a number of factors, including:

- the partner's characteristics (product, enterprise size, market share, technical skills);

- the partner's motivations;
- the steps that both enterprises would need to take to get to know one another and launch joint actions (definition of the objectives that would have to be achieved at each stage before the prospects of further integration were examined).

#### Structure of the alliance

The alliance has not yet envisaged a legal structure. Up to now, each enterprise has merely authorised the other enterprise to sell its products in its own market, but without paying commission on its sales.

There are no plans to set up an independent team for the alliance. Setting up such a team was evaluated but, in view of the costs of the alliance at that time, was postponed until a later stage.

The alliance partners work together in three main areas :

- trade (each enterprise has made its own direct and indirect distribution network available to the other enterprise),
- product research (mutual consultation about prospects and solutions)
- purchases (of components and equipment).

From a practical point of view, the alliance is managed as follows: the directors of the alliance meet each week in order to tackle technical problems and questions of information, and every four months in order to review the situation.

#### What will make the alliance successful?

- both partners will need to be convinced of its benefits,
- the time taken to get the alliance off the ground should not drag on,
- concrete progress needs to be made within a reasonable period of time.

*Advantages of districts:*

- *simpler communication and rapid information exchange*
- *logistical convenience*
- *punctual and reliable delivery of goods*



I • The issues that alliances raise for subcontractors

II • Setting up an alliance?

**III • The particular forms that alliances take in the member states of the European Union**

IV • Annexes

**Population**

380 000 ab.

**Area**

2 586 km<sup>2</sup>

## Luxembourg

### Subcontracting and alliances

#### Subcontracting

- Industry is dominated by large enterprises which employ close on two thirds of the industrial work force. Small enterprises are rather fewer in number than in other countries, in particular in industry where less than 90% of companies have under 50 employees. The proportion of employment for which they account is also low - just under 20% in industry.
- Iron and steel and heavy engineering also dominate Luxembourg industry. The lack of processing industries such as automobiles or aeronautics also explains why subcontracting is not very widespread in the Grand Duchy.

#### Types of alliance

- In view of their very limited domestic market, Luxembourg enterprises take a European approach to cooperation and alliances, although this may be limited to a regional approach. The creation and development of SAAR-LOR-LUX, an economic area straddling Germany, France and Luxembourg, reflects this approach. More generally, alliances tend to be forged in the neighbouring regions of Belgium, France and Germany.
- Enterprise networks and clubs and commercial, technological and strategic alliances are all to be found in Luxembourg.

### Cultural features

- On the borders of several European countries, management models in Luxembourg are based largely on Belgian, German and French practices.
- In the decision-making process, which is inspired to a large extent by the German model, the objective is to seek a consensus.
- Punctuality and the respect of commitments, especially where appointments are concerned, are very important.
- Structures and operating methods combine aspects of both the French and German models as a result of proximity and shared language.

### Sources of useful information

#### *Dun & Bradstreet Luxembourg*

Economic information on Luxembourg enterprises.

#### *Hoppenstedt Benelux*

Information on Belgian, Luxembourg and Dutch enterprises and their activities. The database contains profiles of 95 000 enterprises.

#### *CD ROM "Metals subcontracting"*

Information on subcontractors in the Walloon region.

#### *Chamber of Commerce of the Grand Duchy of Luxembourg*

7 rue A. de Gasperi – L 2981 Luxembourg

Tel : +352 42 39 39-1 Fax: +352 43 83 26

Telex : 60174 chcom lu – E-mail : [chamcon@cc.lu](mailto:chamcon@cc.lu)

Internet site: <http://www.cc.lu>

Public agency offering various services for the development and promotion of industrial enterprises (financial and commercial assistance).

#### *Luxinnovation*

7 rue A. de Gasperi/BP 1304 – L 1013 Luxembourg

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Telex: 60174 chcom lu

E-mail: [gilles.schlesser@sitel.lu](mailto:gilles.schlesser@sitel.lu)

General and specialist information.

#### *Federation of Luxembourg Industrialists*

7 rue A. de Gasperi/BP 1304 – L 1013 Luxembourg

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E-mail: [fedil@fedil.lu](mailto:fedil@fedil.lu)

**\* For further information, please contact your public agencies, trade associations, Euro Info Centres, etc.**

**GNP (ECU  
billions) - 1996**

12,71

**Imports (ECU  
billions) - 1996**

127

**Exports (ECU  
billions) - 1996**

136

**Language**

French

## The buildings and public works market

### FEDIMA operates as an interest grouping

FEDIMA chiefly brings together importers working in the Luxembourg and foreign markets as dealers/retailers or as representatives/distributors. The range of products, materials, machines, equipment and plant with which FEDIMA's members work is very extensive. FEDIMA's members have customers among industry, civil engineering enterprises, craft enterprises, schools, State and local authority technical departments and transport enterprises.

Direct sales are their main objective, often accompanied by services such as plant engineering, commissioning, maintenance, etc.

FEDIMA was set up as a non-profit-making association in order to provide a specific forum for its members who are not industrialists, craft enterprises or wholesalers/retailers and to defend their interests directly so that they do not have to belong to other trade federations.

What has come out of these links?

FEDIMA operates as a network of enterprise managers. FEDIMA is thus able:

- to take part in Luxembourg trade fairs. It may also envisage taking part in foreign trade fairs.

- to play an active part in training (conferences) and exchanges of ideas, information and experience between its members who are all enterprise managers.

The cordial and friendly relationships between FEDIMA's members have led them to exchange information on markets and to give priority to one another in business.

FEDIMA takes part, via the Chamber of Commerce, in formulating legislation and regulations on:

- public tenders for works and supplies,
- rights of establishment,
- the status of self-employed representatives and dealers.

From the point of view of public works and supply contracts, FEDIMA is working to ensure that general enterprises respect subcontractors' rights.

**Markets:** Civil engineering, crafts, schools

**Countries involved:** Luxembourg

**Trades:** Importers of various materials

**Type of alliance:** Enterprise network

**Legal structure:** Non-profit-making association

## The buildings and public works market

IRACO SA (company capital LUF 2 million – 46 employees).

A Luxembourg company set up in 1960, specialising in concrete repair and protection works, proofing, treatment of special industrial soil, etc., for the construction and civil engineering industry.

### Partners:

There are two types of subcontracting:

- the client commissions Iraco to undertake works. As the main contractor, Iraco then subcontracts any works subsidiary to its guaranteed programme.
- the client commissions works from a general enterprise (subcontractor) who subcontracts parts of these works to Iraco.

### Legal aspects of alliances

Some types of works are prepared for and conducted in the form of joint ventures, whose articles of association explicitly define the parties' roles and responsibilities.

### Setting up alliances

On a case-by-case basis, depending on markets.

- Case 1: the works are contracted out to IRACO. Our PAQ criteria are used to locate the company whose nature and performance are most in keeping with the specific nature of the works.

- Case 2: IRACO is employed as a subcontractor. Initial contacts are often made by general

enterprises via calls for tender for particular parts of works specifications.

In some cases, good relationships between contractors and subcontractors mean that account is also taken of subcontractors' intrinsic qualities (quality, respect of deadlines, reliability, etc.).

### Conclusions

Wittingly working against the quality and reliability of services, the main and powerful international groups of construction and civil engineering enterprises, under the pretext of market economies, are waging a ruthless competitive war.

The price levels that they can offer mean that these groups can occupy strategic positions and therefore centralise a large part of the subcontracting market. Subcontracting enterprises often need this share of the market to remain viable. In order to obtain enough work to enable them to continue to employ their staff, the latter are often forced to accept the contractor's conditions and, in difficult commercial circumstances, to assume liability and offer guarantees in respect of the performance of the works.

**Markets:** Building and public works

**Countries involved:** Luxembourg

**Trades:** Proofing, protection, soil treatment

**Type of alliance:** Contractor and subcontractors

### The partners :

IRACO (Luxembourg) – 46 employees– LUF 2 million

I • The issues that alliances raise for subcontractors

II • Setting up an alliance?

### III • The particular forms that alliances take in the member states of the European Union

IV • Annexes

**Population**  
15 000 000 ab.

**Area**  
340 000 km<sup>2</sup>

## Netherlands

### Subcontracting and alliances

#### Subcontracting

Close on 80% of industrial enterprises have less than 50 employees. They employ just under 30% of employees and account for 18% of industrial turnover. In contrast, enterprises with over 200 employees employ close on half of employees in industry and account for over 60% of turnover.

• The sectors in which subcontracting is greatest are metals production and initial processing, electronic and electrical engineering, foodstuffs, beverages and tobacco.

Trade	% turnover
Heavy engineering and processing of metals	18
Fine chemicals	17
Electricity, electronics	12
Paper, board, printing	7
Automobile sub-assemblies	7
Processing of plastics and other non-metallic materials	
Joinery	2
Clothing	2
Engineering, research, other subcontracting	17

• According to surveys, 6000 to 7000 Dutch enterprises produce made-to-measure products for contractors. Some 250 000 people work in subcontracting, chiefly in enterprises with 10 or more employees. Subcontracting accounts for 12% of Dutch industrial output, i.e. a turnover of some FRF 64 billion. Dutch subcontracting is very diversified (see the following table):

• Obtaining 40% of its turnover from abroad, the Dutch subcontracting industry has Germany as its main customer.

• The main Dutch contractors are large enterprises in the automobile, aeronautics and electrical industries. They import only 26% of their subcontract purchases.

#### Types of alliance

• Dutch subcontractors have considerable experience of cooperation with one another and with research institutions. The main aim of cooperation of this type is to develop new products and step up levels of integration in order to offer complete sub-assemblies to contractors looking for systems. The tangible result of this kind of partnership is that 15% of Dutch subcontracting enterprises are "main suppliers", i.e. suppliers of complete systems.

### Sources of useful information

*Hoppenstedt Benelux\**

Information on Belgian, Luxembourg and Dutch enterprises and their activities. The database contains profiles of 95 000 enterprises.

*Dun & Bradstreet Netherlands\**

Economic information on Dutch enterprises.

*ECONOMISCH INSTITUUT VOOR HER  
MIDDEN- EN KLEINBEFRIJF*

General and specialist information

*Italylaan 33 – NL 2711 CA ZOETEMEER*

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\* For further information, please contact your public agencies, trade associations, Euro Info Centres, etc.

<b>GNP (ECU billions) - 1996</b>	<b>Imports (ECU billions) - 1996</b>	<b>Exports (ECU billions) - 1996</b>	<b>Language</b>
297,06	134	144	Dutch

- Bringing together 200 subcontractors, NEVAT provides an institutional framework for this trading network.

## Cultural features

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Based on facts and figures, communication tends to be explicit.

- Although informal, meetings are always organised and prepared. Conducted on the basis of a detailed agenda, the purpose of meetings is to enable both discussion and decision-making.
- The decision-making process takes the form of a systematic search for consensus within a working group in order to ensure rapid and efficient implementation.
- Punctuality is very important as regards both appointments and delivery deadlines.
- While organisations are strict and relatively formal, they are the outcome of concerted action by those involved. Procedures are often written but are not cumbersome.

I • The issues that alliances raise for subcontractors

II • Setting up an alliance?

### III • The particular forms that alliances take in the member states of the European Union

IV • Annexes

#### Population

15 000 000 ab.

#### Area

340 000 km<sup>2</sup>

## Netherlands

### KIC project (copiers) – From partnership to cooperation between contractors and subcontractors

**Markets:** Office automation

**Countries involved:** Netherlands

**Trades:** Subcontracting, assembly

**Type of alliance:** Strategic and technical

**Legal structure:** Agreement

**The Partners:**

- OCE (manufacturer of copiers, VENLO) – ECU 2 000 million – 16 500 employees

- NEBATO (subcontractor, surface coating, assembly).

KIC stands for Knowledge Industry Clustering. This project was launched in 1993 by Océ NV, a leading manufacturer of photocopiers and printing systems. Assembly and R&D work take place at its head offices in Venlo (Netherlands). 1500 people work in R&D, i.e. 9 % of all employees.

#### KIC: A PROGRAMME TO OUTSOURCE OCE SUPPLIES

The KIC programme is part and parcel of Océ's long-term strategy to outsource supplies. The engineering work involved in this project is intended to industrialise laboratory prototypes making use of the best technical (manufacturing processes) and financial (cost) methods. Océ decided to outsource this work as it felt that commissioning these engineering works from a subcontractor would provide better results in the long term from the point of view of costs, deadlines and quality.

Unfortunately, subcontractors did not possess the research capacity and project management quality needed to meet the tight deadlines for the subcontracted engineering work. Following work with subcontractors from the Netherlands and abroad, Océ reached the following conclusion: "since we could not find what we were looking for, we had to create it ourselves". This meant that Océ would need to invest in and direct and supervise a project to upgrade its subcontractors.

#### KIC: A REGIONAL MENTORING PROGRAMME FOR SUBCONTRACTORS

The KIC programme started with the design of a photocopier module by Océ. Subcontractors were selected for the programme, in most cases close to Océ's offices in Venlo in the south-east Netherlands. A subsidy for disadvantaged geographical areas was awarded by the European Regional Development Fund.

Since then, KIC has undertaken twenty or so projects, most of which are still in their implementation stage. Every project involves up to five subcontractors. One of them is generally named as the supplier/partner for the module in question. Most of the subcontractors are small enterprises with less than 100 employees. Their main sectors of activity are metals processing, electronics, processing of plastic materials, matrix construction, glass and ceramics, software and surface treatments. A total of some 35 subcontractors have taken part or are taking part in a KIC project. Although projects are no more than bilateral agreements between Océ and subcontractors and are not alliances, they offer interesting information on cooperation between customers and subcontractors and between subcontractors themselves. The following

comments are drawn from the cooperation between Océ and its subcontractor Nebato which has set in motion a major re-organisation as a result of the KIC project.

#### OCE'S COOPERATION WITH ITS SUBCONTRACTOR NEBATO

Nebato is a reliable subcontractor with subsidiaries specialising in surface treatments, metal treatments, machinery, finishing and assembly. Nebato was in a difficult position in 1992 and 1993 because of poor market conditions, the bankruptcy of a major client and reductions in the price of supplies.

The enterprise also felt that its costs and the way in which it was organised were not in keeping with the new market conditions. There were doubts as to whether the enterprise could compete with the emerging countries of Eastern Europe. If Nebato was to become a main supplier, moreover, it needed to carry out a radical re-organisation and make substantial investments in human resources. It was at that time that Océ, a regular customer, presented its KIC project. The project meant that Océ could channel financial aid into and assist with the planned re-organisation. The project also provided Nebato with a concrete order: the development of a fax module.

At the outset, relations between Nebato and Océ were problematic. Nebato did not want to review its organisation and Océ had serious doubts about its partner's quality and research abilities. Nebato was put off by Océ's imposing research teams. Criticising the technical choices of your main customer is always problematic: the fear is that you may lose them.

#### NEBATO STREAMLINES ITS ORGANISATION: TECHNICAL QUALITY, PROJECT MANAGEMENT, INTERNAL AND EXTERNAL LOGISTICS, COMMUNICATION

The project was nevertheless pursued and was ultimately successful. Nebato accomplished its re-organisation and Océ obtained the type of cooperation that it wanted with a supplier. Nebato introduced improvements in the areas of technical quality, internal and external logistics, project management, customer relations and service orientation. This entailed setting up a more centralised management structure by integrating subsidiaries that had been largely independent in the past and creating new departments.

**GNP (ECU  
billions) - 1996**

297,06

**Imports (ECU  
billions) - 1996**

134

**Exports (ECU  
billions) - 1996**

144

**Language**

Dutch

**MAKES ITS PRESENCE FELT IN OCE'S  
RESEARCH OFFICES**

During a second joint project orchestrated by KIC, the subcontractor's engineers put forward a production technique that was rejected by Océ's technicians. Nebato stood its ground and Océ not only accepted that it was the best solution, but also recommended the production technique. This example provides a clear illustration of the extent to which relationships between the partners had improved.

A second problem concerned work demands and management methods during the design and development phase, on the one hand, and the production phase, on the other hand. The first phase requires creativity and flexible management, whereas the second phase needs to be strictly managed in order to ensure maximum efficiency.

It is no easy task, when purchasing from manufacturing subcontractors, also to be able to monitor "research" subcontractors. The way in which work is monitored is not the same.

In turn, a subcontractor who is highly involved in product engineering has to meet different demands from the customer's R&D and purchasing departments. The purchasing department evaluates suppliers by their performance as suppliers (price, quality, logistics and service), and the R&D department by their creativity and taste for risk: "R&D was not at all bothered by a degree of chaos; the same could not be said of the purchasing department".

**THE KIC PROGRAMME: RAISING  
QUESTIONS ABOUT THE CONTRACTOR'S  
ORGANISATION**

Subcontracting out technical work which has been handled in the past by its own R&D department may also pose problems for the purchaser. Engineers now have to deal with external partners, manage projects and acquire the skills needed for this purpose. Opening up to the outside world and helping the subcontractor to find its way were also part of the learning process: "at the beginning of the project, we underestimated Nebato's research abilities. In addition, we had prematurely placed them in a difficult situation by using a complex prototype that had not yet been fully developed".

**ACCEPTING A FAR REACHING RE-  
ORGANISATION OF THE ENTERPRISE**

In some cases, enterprises have refused to take part in KIC projects because they wanted to carry on working solely as subcontractors: production at lower cost without the need to become involved in research and without having to review organisational methods.

In retrospect, the KIC project considerably speeded up the enterprise's re-organisation, with the result that Nebato has been able to put its re-organisation to good use. Despite the problems that arose during the initial phase, the customer/supplier relationship has been consolidated and new markets gained: Océ is an excellent reference for subcontractors with engineering skills and Nebato grew from a simple and occasional local supplier to the main international supplier. "Nowadays, less than ten Dutch subcontractors are able to compete with us!".

**KIC: A SPRINGBOARD FOR NEBATO'S  
DEVELOPMENT**

As a spin-off from the KIC programme, Nebato is now envisaging setting up its own alliance in order to offer its customers more "complete" products and services.

Océ sees its investment in KIC as part of a long-term strategy. In 1997, it was still too early to evaluate the programme's overall success. According to a recent survey, initial KIC projects have had the following effects on employment: creation of over 40 full-time engineering posts, over 50 jobs directly connected with production and over 250 jobs indirectly connected with production.

I • The issues that alliances raise for subcontractors

II • Setting up an alliance?

**III • The particular forms that alliances take in the member states of the European Union**

IV • Annexes

**Population**

10 400 000 ab.

**Area**

92 000 km<sup>2</sup>

## Portugal

### Subcontracting and alliances

#### Subcontracting

• Small enterprises dominate all sectors of the Portuguese economy. 94% of industrial enterprises have less than 50 employees and account for only 25% of turnover while enterprises with over 250 employees account for close on half of turnover and employ just under 30% of employees in industry.

• Portuguese subcontractors are active in the following main areas :

- metalworking: iron foundry and aluminium,
- moulding and tool-making,
- plastics.

• Made up of a few large companies and a very large number of small enterprises, the Portuguese subcontracting industry has a very marked international focus, largely because the domestic market is so limited. Exports go chiefly to Germany, France and the United States. Portuguese subcontractors favour German partners.

#### Types of alliance

• Portuguese subcontractors tend to favour commercial alliances and technological cooperation. There are, however, very few capital alliances.

• Distribution or trademark representation agreements are the main objectives of these partnerships. From a technical point of view, Portuguese enterprises look for complementary skills in order to expand their supply.

• International partners are sought chiefly in three countries: Spain, Germany and France. Proximity and market potential are the main reasons for this choice.

### Cultural features

• As in the other countries of Southern Europe, interpersonal relationships play a very important role in both private and professional life. Communication is very informal and tends to take an oral form.

• With little structure and preparation, meetings are chiefly given over to discussion.

• The decision-making process tends to be of the individual and autocratic type, especially in small enterprises where the head of the enterprise is omnipresent.

• Punctuality is not a rule of life and time is needed to build up a relationship of trust. Observing deadlines is not an imperative.

• Enterprises have relatively few organisational structures or procedures.

### Sources of useful information

*Dun & Bradstreet Portugal*

*Economic information on Portuguese enterprises.*

*ASSOCIACAO INDUSTRIAL PORTUENSE*

*Exponor – Feira Internacional do Porto*

*P – 4450 LECA DA PALMEIRA*

*Tel: +351 2 998 15 80 Fax: +351 2 995 70 17*

*General and specialist information.*

**\* For further information, please contact your public agencies, trade associations, Euro Info Centres, etc.**

### Financial assistance

SINDEPEDIP: system supporting cooperation between enterprises and cooperation networks. Its aim is to make SMEs more competitive by offering them help from cooperation specialists.

Community initiatives for SMEs: support for projects to set up cooperation networks between enterprises in order to assist their strategic development.

PAIEP: Support Programme for the International Development of Portuguese Enterprises.

RETEX Operational Programme – Measure B2: support for international development projects (marketing strategies, development of expertise and trade).

**GNP (ECU  
billions) - 1996**

79,31

**Imports (ECU  
billions) - 1996**

26

**Exports (ECU  
billions) - 1996**

18

**Language**

Portuguese

## A broader range of foundry expertise and international development

### PARTNERS

FERESPE - Fundação de Ferro e Aço, Lda. is a metalworking and foundry concern.

This foundry specialises in the production of iron and steel components (with a high alloy content). It has a turnover of PTE 580 million. Together with four associates, this limited liability company has gained a foothold in the following markets: United Kingdom, Germany, France, United States, Finland, Sweden, Netherlands, Switzerland, Spain.

XXXX - FERESPE's main partner is a Portuguese foundry specialising in ferrous materials.

### BACKGROUND

Three years ago, FERESPE asked XXXX whether they would like to cooperate. XXXX, a newcomer to the trade, accepted because it wanted to gain some international experience. Cooperation initially took the form of a shared commercial agent who distributed both enterprises' products.

### LEGAL ASPECTS

This cooperation arose largely out of the interpersonal relationships between the enterprise managers. Over and above their friendship, the fact that the two managers are both leaders of the iron and steel association helped them to work out joint objectives and increased contacts between them.

### OBJECTIVES

Given the friendly relations between the two managers, the main objective of this cooperation was to help XXXX to gain a foothold in international markets in order to:

- win new clients,
- provide customers with a range of products,
- take part in and share the costs of trade fairs,
- make use of the services of a commercial representative.

### OUTCOME OF COOPERATION

FERESPE considers that the results of the cooperation have up to now been very positive. The best example: a Dutch customer was looking for an enterprise able to manufacture components with a low/medium alloy content and mass produced components. The cooperation made it possible for FERESPE to keep their customer and to provide him with all the components that he needed and that could be directly used on assembly lines.

### Markets:

**Countries involved:** Portugal (2)

**Trades:** Iron foundry

**Type of alliance:** complementary competitors, commercial alliance

**Legal structure:** Informal

### The partners:

- FERESPE (steel foundry, smelting, high alloy content, small runs) - 82 employees

- XXXX (iron foundry, low alloy content, mass production)

## A group of suppliers rescues their main customer

### PARTNERS

COTESI - Companhia de Têxteis Sintéticos, S.A. (Violas Group) is a textile enterprise specialising in the production of a range of synthetic rope products. Its markets are in agriculture, packaging, fisheries, navigation and maintenance. The enterprise exports a considerable proportion of its output and its main customers are in Western Europe, the United States and Canada.

WIGGLESWORTH - Leading British enterprise active in several areas, including rope production.

### BACKGROUND

The Danish firm L. P. WEIDEMANN was one of COTESI and WIGGLESWORTH's main customers. Following the death of its manager, L. P. WEIDEMANN's economic and financial situation gradually declined. The successors/ shareholders in the enterprise were active in other areas and were not very interested in keeping the enterprise afloat. Faced with this situation, COTESI and WIGGLESWORTH, which had had substantial business dealings with L. P. WEIDEMANN, decided to buy equal shares in the enterprise. COTESI and WIGGLESWORTH knew one another and the partnership was forged fairly rapidly.

### LEGAL ASPECTS

The purchase of LP WEIDEMANN took place with

all the necessary precautions.

The enterprise has retained its legal status as a company. It is a joint company with its own legal personality and its own capital.

### OBJECTIVES

- To retain and increase the market share in Denmark.
- To extend sales to other products not up to now marketed in Denmark.
- To make the most of the company's location in Denmark in order to reach other markets (Germany and Scandinavia).
- To increase profit margins.
- To obtain further information on final users.

### OUTCOME OF COOPERATION

Although it has not yet been possible to stand back and evaluate the cooperation, the alliance is considered to be positive because:

- it has put a stop to L. P. WEIDEMANN's economic and financial decline;
- it has made it possible to exploit the company's knowledge of the Danish market;
- it is a pilot experience for other forms of cooperation that are underway.
- In future there should be more substantial results.

**Markets:** Agriculture, packaging, fishery

**Countries involved:** Portugal, United Kingdom, Denmark

**Trades:** Textiles, rope making

**Type of alliance:** Competitors, strategic alliance

**Legal structure:** The WEIDEMANN company

### The partners:

-LP. WEIDEMANN (Danish origin, 50/50 holding by COTESI and WIGGLESWORTH, sale of ropes)

-COTESI (rope manufacturer, Portugal) - 1500 employees

-WIGGLESWORTH (rope manufacturer, United Kingdom)



I • The issues that alliances raise for subcontractors

II • Setting up an alliance?

**III • The particular forms that alliances take in the member states of the European Union**

IV • Annexes

**Population**  
8 600 000 ab.

**Area**  
450 000 km<sup>2</sup>

**Sweden**

**Subcontracting and alliances**

**Subcontracting**

• The Swedish economy is dominated by large enterprises. In industry, they employ 59% of the work force and account for close on two thirds of turnover. 94% of enterprises have less than 20 employees, but this figure also includes sole traders who have no employees. The mining and wood sectors are important in the Swedish economy.

• The limited size of the Swedish market tends to encourage all enterprises, including subcontractors, to look for export outlets.

**Cultural features**

• Personal relationships are very important. Communication tends to be very factual and explicit and the spoken is preferred to the written word.

• Organised around an agenda, meetings are geared towards decision-making, although time is always set aside for discussion.

• Although punctuality is very important, pressing problems may disrupt planned tasks and agendas.

• Objectives are clearly defined in order to promote delegation.

• Swedish enterprises generally have lightweight structures and place little emphasis on hierarchy. Widely practised, delegation is based on clearly defined objectives and not on formal and written procedures.

• Ongoing pressure on costs means that priority tends to be given to finding ways of making invested capital profitable. The quest for short-term profits is increasingly supplanting the strategic vision, showing the major influence of the American model (except in the area of employment policies). Management therefore has to focus on concrete measures and frequently review priorities.

Management practices	Scores from 1 to 4
<b>Communication</b>	
Prevailing practice: oral (1) to written (4)	●●○○
Type: implicit (1) to explicit (4)	●●●●
<b>Meetings</b>	
Agenda	
- none (1) to always (4)	●●●○
- informal (1) to formal (4)	●●○○
- unimportant (1) to very important (4)	●●●○
Objectives: discussion (1) to decision-making (4)	●●●●
<b>Decision-making</b>	
Individual and autocratic (1) to collective and consensual (4)	●●●○
<b>Time management</b>	
- Punctuality: unimportant (1) to very important (4)	●●●●
- Changes to agendas to deal with pressing problems: very uncommon (1) to very frequent (4)	●●●○
- Working sessions (meetings, individual work, etc.): focusing on a single issue (1) to dealing with several issues at the same time (4)	●●○○
<b>Organisation</b>	
- Structure: little hierarchy (1) to very hierarchical (4)	●○○○
- Respect of hierarchy: low (1) to high (4)	●●○○
- Operating rules and procedures: from rare and informal (1) to numerous and formal (4)	●●○○
- Delegation: informal and oral (1) to formal and written (4)	●●○○

These comments are not fixed in stone - entirely different practices may be encountered.

**Sources of useful information**

*Dun & Bradstreet Nordic*

Economic and financial information on Scandinavian enterprises.

*Sema Group Swedish Companies*

Information on Swedish enterprises and their activities.

*Compass Sweden*

Product and service information.

\* For further information, please contact your public agencies, trade associations, Euro Info Centres, etc.

**GNP (ECU billions) - 1996**

184,38

**Imports (ECU billions) - 1996**

51

**Exports (ECU billions) - 1996**

66

**Language**

Swedish

## A Swedish SME puts its expertise at the service of the Norwegian army

### BACKGROUND INFORMATION ON THE ALLIANCE AND THE PARTNER ENTERPRISES

The partner is a unit of the Luftforsyningskommandot (LFK), the Norwegian army's procurement and R&D division. This unit employs some 2000 of the LFK's employees.

SUVE Energiprodukter AB is a Swedish limited liability company with nine employees and a turnover of ECU 1.1 million.

### BACKGROUND TO COOPERATION/THE ALLIANCE

SUVE, which had already had supply contracts with SAAB Military Aircraft and with the FMV (the Swedish Army's procurement division) but worked chiefly in civil engineering (heating and ventilation, cooling and air conditioning), found that the Swedish construction market was not very dynamic. SUVE therefore decided to build up its contacts with defence sector procurement divisions. Its research highlighted needs in the area of stabilised electricity supply and cooling of the electronic systems of military aircraft during maintenance in hangars (problems previously encountered with Swedish customers). A letter of intent was signed and set out methods of adaptation to the specifications and requirements of the aircraft used in Norway. A special security authorisation was obtained via diplomatic contacts with the Swedish authorities.

The adaptation work was carried out in cooperation with military staff working for the LFK. SUVE acquired a good reputation during the negotiations because of its practical problem-solving abilities. A project, financed by the Swedish National Board for Industrial and Technical Development (NUTEK) was launched in order to evaluate requirements and design a prototype. The prototype was successful and manufacture of the units ordered is now underway.

This cooperation with the military authorities led in parallel to a number of studies of the problems raised by other highly technical products. SUVE generally offered solutions which were then put out to public tender.

The mobile cooling unit is currently being reviewed so that it can be used in areas with higher ambient temperatures and will be tested in particular climatic conditions in September 1998 by the Norwegian and Danish Air Forces. The objective is to use it for UN peacekeeping operations. There are other potential markets, as this type of aircraft is widely

used within NATO, and SUVE has started to set up a commercial network to gain these markets. The Norwegian partner will take responsibility for the practical issues involved in setting up cooperation with NATO partners, leaving the commercial side to SUVE.

This alliance is felt to be a progressive and informal alliance for the purposes of technical development. The calls for tender and military security needed by this type of project have been strictly respected.

### OBJECTIVES OF THE ALLIANCE

At the outset, LFK's objective was to find a supplementary supplier able to solve a specific problem which had remained unresolved because of the less efficient work carried out by SUVE's predecessors.

SUVE sets great store by flexibility: focusing on specialist and sophisticated engineering niche markets should make it possible to make the works carried out more profitable since there is no need to compete with the major engineering companies. SUVE follows the rule of thumb that a subcontractor should not depend on a single customer for more than one third of its turnover. SUVE has continued with its business in other sectors, enabling it to hone its skills even further.

### OUTCOME OF THE ALLIANCE

Its efficient work in the military sector paved the way for SUVE's ISO 9001 certification. This certification has favourable repercussions in other sectors (environment, electricity generation and specialist cooling technology applications). Work in these sectors has enabled SUVE to keep up with market changes and has made the company less sensitive to the ups and downs of a single market. In other words, the alliance has made it possible for SUVE to step up profits in its main sector at a time when the economy had started to slow down.

**Markets:** Military

**Countries involved:** Sweden, Norway

**Trades:** Aeraulics

**Type of alliance:** Technological, strategic

**Legal structure:** Contract

**The partners:**

-- SUVE (air conditioning technology, Sweden) - 9 employees

-- LFK of the Norwegian Air Force (procurement division)

UC Select

Financial information, credit rates.

NUTEK - Swedish National Board for Industrial and Technical Development

General and specialist information.

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I • The issues that alliances raise for subcontractors

II • Setting up an alliance?

### III • The particular forms that alliances take in the member states of the European Union

IV • Annexes

**Population**

8 600 000 ab.

**Area**

450 000 km<sup>2</sup>

## Sweden

### Joint commercial representation despite very different enterprise sizes

**Markets:** Wood

**Countries involved:** Sweden, Germany

**Trades:** Woodworking processes

**Type of alliance:** Complementary products

**Legal structure:** Contract

**The partner:**

- LOGOSOL KB (woodworking processes) – 17 employees – ECU 2.6 million

- FIRMA ANDREAS STIHL (saw motors) – ECU 970 million

#### BACKGROUND INFORMATION ON THE ALLIANCE AND THE PARTNER ENTERPRISES

LOGOSOL AB has 17 employees and a turnover of ECU 2.6 million. The main product that it produces, the saw mill, is original and innovative. Its product range has been improved by adding accessories such as electrical chain saw controls, circular electric saw controls and machinery for joinery workshops. Manufacture of most of the components is subcontracted by LOGOSOL (founded in 1991) and these components bear LOGOSOL's trademark.

The partner, Andreas Stihl, is a world leader in chain saw production. It has production units in six countries and a network of distribution subsidiaries and independent importers in most other countries of the world. It has a turnover of some ECU 970 million and employs some 6000 people.

The alliance takes the form of mutual cooperation

based on exchanges of complementary products. The Stihl enterprise has undertaken to supply LOGOSOL with the motor-driven saws that need to be sold with the saw mills. In addition, Stihl can market the LOGOSOL mill in any market in which LOGOSOL is not represented. LOGOSOL has undertaken only to sell Stihl saws within the framework of this alliance. The agreement covers only saw mills with thermal chain saws.

#### BACKGROUND TO COOPERATION/THE ALLIANCE

LOGOSOL was one of Stihl Sweden's main customers before this alliance. The similar views of the managing directors and commercial and technical factors (for instance engine power) all helped to get the alliance off the ground.

An agreement was signed in 1992. It covered all markets with the exception of North America (for reasons of manufacturer's liability); since then several product modifications have been decided.

**GNP (ECU  
billions) - 1996**

184,38

**Imports (ECU  
billions) - 1996**

51

**Exports (ECU  
billions) - 1996**

66

**Language**

Swedish

When it transpired subsequently that LOGOLSOL was not achieving forecast sales volumes in some markets, Stihl made its network of retailers available to LOGOSOL. Final users preferred to use electric chain saw controls for certain applications. This option was not available in markets in which only Stihl was trading, but it soon became evident that increased market representation stopped sales of motorised chain saws from tailing off and in fact brought about increased sales.

A new contract was signed in 1996. It reduces the number of markets in which Stihl can trade on its own and steps up LOGOSOL's marketing activities (where necessary including Stihl saws).

**CHALLENGES FACED BY THE ENTERPRISE**

LOGOSOL needed to ensure regular supplies of motor-driven saws in order to complete its saw mills, while offering final users a price in line with the retail prices of other retailers. There were

problems, however, with the saw manufacturer's distribution network. The positive impact of this new application, which was perceived as a separate commercial idea, subsequently helped LOGOSOL to expand more rapidly into export markets, while respecting Stihl's national sales organisation.

**OUTCOME OF THE ALLIANCE**

Both partners have stepped up their volume of sales and Stihl's exclusive situation has been replaced by a joint marketing policy at national level.

**SETTING UP THE ALLIANCE**

Personal relationships between the two managements offset major differences in size, enterprise culture and operating methods. The main agreements were drawn up by Stihl. They included a standard confidentiality agreement and rules on estimates and invoicing.

Following the initial agreement, the partners appeared jointly at various trade fairs.

Within the major economic area of the European Union, its 15 Member States obviously have very different histories, economic and social structures and cultures as well as different levels of development and lifestyles. Enterprises also reflect these differences, especially from the point of view of their management methods. Throughout the political and economic history of this vast area there has been conflict, harmony and dialogue that have naturally had an impact on all the partners. It is not therefore surprising to find that there are constants and points of convergence between some countries that share similar views and behave in similar ways. Closer links and greater unity have been the unfailing priorities of the construction of Europe for over 40 years.

Enterprise management is naturally influenced by the changes taking place in all European societies. In Chapter 3, we have examined those features specific to each country. The following can be said by way of a summary: there is neither one nor fifteen management models in Europe. Analysis criteria make it possible, however, to place the various countries in comparable groups.

In his article "Towards a cultural typology of European work values and work organization", published in *Innovation* in 1992 (Vol 5, No. 1, pp. 35-44) and reprinted in the book "International Human Resource Management" (see bibliography), Yochanan ALTMAN proposes a typology of four cultural families:

### Family model:

- Importance of family relationships.
- This type of relationship tends to be recreated in the workplace in the form, for instance, of relationships of the father-son type between the boss and his workers.

### Individual model :

- Dealings between individuals are the prime movers of all relationships.
- The notion of a contract is very important within the enterprise.
- Contractual relationships are always negotiable. In enterprise, this is in particular reflected by the fact that everyone's position and employment are constantly being reviewed.

### Group model :

- The key values are solidarity and cohesion.
- Entry into the group is subject to the respect of its formal and informal rules.
- It is important for everyone to contribute and participate equally.

### Network model :

- The objective is to develop trade and grasp opportunities.
- Individuals need to be able to build up networks and find their place in these networks.

In addition to the countries cited by Yochanan Altman, we have included each of the European countries analysed in this report in the grid below.

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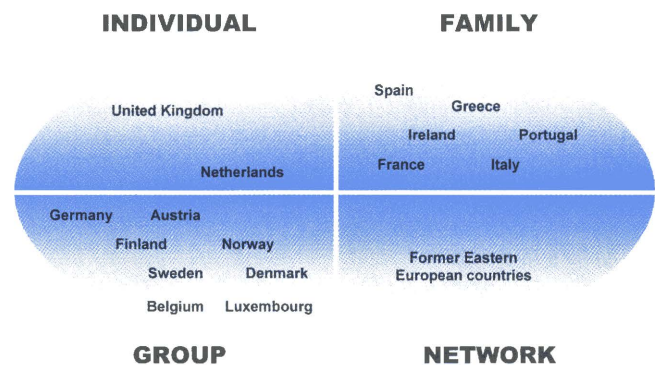
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# **Annexes**

- 1 • Strategic analysis of an alliance**

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- 2 • Distribution of net assets**

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- 3 • Particular features of transnational alliances**

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- 4 • Alliances, agreements and competition law**

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- 5 • A table for partner searches**

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- 6 • European Commission resources for SMEs**

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- I • The issues that alliances raise for subcontractors
- II • Setting up an alliance?
- III • The particular forms that alliances take in the member states of the European Union

**IV • Annexes**

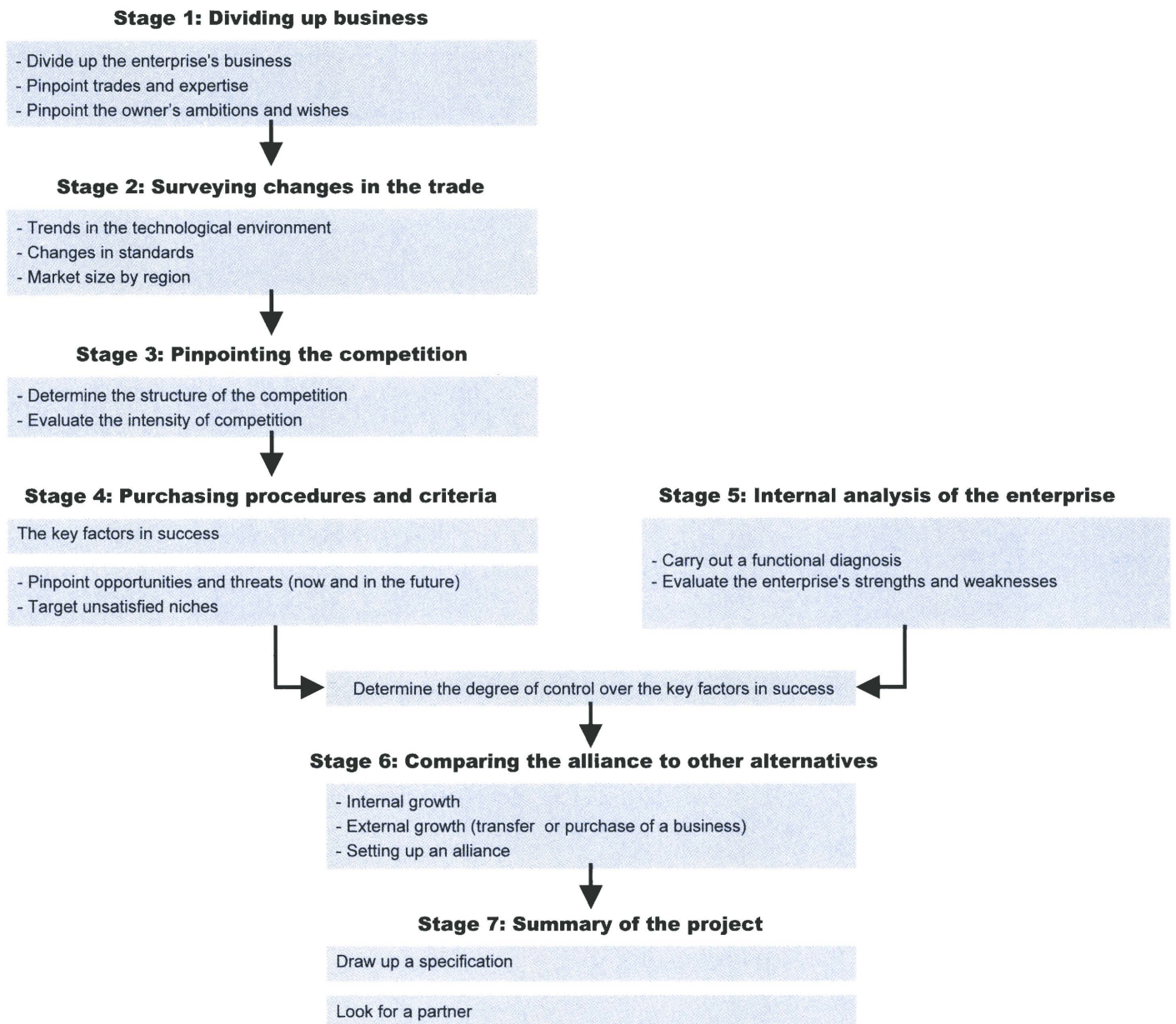
**1 • Strategic analysis of an alliance**

- 2 • Distribution of net assets
- 3 • Particular features of transnational alliances
- 4 • Alliances, agreements and competition law
- 5 • A table for partner searches
- 6 • European Commission resources for SMEs

## 1 • strategic analysis of an alliance

### What does a strategic analysis of an alliance involve?

A seven-stage method is summarised in the following table and described below.



### Stage 1: Dividing up business

This is by far the most problematic stage; good groundwork at this stage should enable a high-quality and accurate evaluation of a potential partnership.

The idea is nevertheless simple: a strategic segment is a product/market pairing for which the technology used, the way in which production is organised and the type of retail price are similar. Product/market pairings can be pinpointed by

breaking down the market, and customers, into several comparable groups (depending on their size, sector of activity, type of distribution circuit by which they are reached, etc.) and at the same time by breaking down products (depending on the nature of components, types of service, standard or special ranges, applications or functions carried out, etc.).

The various families of customers can be related to the various families of products (using a matrix) in order to pinpoint product/market pairings. This division of business should make it possible, among other things, to share a similar strategic view with a partner and to limit the alliance to certain segments. A SME with a turnover of FRF 20 to 30 million generally has between three and five segments.

### **Stage 2: Pinpointing key changes**

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- Changes in technology (state of the art),
- Changes in demand (delivery of finished sub-assemblies, incorporation of design aspects, coordination of colleagues' work, international dimension, responsibility for extended logistics, packaging, direct despatch to customers, customers, etc.),
- Changes in regulations and standards (environment, safety, reliability, quality, etc.),
- Changes in market size (growth, stability, contraction).

### **Stage 3: Pinpointing competitors**

---

- Number and group of competitors,
- Trends in the sector (new competitors, concentration, relocation, deconcentration, etc.),
- Intensity of competition (barriers to entry or exit, fixed cost and investment levels, transfer costs, resistance to change).

### **Stage 4: Purchasing processes and criteria for success**

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Purchasing processes:

- Time needed to win over a new customer,
- Number of interlocutors or departments concerned by the purchasing decision,
- Need to prove oneself (comparative test, exchange of material),
- Standardisation, reference and certification processes.

Criteria for success:

- Price, quality, deadlines,
- After-sales service, guarantees,
- Reputation, experience, history,
- Size and sound financial situation (reassuring),
- Logistics, complete service, finished sub-assemblies,
- Distribution network access.

### **Stage 5: Internal strengths and strengths sought**

---

This stage of the analysis is often confused with diagnostic studies of in-house departments. Finding out whether the enterprise is strong or weak is less important than finding out whether it is better or worse than its competitors; what is needed is a clear-sighted review of the enterprise's position with respect to its competitors.

- What are the main advantages with respect to competitors:
  - production organisation,
  - quality of technical equipment, machinery,
  - strict in-house management (online stock management, etc.),
  - reliable and tried and tested logistics (packaging, despatch, routing),
  - good design and innovation abilities,
  - wide-ranging or focused commercial presence,
  - following up of orders and sales (analysis of statistics and failures),
  - permanent monitoring of competitors, technology and market expectations,
  - sound financial management (cash-flow monitoring and good links with bankers),
  - motivation of workers and a positive state of mind,
  - etc.
- Does the enterprise have a commercial strategy that makes the most of its advantages and strengths?
- On the reverse side of the coin, what are the main market and customer expectations that the enterprise is failing to satisfy?

At this stage of the analysis, strengths and weaknesses should be compared with the breakdown of business by segment (stage 1) in order to pinpoint those segments in which the enterprise is relatively well-placed and those in which it does not have such a good position and in which an alliance may well be a good solution. This inventorying and analysis work should make it possible to focus the alliance on a few particular points and not on the enterprise as a whole, thereby limiting the risks of loss of interest or inertia.

Different resources need to be used for these five stages:

- Collection of documentary information (from databases and libraries: specialist press articles, conferences, trade fairs, sectoral studies)
- Collection of financial information on competitors (from databases: Diane, Kompass, S&W, Dun & Bradstreet, etc.)
- Collection of technological information (in cooperation with Arist)
- Expert searches



- I • The issues that alliances raise for subcontractors
- II • Setting up an alliance?
- III • The particular forms that alliances take in the member states of the European Union

#### IV • Annexes

### 1 • Strategic analysis of an alliance

- 2 • Distribution of net assets
- 3 • Particular features of transnational alliances
- 4 • Alliances, agreements and competition law
- 5 • A table for partner searches
- 6 • European Commission resources for SMEs

- Visits to specialist trade fairs
- Interviews with final users, distributors, suppliers of equipment
- Interviews with customers and competitors
- In-house interviews with a number of key workers (production, sales, finance).

While this list may appear to be time-consuming, work of a suitable depth requires only two to three days distributed over one to two months which cuts this analysis work down to acceptable proportions that are compatible with the use of in-house time. Professionals can also be brought in to help with the work for two months and at a 50% cost using DRIRE's FRAC strategies.

### Stage 6: Comparing the alliance to other alternatives: making choices

It is only by comparing the alliance with other possibilities that its relative and genuine interest can be evaluated.

In simple terms, there are three alternatives: doing it yourself (internal growth), selling or purchasing a business (external growth) or setting up an alliance. Alliances tend to be chosen in cases where a lack of resources rules out any other choice and because this formula is reversible.

In slightly more complicated terms, the comparison needs to be carried out not from the point of view of the enterprise's overall business, but segment by segment, where necessary combining segments.

Not all the data needed for the comparison will be known: for instance, the possibility of obtaining bank loans, especially when taking over a colleague, can be no more than a more or less probable working hypothesis.

The strategy set out here is not therefore intended to provide a single, simple and irrefutable answer to the complex question of the enterprise's future; its aim is merely to help managers to stand back from the problem and provide them with the information that they need to prioritise choices, decide between the urgent, the important and the necessary and perceive the alliance as a resource and a tool serving the enterprise's strategy and not as an end in itself.

### Stage 7: Drawing up a specification

Everyone has their own method, but the specification has more or less the same function:

- To help the partners to share the same view of the alliance (even if they each have their own different and specific interests).
- To define what resources and stages are needed to achieve the objectives that have been set.

This specification is not a legal protocol since negotiations or partner searches have not yet come to an end, but a working document of three or four pages which fixes ideas and contains:

- A brief presentation of each partner's strengths (or, if the search is still underway, the strengths that are being sought).

Tackling the issue in this way means that everyone has their own area of competence from the outset, which ensures a balanced relationship.

- A brief description of the partners' reasons for entering into an alliance.

The aim here is to reassure each of the partners about the motivations of the other partners. Knowing, even imperfectly, why everyone is committing themselves to an alliance prevents the other partners from imagining the worst and refusing to get off the fence. "We soon became aware that our alliance was not making any headway because everyone had their foot on the brake. When we explained our own motivations, matters gradually speeded up " (source: enterprise case-study).

- Brief definition of operating principles.

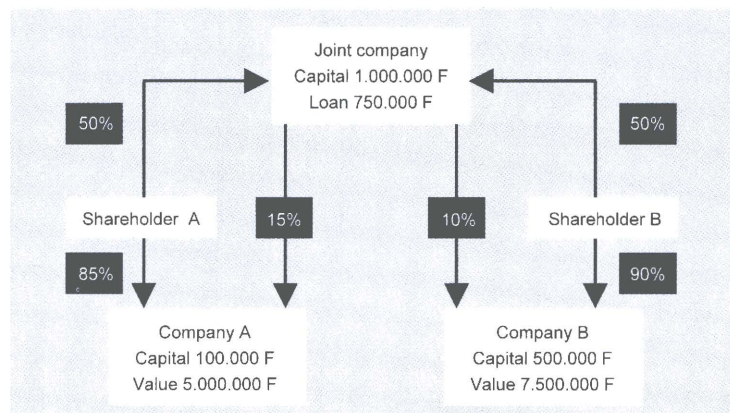
It is possible to pinpoint what one can provide and what one expects from the previous analysis (stages 1 to 6). It is impossible to offer model operating principles here as situations vary considerably. Two recommendations can, however, be made from the point of view of basic principles: each function (manufacture, design, distribution, administration, etc.) and each stage (0 to 3 months, 3 to 9 months, etc.) needs to be separately examined.

The document should not try to be exhaustive, and issues raised by the division of power, profits and prices of in-house transfers can be discussed at a later stage. Once these points have been negotiated they can be set out in the protocol of agreement. The specification is a working document and the protocol of agreement is a contractual document which puts the finishing touches to the negotiations.

**2 • Distribution of net assets**

## 2 • Distribution of net assets

### Case 1: creation of a joint company



**Option 1:**

The joint company has FRF 1 750 000 and uses FRF 1 500 000 of its resources to purchase 15% of A, i.e. FRF 750 000 (15% x FRF 5 000 000) and 10% of B, i.e. FRF 750 000 (10% x FRF 7 500 000). In this case, the owners of A and B have each received FRF 750 000, or rather FRF 250 000 after deducting the FRF 500 000 channelled into the creation of the joint company.

Holdings in the joint company do not need to be on a 50/50 basis and one of the partners could have a majority holding (in which case the additional value linked to a majority holding will have to be taken into account when calculating the holding rates).

The joint company could also acquire similar percentages in companies A and B (in which case the owners of A and B will not receive the same sums since their companies have different values).

In all cases, both partners have redeployed part of their equity into the joint company and receive a financial return. This acts as an incentive to set up an alliance because of its win/win approach.

**Option 2:**

In another typical case, the joint company can underwrite an increase of capital in A and B.

In this case, the owners of A and B do not make cash available personally but through their enterprises A and B and can thus finance any investment needed to implement the alliance.

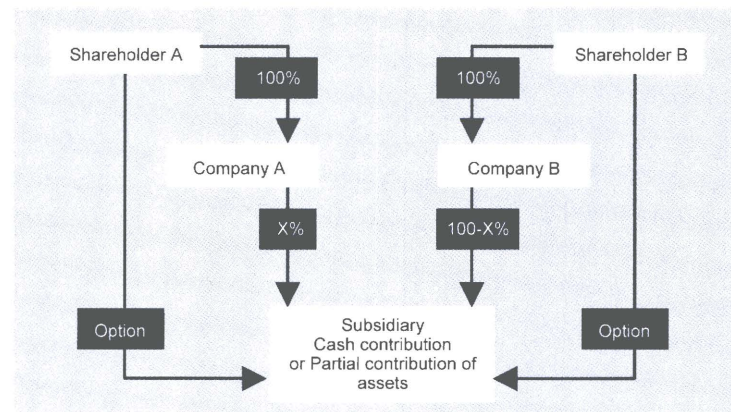
In both cases, the alliance acts as a financial lever either for providing cash for the owners of A and B or for providing cash for the enterprises A and B.

This kind of configuration also paves the way (without making it a necessity) for the integration of the two partners and prepares for closer links in the future.

However, this type of package assumes that the alliance or the companies A and B are viable enough to increase the profits of the joint company and to repay the loan. It is possible to increase profits simply by attaching, for instance, the alliance's turnover to the joint company.

It is also necessary to carry out an overall valuation of companies A and B to determine holding rates. Valuation of the two companies is always a necessary starting point for tackling any issues connected with assets.

### Case 2: creation of a joint subsidiary



The shareholders of A and B decide to set up a joint subsidiary, through a capital contribution, a partial contribution of assets (complete branch of business) or an industrial contribution such as a patent (assets only).

**Option 1:**

The companies A and B (and/or the shareholders of A and B directly) each contribute capital. A banker grants a loan of an equivalent amount in order to finance the start up of the activity and the investment connected with the alliance. This loan may also be obtained from the companies A and B.

The advantage of this configuration is that it has a lever effect (albeit less substantial than in the case of a joint holding company), and in particular provides the alliance with real autonomy, making it possible relatively simply to settle the question of profit distribution since these profits can be left in the joint subsidiary. This case applies to the joint manufacture of an article or the joint marketing of a product abroad.

**Option 2:**

As a variant, the contribution, rather than taking the form of a capital contribution, takes the form of a partial contribution of the assets of A and B in exchange for shares in the subsidiary. This package,

- I • The issues that alliances raise for subcontractors
- II • Setting up an alliance?
- III • The particular forms that alliances take in the member states of the European Union

#### IV • Annexes

- 1 • Strategic analysis of an alliance
- 2 • Distribution of net assets

### 3 • Particular features of transnational alliances

- 4 • Alliances, agreements and competition law
- 5 • A table for partner searches
- 6 • European Commission resources for SMEs

which is simple to implement, has the advantage that it generally entails capital appreciation in the accounts of A and B which may be of real interest in difficult times.

This package (cash contribution or partial contribution of assets) is also useful as it separates out the assets of A, B and A + B, making any operations to transfer A, B or A + B relatively explicit and straightforward.

This kind of package does not, however, tackle the issue of the possible future integration of A and B. In this type of package, moreover, there is no need for a valuation of A and B (but only for a

valuation of the partial contribution of assets in cases where this option is chosen).

These two models each have their own logic and apply to different situations. A lever effect is nevertheless obtained in both cases thereby helping to establish reserves and wealth for the alliance or for the partners.

These kinds of packages are starting to gain a foothold as they take account of the issue of owners' assets and pave the way for the future of the alliance (in terms of the assets shared by the partners).

## 3 • Particular features of transnational alliances

Over and above cultural aspects, various factors need to be taken into account in international alliances.

The rules applicable in the Member States of the European Union are comparable except in the area of taxation:

- Taxation rates (on income from the use of industrial property, financial income, etc.)
- Withholding rates,
- VAT rates,
- Profit transfers (double taxation convention),
- Parent/subsidiary company charging rates,
- Preferential system (parent /subsidiary company).

Moreover, with other countries and in particular the new industrial or developing countries, account also needs to be taken of the incentives or restrictions set out in local regulations:

- Sector of activity: some sectors are "protected" and foreign investment is prohibited without the prior authorisation of the authorities concerned.
- Impact on employment: agreements are possible only if they contain an undertaking to employ, over a period of time, a significant proportion of local workers.
- Nature of the technique transferred (received or given): some technologies are "protected" (see sector of activity) and some trade may be authorised only if there is a transfer of technology.
- Impact on local production: agreements are authorised only if they contain an undertaking that a significant proportion of added value will be achieved, over a period of time, with local enterprises.
- Extent of capital invested: some provisions impose a minimum, others impose a maximum.

- Export capacity: some agreements are authorised only if they contain an undertaking that a significant proportion of output will be exported or re-exported.
- Contributions in kind: some provisions prohibit contributions of assets and allow only contributions in cash.
- Nationality and domicile of managers: some provisions impose, in the long term, the nationality or country of residence of managers.
- Restrictions on foreign or local loans: some provisions place limits on the use of foreign loans.
- Limits on the deductibility of interest.
- Limits on the repatriation of profits.
- Limits on charges (rates, periods).
- Limits on the convertibility of local currency.
- Import taxation rates: there are often specific import/export regulations covering foreign investments and re-export rates.

It can be seen from this list that setting up an alliance may raise problems and undoubtedly takes time. In this respect, the use of a local support agency (chambers of commerce and industry, business lawyers, institutions and trade associations) should substantially shorten the time needed and should be part and parcel of any strategy to set up an alliance.

Similarly, from the point of view of the various kinds of authorisation needed to set up a joint subsidiary, it is important to include a specific clause in the basic protocol stating that the partner's undertaking will be effective only if the events specified in suspensive clauses actually take place. If these events do not take place, the draft agreement becomes null and void. This prevents investment or the transmission of confidential information without a genuine counterpart. For the initiated, this practice is known as a "package-deal" clause.

1 • Strategic analysis of an alliance

2 • Distribution of net assets

3 • Particular features of transnational alliances

**4 • Alliances, agreements and competition law**

**5 • A table for partner searches**

6 • European Commission resources for SMEs

## 4 • Alliances, agreements and competition law

There is not always a clear boundary between an alliance and an agreement. Rather than organised monopolies, alliances tend to fit the notion of concerted practices. Legislation has gradually imposed two rules (on the basis of the Treaty of Rome) in an attempt to prevent closer links that lead:

- either to a restriction of competition (Article 85),
- or to the abuse of a dominant position (Article 86).

These two rules may be inapplicable if the agreement:

- contributes to technical progress,
- is of benefit to consumers,
- does not eliminate all other competition.

The legal notion of a dominant position also has to be examined at both Member State and European Union level.

SMEs are not considered to be in a dominant position if the

agreement does not provide them with more than 20% of the market or is < 5% and < FRF 200 million.

In these cases, it is not necessary to send a notification (for information) to the European Commission.

For SMEs, this means that there have in practice been few cases in which Community law has stood in the way of the formation of an alliance (there are however some examples of intervention by the Commission).

Competition law is nevertheless changing (from the point of view of both European directives and the laws of each Member State) and care needs to be taken, when setting up a powerful pool of skills, to assess the reactions of competitors who may well use the growing legal arsenal of competition laws to limit the extent of the links being forged. At present, though, cases of this type are not very common.

## 5 • Finding a partner: drawing up a table from a database selection

The following table illustrates how partners can be ranked on the basis of the evaluation criteria used to draw up partner selection specifications.

Analysis factor	Evaluation criteria			Target enterprises										Outcome		
	1-2	3-4	5-6	Weighting	Company 1	Company 2	Company 3	Company 4	Company 5	Company 6	Company 7	Company 8	Company 9	Company 10	Total	Mean
Turnover	MF 5-15	MF 15-30	MF 30-50	5	5	5	2	4	2	2	5	3	3	3	34.0	3.4
Rate of growth of turnover	0-5%	5-20%	>20%	3	5	1	3	1	6	3	6	6	2	-1	32.0	3.2
Net profitability	0.5%	5-8%	>8%	2	1	1	0	2	2	2	1	2	1	2	14.0	1.4
Rate of growth of net profitability	0-5%	5-8%	>8%	2	1	1	1	2	1	1	1	1	1	1	11.0	1.1
Financial equilibrium	Excess employment	Excess ressources	≈ 1	1	3	4	3	3	6	3	4	4	5	4	39.0	3.9
Indebtedness	> 50%	20-50%	<20%	2	5	6	4	6	4	3	6	5	5	4	48.0	4.8
Trade similarity	Comparable	Comparable	Identical	5	4	4	2	5	2	4	6	5	6	0	38.0	3.8
Total				20	77	68	42	71	58	54	93	78	70	30	641.0	3.1
Mean /20					13	11	7	12	9.7	9	16	13	12	5	106.8	10.7
Mean /20 rectified on sample					12	11	6.6	11	9	8.4	15	12	11	4.7	100.0	10.0

- I • The issues that alliances raise for subcontractors
- II • Setting up an alliance?
- III • The particular forms that alliances take in the member states of the European Union

#### IV • Annexes

- 1 • Strategic analysis of an alliance
- 2 • Distribution of net assets
- 3 • Particular features of transnational alliances
- 4 • Alliances, agreements and competition law
- 5 • A table for partner searches

#### 6 • European Commission resources for SMEs

## 6 • European Commission Resources for SMEs

The single European market offers today's entrepreneurs both a challenge and an opportunity to expand their businesses and find new outlets in Europe and elsewhere in the world.

The dynamism of small and medium-sized enterprises is crucial in European growth, competitiveness and employment. At present, for instance, SMEs account for seven out of ten jobs in Europe.

Taking these two facts as a starting point, the European

Commission is endeavouring to simplify the life of entrepreneurs and especially SMEs.

In order to support this fundamental policy, the European Commission has formulated a vast overall programme ("integrated programme") which reflects its overall commitment to enterprises.

As a key part of this programme, Directorate General Enterprise is implementing a number of resources for decision-makers as part of a plan focusing specifically on SMEs.

### Euro info centres

Distributed throughout all the regions of the European Union and in many neighbouring countries, some 230 Euro Info Centres (EICs) and 20 Correspondence Centres offer information, advice and consultancy for enterprises in the various areas of Community activity.

Set up within existing economic facilities (Chambers of Commerce and Industry, regional development agencies, socio-occupational organisations, banks, etc.) following careful selection, the EICs have contracts with the European Commission. The Commission sees them as:

- "first-stop shops" for Community information
- specialist agencies offering guidance and counselling for enterprises in their respective regions.

These EICs are in day-to-day contact, in the Union's various languages, using E-mail and other computer links. The originality and strength of this network, whose aim is to help you develop your business, nevertheless lies in the personal nature of these contacts.

Through this network, rapid, reliable and accurate answers can be found to questions about points of Community or national legislation or the trading practices of other Member States. Once this information has been located, the EICs can help you to use it in ways that are in keeping with your situation and your plans.

The EICs can help you to find resources and partners that should enable you to expand your business in another country of the Union or, through formulae such as ECIP or JOP, in many non-EU countries.

Through their specialist knowledge and network of information, they can provide you with invaluable help in:

- finding out about any financial assistance for which your enterprise may be eligible because of its location (regional funds) or its initiatives;

- making the most of the opportunities offered by European programmes, especially those relating to European technological research and development (and in particular the incentive formulae designed specifically for SMEs);

- obtaining made-to-measure services (for instance "information watching") in strategic and rapidly developing fields (the environment, standardisation, etc.);

- replying to calls for tender for public contracts.

This range of targeted services makes the Euro Info Centres key partners in developing your business.

### Making the most of more open public contracts

Public-sector procurement offers considerable potential in Europe, since its volume is estimated at ECU 600 billion, i.e. 15% of Community GDP, 55% of which is put out to tender.

The completion of the single market has opened up public procurement by allowing competition for all public contracts in Europe. Calls for tender are subject to detailed information obligations which should in practice enable you to submit tenders. All these calls for tender are published in the Official Journal of the European Communities (OJ) and in the TED database (Tenders Electronic Daily - electronic service disseminating calls for tender).

These resources can be accessed from the Euro Info Centres which can provide you with additional personal support via their European network. Specialist EIC services in the area of public calls for tender include: advising enterprises whether they are in a position to reply to public calls for tenders and helping them to devise an appropriate strategy, searches for European partners, providing legal and market information, help with the drafting of tenders and monitoring of tenders from other enterprises. For further information, contact your nearest EIC.

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## Finding partners for your business

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If the single market is to be consolidated there need to be genuine exchanges between as many European enterprises as possible. The European Commission has therefore set up a number of resources to help SMEs to find partners.

An efficient partnership agreement has to be balanced: tasks and results need to be shared. Each partner can then draw on the other partner's experience and strengths in his own market.

### Resources

- The **BC-NET** is a network of consultants specialising in cooperation between enterprises (Chambers of Commerce and Industry, EICs, lawyers, banks, private consultants, etc.); they have access to a central database of cooperation profiles enabling them to deal with cooperation opportunities confidentially. Their work is selective and strictly confidential.

- The **BRE** is also a network. It covers 70 countries and operates on a non-confidential basis, along the lines of conventional classified advertisements.

- **EUROPARTENARIAT** is managed jointly by Directorates General Enterprise and Regional Policy of the European Commission. This resource is intended to stimulate cooperation and establish contacts between enterprises from less developed regions (Objective 1 of regional policy) or regions in industrial decline (Objective 2 of regional policy) and enterprises in other Member States and even non-EU countries. In the case of Mediterranean countries which are not EU members, the Med-Invest programme includes a specific scheme called Med-Partnership.

In practice, the organiser, chosen by the Commission, selects SMEs with international cooperation projects in his area. Enterprises from the countries in which EUROPARTENARIAT has networks of national advisers (80 at present) decide, on the basis of these projects, whether or not to take part in an event at which personal interviews with enterprises from the host region take place over two days.

- More recently, as part of cooperation policy with the Mediterranean countries, the Commission has set up **MED-PARTNERSHIP**, which takes much the same form as EUROPARTENARIAT but is organised in a Mediterranean country that is not a member of the Union (Jordan in 1997).

**INTERPRISE** is the latest spin-off from the success of the EUROPARTENARIAT formula.

Smaller in extent than the latter, INTERPRISE aims to bring together at least 15 enterprises from at least three regions of three EU Member States. The regional dimension and high

level of sectoral specialisation of these schemes mean that they offer an interesting framework for SMEs looking for European partners.

The Commission's financial and practical support for these three schemes means that all participants can reap the benefits, at minimal cost, of a solid and tried-and-tested organisation. Over 1000 enterprises have been helped and an average of over 8000 appointments have been arranged at the most recent EUROPARTENARIAT meetings.

Further information on the BC-Net and BRE networks, the EUROPARTENARIAT and INTERPRISE initiatives and other European initiatives intended to place SMEs on a more international footing can be obtained from your EIC which will, where necessary, put you in contact with your nearest expert.

**IBEX:** The international buyers' exhibition is an efficient resource for contacts between enterprises targeted on clearly identified needs. At the exhibition, there are pre-arranged meetings between major enterprises and European SMEs. The aim is, on the one hand, to help major enterprises with their international searches for partner SMEs for specific cooperation needs and, on the other hand, to promote relationships between large enterprises and SMEs by offering the latter an opportunity for direct contact with major enterprises interested in their products and services or their expertise.

### Financial assistance

The new JEV (Joint European Venture) programme is intended to support the creation of joint transnational enterprises by SMEs in the European Union.

It includes a Community contribution which is intended to cover a proportion of the expenditure incurred in setting up a joint enterprise. The amount of the contribution and its calculation methods are as follows :

- up to 50%, with a ceiling of ECU 50 000, of eligible costs in the form of a refundable advance;
- if a joint enterprise is set up, the ceiling on this contribution may be increased to ECU 100 000 in order to cover, in addition to the 50% of eligible costs, a further payment of up to 10% of the total investment made.

This programme is to operate through a network of financial brokers, including institutions specialising in the financing of investment.

- I • The issues that alliances raise for subcontractors
- II • Setting up an alliance?
- III • The particular forms that alliances take in the member states of the European Union

#### IV • Annexes

- 1 • Strategic analysis of an alliance
- 2 • Distribution of net assets
- 3 • Particular features of transnational alliances
- 4 • Alliances, agreements and competition law
- 5 • A table for partner searches

#### 6 • European Commission resources for SMEs

## Financing your European projects

A wide range of Community funding may well be available to help you get your plans off the ground. In order to obtain funding and find out what steps need to be taken, contact all the agencies working in your region: Euro Info Centres, Chambers of Commerce, trade federations, local central government offices, local authorities, etc. They may all be able to provide you with useful information and help you to advance your thinking.

The structural funds are one of the main sources of funding for SMEs:

- Aid is rarely direct: your interlocutor is more likely to be in your own region than in Brussels.
- Funding is almost always partial: in addition to the contribution from your own enterprise, explore other channels to find any further amounts that may be needed.
- Be realistic: the amounts reported by the media need to be interpreted (package available to the country, types of :

beneficiaries, eligible areas, target groups concerned, etc.).

Example: Community Initiative Programme (CIP-SME).

The aim of the programme is to promote the Europeanisation of SMEs by helping them to set up technological, industrial and commercial partnerships with other SMEs in the European Union. Award conditions: enterprises must employ less than 250 people (or have a turnover of less than ECU 40 million) and must be in an eligible geographical area. Financial assistance with intangible and tangible expenditure (consult your local agency for further details).

Other sources of funds include

- \*loan guarantees from the EIF and global loans from the EIB granted via twenty or so French financial brokers,
- \*start-up capital funds (for instance in Clermont-Ferrand, Montpellier, Tourcoing, etc.).

## Using Europe to expand your business outside Europe

Geographical proximity, historical links, similar economic development levels and respect of the principle of free trade have led the European Union to conclude mutually profitable agreements with most countries of the world.

Particular financial schemes, set up within this framework, may be of interest to enterprises planning to develop business in these countries:

- technical assistance, works and procurement contracts;
- cooperation in priority sectors;
- industrial meetings organised as part of European programmes;
- joint enterprises.

### Help in setting up joint enterprises (CO-ENTERPRISE)

Two fairly similar mechanisms have been developed by the Community authorities to promote sustainable cooperation between European SMEs and enterprises in non-EU countries:

- JOP, financed from PHARE and TACIS funds - see below - covers central and eastern Europe, some territories of the former USSR and Mongolia.
- ECIP, covers Latin America, the Republic of South Africa and a number of Mediterranean and Asian countries.

The procedure for applying for funding under both of these programmes involves:

- finding a potential partner in one of the beneficiary countries;
- preparation of a plan for the creation or expansion of a joint enterprise;
- submission of an application for a loan to one of the approved financial brokers.

The Community funds 50% of eligible expenses, phase by phase, as follows:

### JOP

\*Preliminary steps

- pre-feasibility: subsidy (ceiling: ECU 20 000);
- feasibility : interest-free advance (ceiling: ECU 75 000);
- \*Joint financing: for eligible TACIS countries; grant of own funds or guarantees (ceiling: ECU 2 million);
- \*Technical assistance: subsidy (ceiling: ECU 200 000 for the PHARE countries; for the eligible TACIS countries, the ceiling is ECU 250 000 for PHARE countries).

### ECIP

\*Facility 1 (Project identification/partner selection): subsidy (ceiling ECU 100 000);

\*Facility 2 (Feasibility/pilot projects): interest-free advance (ceiling: ECU 250 000);

\*Facility 3 (Financing of capital needs): participative loans (maximum 20%); own funds ECU 1 million).

\*Facility 4 (Training, technical or management assistance): subsidy (ceiling: ECU 250 000 for SMEs).

### **Central and Eastern Europe: PHARE**

The PHARE programme offers financial and technical assistance in order to promote the creation of a market economy in this area.

Beneficiary countries: Poland, Hungary, Czech Republic, Bulgaria, Slovakia, Romania, Albania, Slovenia, former Macedonia (FYROM), Estonia, Lithuania, Latvia, Bosnia-Herzegovina, (NB: Croatia: aid suspended).

Priority sectors:

- Restructuring of enterprises and development of the private sector;
- Social services, employment and education;
- Reform of the agricultural sector;
- Public administration;
- Environment;
- Infrastructure;
- Nuclear safety.

For the period 1998-2000, the new requirements imposed by enlargement mean that the focus is on two main priorities connected with the transfer of the body of EU law, i.e. institution building and financing of investment.

Operating methods:

- service contracts: any interested party must obtain a reference from the ad hoc department of the European Commission (rue St Georges 32/B - B-1050 BRUSSELS).
- supply contracts: calls for tender published in the OJEC, series S.

### **FORMER USSR/MONGOLIA: TACIS**

The objectives and operating methods of the TACIS programme are similar to those of PHARE programme (including the foodstuffs and redeployment of defence industry sectors).

Operating methods are the same as for PHARE.

### **Africa - Caribbean - Pacific (ACP): Lomé IV/IFED**

The Lomé IV convention provides a legal framework for cooperation between the European Union and 70 ACP countries (valid from 1990-2000).

The European Development Fund (EDF) is a financial instrument for cooperation over a period of five years.

Planned aid from the EDF covers subsidies for development projects, technical assistance and support for structural adjustment.

#### **Sectors of intervention:**

- Rural development,
- Socio-economic infrastructure,
- Environment,
- Promotion of private initiative, SMEs,
- Human resources.

#### **Methods of operation**

Approval of projects by the EDF committee, then open or restricted calls for tender, or direct negotiation of contracts with local authorities.

### **JAPAN: EXPROM**

This programme, set up by the European Union to encourage European exports to JAPAN, has two strands :

- Executive Training Program (ETP): training in Japan (lasting 18 months) for European commercial managers intending to work in this market.
- Gateway to Japan: organisation of seminars and missions, participation in trade fairs in nine priority sectors of the Japanese economy.

### **MEDITERRANEAN: MEDA**

Adopted in July 1996, the MEDA regulation (1995-1999) provides a single framework for cooperation with the non-EU Mediterranean countries.

Beneficiary countries: Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, Syria, Occupied Territories, Tunisia, Turkey.

Action priorities:

- establishment of a free trade area and measures to support economic transition;
- measures to promote sustainable economic and social development;
- measures to support regional and trans-frontier cooperation (possible use of ECIP).

Priority sectors:

- agriculture and rural development,
- infrastructure,
- industry and services,
- cooperation and technical assistance.

Procedure:

Identification of projects by the Commission (from the three-year national indicative programmes) then launch of calls for tender (in the OJEC, S Series).

### **Latin America and Asia: PVDALA**

Beneficiary countries:

19 countries of Latin America and 18 countries of Asia.

Action priorities:

- PVDALA programme: financial, technical and economic cooperation;
- Particular instruments: ECIP, scientific and technical cooperation, food aid, etc.

Procedure:

Award of contracts following calls for tender for works and services. Restricted calls for tender and negotiated contracts for services.



- I • The issues that alliances raise for subcontractors
- II • Setting up an alliance?
- III • The particular forms that alliances take in the member states of the European Union

#### IV • Annexes

- 1 • Strategic analysis of an alliance
- 2 • Distribution of net assets
- 3 • Particular features of transnational alliances
- 4 • Alliances: agreements and competition law
- 5 • A table for partner searches

#### 6 • European Commission resources for SMEs

## Enhancing your technological capital

As a response to competition from America and Japanese, Europe has gradually formulated an ambitious research and development policy intended to support its international competitiveness.

This policy is currently implemented through a Community framework programme, itself subdivided into three thematic strands that mirror the priorities that have been decided. The current framework programme (**1994-1998**), which has (for Europe as a whole) a financial package of **ECU 13,215 million**, is aimed not only at universities and private and public research agencies, **but also at enterprises for which it offers substantial opportunities.**

Measures for the “technological stimulation of SMEs” have been specially implemented by the European Community in order to enable SMEs, whether or not they have appropriate infrastructure, to take part in technological research and development programmes.

This mechanism applies to most of the programmes decided in Brussels (for instance industrial and materials technologies, agriculture and fisheries, environment and climate, marine sciences and technologies, non-nuclear energy, transport, etc.).

These technological stimulation measures help SMEs to participate in two ways:

Exploratory awards enable SMEs to prepare a full proposal (formulation of a work programme, search for partners, checking of novelty, evaluation of economic impact) and/or to carry out a feasibility study. The Commission provides financial support of up to ECU 4500 in order to cover a maximum of 75% of the costs of this exploratory phase which can last a maximum of 12 months. Proposals may be submitted at any time. Evaluations are organised in batches two or three times a year.

Cooperative research projects (CRAFT) have been designed for SMEs that lack or do not have sufficient own resources for research. They enable groups of a minimum of four SMEs having similar problems to commission all or part of R&D works from one or more research organisations (universities, industrial laboratories, technical centres, etc.): up to 50% of this **cooperative research** may be financed by the European Union, provided that the SMEs proposing the project themselves bear at least one third of the total cost.

Proposals may be submitted at any time. Evaluations are organised in batches two or three times a year.

- **Industrial exploitation** of the results of research and development and transfers of technology to SMEs are also encouraged by the European Union.

The European network of Innovation Relay Centres (IRC) has been set up precisely to help SMEs to gain access to Community research and its results (locating the most appropriate programmes, searches for potential partners, assistance with strategies).

- The 13 European Enterprise and Innovation Centres may offer support for the creation and mentoring of **small enterprises with considerable technological or scientific potential.**

These flexible structures, set up in partnership with Brussels, are intended to provide expertise so that innovative projects can be developed in the best possible way.

- **Information** is also readily available through telematic servers such as **CORDIS or ARCADE** to which your EIC has access. These systems are also useful in locating potential partners.

- In addition to these various resources, the European Union and twenty or so partner countries have set up **EUREKA**, which is more a mechanism for listing highly innovative projects that can be marketed in the world market than a traditional research and development programme. Under this programme, entrepreneurs group together and share the costs and ownership of the results obtained. Public funding may be up to 50% of the total budget.

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## Helping the environment... and your enterprise

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The following assistance is available to help you to take **preventive** rather than corrective action:

### **LIFE**

The only kind of projects financed by LIFE are innovative and reproducible demonstration projects that preferably bring together several partners of different nationalities and can make a significant contribution to resolving the environmental problems that are frequently encountered in the Member States.

Project applications must be within one of the annual priority strands. In 1996, for instance, these were:

- protection and rational management of coastal areas,
- reduction of industrial wastes (in particular toxic or hazardous wastes),
- protection of water and treatment of waste water,
- promotion of sustainable development in industrial activities.

### **“Growth and environment”**

The European Investment Fund (EIF) has set up a financial resource to promote investment in environmental protection by SMEs with less than 50 employees.

The EIF offers guarantees for loans contracted from authorised French banking institutions by this kind of enterprise.

Confidentiality agreement	41
European aid	P 108
Commercial alliance	P 22
Strategic alliance	P 19, 20
Technological alliance	P 23
Fair competitor	P 15
Contractor/subcontractor cooperation	P 15
Contract	P 40
Transaction cost	P 15, 19
Diversification	P 16
Contractor	P 14
Just in time	P 15
Manufacturing industry	P 11, 12
Integration of partners	P 32
Vertical integration	P 14
International	P 18
Legal	P 38, 40
Matrix of skills	P 33
Negotiation	P 34
Key partner	P 15
Industrial partnership	P 10
Vertical partnership	P 14, 20
Power	P 36
Protocol of agreement	P 40
Total quality	P 15
Strategic thinking	P 102
Network	P 22
Joint company	P 39, 105
Subcontracting	P 10, 11, 14
Specialisation	P 10, 15, 32
Optimum size	P 15, 23

Starting up, developing and breathing life into alliances offers an innovative way for SMEs to grow and prosper. These alliances, which are not very common and relatively complex, require new knowledge and different approaches. As an alternative to internal growth or external growth (mergers, acquisitions), an alliance may in fact allow an enterprise to achieve objectives that it could not envisage on its own because of its lack of human and financial resources or even time.

Bearing in mind the major changes in their markets and the new requirements of their customers, it is very rare for subcontractors to have the resources to find appropriate and sustainable responses to these problems on their own. An alliance, which is flexible and progressive, may therefore help subcontractors to:

- offer a global supply or produce sub-assemblies,
- achieve an optimum size while continuing to specialise,
- help contractors to design products,
- penetrate a new market,
- develop internationally,
- share the costs of R & D in their trade.

This Guide pinpoints, from the experiences of 150 enterprises, the key stages of alliances between SMEs and good practices that may help alliances to succeed.

The specific features of alliances in each Member State of the European Union are then analysed from many examples of cooperation between and networks of SMEs.

Since cultural differences have to be taken into account when setting up alliances, management methods in each country are also analysed, focusing on communication, decision-making, concerted action and organisational practices within enterprises.

European Commission

**European Guide to Alliances between Subcontracting SMEs**

Luxembourg

Office for Official Publications of the European Communities

1998 - 116 pages - 21 x 29,7 cm.

ISBN 92-828-3137-X

Price in Luxembourg (excluding VAT): ECU 10



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Price in Luxembourg (excluding VAT): ECU 10



OFFICE FOR OFFICIAL PUBLICATIONS  
OF THE EUROPEAN COMMUNITIES

L-2985 Luxembourg

ISBN 92-828-3136-1



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