Good practices in the promotion of business linkages from an operational perspective: evidence from the field

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1 Introduction

Without business linkages, there is no business. Invariably, a business needs at least one buyer. Thus, any business that is in business has at least one business linkage. Why, then, are business linkages an issue that often comes up in the development discussion, not only with respect to developing countries but also, for instance, in poor regions of advanced countries? One reason is that many producers are reasonably good at producing, but not at all good at researching the market, understanding the (potential) customer and creating sales channels, so that efforts to upgrade production efficiency and quality have only a limited effect. Another reason is that in low-growth regions there is little "information in the air", so that, even for competent and marketing-savvy producers, it is much more difficult to establish business linkages than, say, for an IT firm in Silicon Valley, a financial services firm in London, or a salmon fingerling producer in Southern Chile. Moreover, in low-growth regions business linkage-related business development services (BDS) are not particularly strong, either. The fundamental truth observed by Jean-Baptiste Say, that each supply creates its demand, is valid at an aggregate level, but it is not necessarily true at a local level. Markets do not always work well, and thus targeted action is needed to remedy market failure. This is why the promotion of business linkages has been on the agenda of business support organisations for quite some time.

The issue of business linkages has been systematically addressed in a number of different arenas of discussion:

- Multinational companies and their development contribution in host countries: Research shows that foreign direct investment usually contributes to technological upgrading in the host country (UNCTAD 2005). Nevertheless, policy makers in host countries are often unhappy about the scope of technology transfer (not wide enough) and the time frame (not quick enough). From a different perspective, there is a concern with the impact of foreign direct investment on the trade balance. Affiliates of multinational companies tend to have a relatively high ratio of imports to local value-added. Therefore, policy makers in host countries try to stimulate business linkages between foreign investors and local companies in order to speed-up technology transfer and improve the trade balance.

- Cluster development: Since the late 1980s, the observation that geographical concentrations of small and medium-sized companies in a narrowly defined subsector can generate high competitiveness and a strong export performance has led to both an academic and a practical interest in industrial clusters (Enright and Ffowcs-Williams 2000). The ease of establishing business linkages is a defining criterion for the difference between prosperous and lagging locations and regions (Rosenfeld 2002). In this context, the issue of business linkages comes up in two different ways. First, there are bilateral business linkages. Intensified business linkages go hand in hand with increasing division of labour, specialisation of companies, and thus increasing competitiveness due to deepened learning and upgrading processes. Second, there are multilateral activities, such as export consortia, purchasing cooperatives, joint action in skills development, etc. This can contribute to the active creation of a unique competitive advantage.

- Value chain development: While cluster initiatives tend to have a local focus, value chains tend to look at bigger spatial aggregates. Producers, and local clusters of producers, are usually part of a bigger value chain that encompasses the various transformation activities that ultimately lead to a final product. Value chains are frequently tightly governed, especially in the case of consumer products like garments and footwear, or furniture, but also vegetables, where a limited number of importers, wholesalers or retailers in North America and Europe call the shots (Humphrey and Schmitz 2001). Therefore, an effort to connect local producers in developing countries to global markets often needs to involve lead firms in global value chains; the same applies in many developing countries to connecting local producers to national buyers, as the retail industry is increasingly concentrated.

- Rural and agricultural development: The attention to value chain issues is particularly strong among rural and agricultural development practitioners, since they are particularly relevant in this context. Given the increasing requirements in terms of freshness, product certification and traceability, for rural development practitioners who want to connect local producers to bigger markets there is no escaping the fact that a thorough understanding of the structure of the value chain, and direct interaction with key players, is essential (Springer-Heinze 2005).

- Business development services and small business development: In the donor community, the discussion on small business development since the late 1990s has evolved around the topic of business development services (BDS). Numerous evaluations of small business promotion activities had shown that traditional approaches, often involving the creation of government-run small business promotion organisations, tended to be rather ineffective and highly inefficient, apart from creating unfair competition or even crowding out private business services. The thrust for small business development thus changed from direct interaction with small companies, or the creation of organisations to do so, to a focus at business development services and an effort to strengthen BDS providers (see http://www.bdsknowledge.org/). In this context, the issue of business linkages came up in two different ways. First, there was the issue of linkages between small companies and BDS providers, since BDS markets were often intransparent and weakly developed. Second, establishing business linkages, i.e. matching producers with customers, is one of the services that form the core of business development services.

The purpose of this paper is to investigate the reasons for weak business linkages, and obstacles that stand in the way of establishing business linkages, and to investigate and summarise practical experiences with the promotion of business linkages. The paper is organised as follows. The next section looks at typologies of business linkages. Section 3 addresses factors that shape the evolution of business linkages. Section 4 gives an overview of different approaches to promote business linkages.

2 What are business linkages?

There are various plausible typologies of business linkages. Typologies of business linkages include the following:

- Vertical vs horizontal: Vertical business linkages involve companies at different stages of a value chain (producers and customers), horizontal business linkages involve collaboration between companies at the same stage of a value chain (often competitors). This issue has been broadly discussed in the literature on industrial districts. Research has shown that vertical linkages evolve more easily (Rabellotti and Schmitz 1999).

- Equal vs unequal: Business linkages may be among similar companies, but they often are between companies with very different power resources. In particular, the research on global value chains has focused at this issue, highlighting the governance structures and power disequilibria between lead firms in global value chains and producers in developing countries (Humphrey and Schmitz 2002).

- Domestic vs foreign: This relates to the issue of linkages between foreign investors and domestic companies, as introduced above. There is an implicit assumption that foreign investors tend to be more demanding, so that establishing business linkages between local companies and foreign affiliates is more difficult than establishing linkages exclusively among domestic companies.

The following table introduces yet another typology that is organised along two axes: bilateral vs multilateral, single location vs multi-location. The underlying thinking is guided by a practitioner’s perspective, since each of the quadrants involves a specific set of tools. We will come back to this point below.

Table 1: A typology of business linkages

	Bilateral	*Multilateral*
Local linkages	Interaction between local supplier and local customer, for instance • market-based local buyer-seller relationship • local subcontracting / outsourcing • local joint product development or other type of strategic alliance	Interaction between a number of companies / collective action, for instance in • skills development • addressing certification issues • addressing environmental issues • joint purchasing or sales activities
External linkages	Interaction between local company and external company, for instance • market-based relationship between local company and external supplier or buyer • subcontracting / outsourcing to or from external companies • strategic alliance between local and external company	Interaction between one or several local companies and various external companies, for instance • national or global value chain • technology development project

There is not a single typology that would capture the various patterns of business linkages in one consistent model. Business linkages are a multi-dimensional issue. What is important to note, though, is the fact that business linkages are usually not only understood as business transactions between companies but also include collective efforts by groups of companies to shape a competitive advantage. Business linkages are not only relevant for the provision of private goods, but also certain types of club goods and public goods.

3 Evolution of business linkages

The pattern and density of business linkages depends on a variety of factors.

3.1 Framework conditions

Business linkages take different shapes depending on the level of development and the specific national and local circumstances. Factors that shape business linkages include the following:

- The size of the market. It was Adam Smith who observed that the division of labour is determined by the size of the market. The bigger a market, i.e. the more sizeable an economy, the higher the degree of specialisation of companies will be, and the more intense the business linkages will be.

- The institutional framework. The possibility and cost of enforcing contracts and property rights has a decisive influence on the propensity of companies to outsource activities, or rather to prefer vertical integration. The less secure property rights are, the more shallow business linkages will be.

- The political framework. The stability of macro-economic framework conditions also has a critical influence on business linkages. For instance, in Latin American countries with high inflation, repeated "heterodox" stabilisation programmes in the 1980s and 1990s caused repeated rounds of renegotiations of prices and contracts between suppliers and customers, encouraged predatory behaviour, generated distrust among companies along a given value chain and ultimately created a strong incentive for vertical integration instead of interaction with other companies.

It is thus unwise to assume a priori that there is a huge scope for business linkages. The potential for more intense business linkages very much depends on national and local circumstances, and any initiative to promote business linkages needs to be based on a thorough understanding of these circumstances.

3.2 Technology / competency gaps

In his diamond of competitiveness, Michael Porter (1990) has pointed at the importance of demand conditions for the evolution of competitive industries. Companies develop competencies because the market, i.e. their customers and competitors, force them to do so. For emerging businesses, and for businesses in emerging countries, this often poses a huge challenge. The competence gap between informal businesses in a developing country and a Fortune 500 company is obviously enormous. But even between relatively well organised and competent producers in developing countries and lead companies, which often are transnational corporations, the competency gap can still be significant. For instance, in the course of the 1990s transnational car manufacturers became increasingly disillusioned and frustrated with the ISO 9000 norm. A certification according to ISO 9000 in theory indicates that a company has an effective quality management system and ought to be able to produce products of consistently satisfactory quality. In reality, however, this is not necessarily the case, as, for instance, multinational car manufacturers in Brazil found out (Quadros 2004). Thus, competency gaps pose a challenge to the evolution of business linkages at various levels of sophistication.

In a broader perspective, it is important to note the increasing importance of product and process standards for the establishment of business linkages (Nadvi and Wältring 2004). Product standards include, for instance, health and safety standards, or ecological standards such as Ecotex 100, where compliance with the standard can be established through a test of the final product. Process standards address quality management at the site of production. They include, for instance, ISO 9000 (for industrial manufacturing), HACCP (for agricultural production) and ISO 17025 (for test laboratories). Compliance with standards is costly and can create an important barrier to entry, both for individual companies and for entire clusters, especially with respect to business linkages to large corporations, be it as a direct supplier or subcontractor or as part of a bigger value chain.

3.3 The evolution of business linkages in a local perspective

Based on observations in different developing countries at different levels of evolution of the private sector, we argue that there is no linear trajectory of the evolution of business linkages as a business location develops, from few business linkages to a dense network of business linkages. This can be explained by looking at transaction costs and the possibility to acquire rents by exploiting information asymmetries.

Regarding the evolution of business linkages, one might expect that there is a natural and linear evolution from a very low level of business linkages to a pattern of dense business linkages. Practical experience, though, shows that there is a series of distinct levels of business linkage density, and that moving from one level to the next is not a continuous process. There are thresholds in the evolution of business linkages. Let us take a fictitious example of a local economy, looking at the evolution of linkages between local producers and buyers from outside the location to illustrate this process.

Let us assume that there is a location with no tradition in garments manufacturing where one dynamic entrepreneur starts a company that specialises in low-price teenage girl fashion garments. At the initial stage, there is only one company. For the owner, establishing business linkages to suppliers and to customers is a major challenge. Once she has achieved this, she has a keen interest to keep her business linkages secret, since this establishes a barrier to entry for potential local competitors. As her business starts to thrive, other local individuals with some entrepreneurial drive notice that there is a proven business opportunity, and they go after this opportunity. It would be highly irrational for the initial entrepreneur to share her knowledge of business partners, and to explain how to establish business linkages, since that would make it much easier for other local entrepreneurs to get their business going, perhaps to poach her customers and maybe to undercut her prices. Thus, the new entrepreneurs need to go through the same learning processes as the initial entrepreneur without being able to learn from her learning processes.

As the initial business grows, the entrepreneur has to employ a manager since the business simply becomes too complex for her to handle it alone. Over time, the manager will learn the basics of production of teenage girl fashion, and she will also learn about the business linkages that the owner has established. Even if the owner tries not to share this information with the manager, it will be difficult to hide it. At some stage, the manager will realise that she has enough information now to start her own business in the same sector, and if she has any entrepreneurial drive she will do so. So the number of local businesses in the same subsector keeps growing, and there are probably still more coming up, for instance because the two business owners share some of their experience with family, so that relatives start businesses as well. Moreover, it is practically impossible to keep things secret, as everybody who has lived in a small community for some time knows. Therefore, other individuals are also starting companies in the same line of business.

After some time, a critical mass of companies in the same subsector will have emerged in the location. At this stage, outside suppliers will realise that there is an interesting market at the location, and they will try to sell there, i.e. actively develop business linkages with local companies. Likewise, it is likely that external buyers will come to the location. This further reduces the barriers to entry for new businesses. What we have now is an emerging industrial cluster, and what happens is the emergence of "passive advantages of clustering", which also include the easy availability of skilled and experienced employees. Moreover, there is a good chance that either external investors or local entrepreneurs start companies in supporting and related industries (in our case, that might include embroidery, production of labels, production of packaging material, or production of advertisement materials).

Industrial clusters that have been in operation for a long time often also display "active advantages of clustering", i.e. competitive advantages that are generated by the joint effort of local companies, sometimes together with local government and support institutions. What about active advantages of clustering in our hypothetical case, i.e. in an emerging cluster? At an early stage, it will be difficult to organise collective action among local firms. Perfectly rational entrepreneurs ought to see the benefit of collective action. But real-world entrepreneurs tend to think in a slightly different way. For instance, our initial entrepreneur will feel betrayed by her former manager, so she will be disinclined even to talk to her. More generally, one would expect that local business owners dislike each other. Business usually is cyclical, and in times of economic downturns local producers will tend to underbid each other in order to sell their product, something that easily generates a shared perception that the company across the road is the most important competitor, and a vicious one for that matter. Over time, quite naturally an atmosphere evolves where each business owner sees little reason to trust local competitors. This can be exacerbated by cases of predatory behaviour, for instance the poaching of particularly skilled employees or efforts to badmouth competitors, for instance by trying to persuade buyers to avoid some local producers by incorrectly claiming that they are close to bankruptcy.

The obstacles to effective collective action can be further exacerbated by failed isolated efforts in joint action. Market relations usually involve power disequilibria, and small companies in emerging clusters are usually at the receiving end of power disequilibria. Their instinctive response is to try to organise market power, for instance by creating a purchasing consortium or a joint sales effort. Occasionally, this works because suppliers or buyers are also fragmented and cannot organise an effective response. In our hypothetical case, however, such an effort would probably fail, especially with respect to purchasing, since the sectors producing fabric, labels and other inputs tend to be relatively concentrated, thus being able to respond swiftly. When a purchasing consortium is created, sales representatives of fabric manufacturers will offer some companies particularly advantageous conditions, provided that they leave the consortium, and in this way usually succeed in breaking up the consortium.

Given these obstacles to collective action, how is it possible that mature clusters often display strong collective action? First, there are opportunities for collective action that are less easily subject to predatory behaviour, for instance basic vocational training, or the provision of generic services, for instance transport of employees or of cargo. As low risk joint action starts to run smoothly, local businesses are starting to build trust. Some degree of social control evolves that makes predatory behaviour less rewarding. Second, there is usually strong local leadership. Collective action is not guided by an invisible hand, but rather by the very visible hand of credible, committed individuals.

Let us draw conclusions from this fictitious case regarding typical thresholds in the evolution of business linkages in a location-specific perspective (Table 2).

We have argued elsewhere that this life cycle may not materialise in survival clusters (Altenburg and Meyer-Stamer 1999), where small, informal businesses operate at a very low competence level. Specialisation does not exist, technological sophistication is very low, and competition is based on price-cutting rather than innovation. Such conditions are very adverse to the evolution of local bilateral or multilateral business linkages.

Table 2: Thresholds in the evolution of business linkages in a cluster

Stage	*Description*	*Business linkage issues*
Initial stage	One or few business start-ups in a given sector	Establishing business linkages outside the location is difficult. Having established business linkages establishes a competitive advantage. Strong incentive to keep business linkages secret.
Early growth phase	Increasing number of businesses in a given sector, for instance due to spin-offs	Know-how on business linkages starts to spread, maintaining secrecy gets more difficult. Local collective action very difficult due to mistrust and personal aversion.
Consolidation phase	Emergence of local suppliers, increasing presence of external suppliers and customers	Opportunities for business linkages at local level and beyond local level become more visible.
Specialisation phase	Local producers and suppliers specialise on specific products or stages of production	Specialisation reduces localised competition and lowers the threshold to effective collective action.

3.4 Obstacles to the evolution of business linkages

Summarising these considerations takes us to the following table. It names some of the typical obstacles that slow down the evolution of business linkages.

Table 3: Obstacles to the evolution of business linkages

	Bilateral	*Multilateral*
Local	• High vertical integration • Lack of specialisation • Personal rivalry	• Distrust (little social capital) • Weak business membership organisations
External	• Competence gaps • Cost of product and process certification and ongoing product tests • Streamlining of number of suppliers by corporations	• Transaction cost • Cost of investment in quality support infrastructure • Power structures in global or national value chains

It is not at all easy to establish business linkages, neither for the individual entrepreneur nor for a business promotion organisation. Naturally talented entrepreneurs spot business opportunities and establish business linkages easily. For everybody else, it is an uphill battle. When it comes to promoting business linkages, it is important to take note of the possible obstacles and to pursue a realistic, as opposed to idealistic, approach.

4 Promoting business linkages

Business linkages are, first and foremost, about business. When it comes to promoting business linkages, especially linkages between large corporations and small businesses, it is crucial to keep this in mind. A business linkages initiative may have multiple objectives, including developmental objectives (e.g. pro-poor, black empowerment, gender empowerment, sustainable development), but it must be designed in a way that assures business principles to occupy centre stage. This does not mean that a business linkage initiative must immediately contribute to increase shareholder value, and that any project must be profitable in a short period of time. Business linkage projects will often be more about stakeholders than about shareholders. However, a business linkage project that actually reduces shareholder value will be shut down very quickly.

Putting a business logic at the centre of business linkage initiatives means to avoid the confusion between economic development objectives and social development objectives that has often led to the demise of local economic development projects or empowerment projects (Porter 1995). If a business linkage project does not make business sense, it becomes part of a corporation's social sponsoring activities. This, however, quickly leads to a mismatch in expectations (since beneficiaries continue to believe that they are in business, not in welfare recipient mode), and thus to general frustration and disappointment.

On the side of big corporations, it is essential that business linkage projects which aim at small, disadvantaged business are managed in a proper way by the right people. Corporations may be tempted to delegate such activities to their community development staff, which is not necessarily a good idea since these individuals are used to following a social assistance logic, not a business logic. Developing business linkages with small business needs to be driven by the same principles as any other supplier development programme, though it may involve a more patient disposition on the side of the corporation, i.e. a stronger effort to qualify suppliers and a longer time horizon before underperforming suppliers are phased out.

All this does not mean, though, that the big corporation will necessarily dictate the conditions of business linkages, and that small businesses need to adjust to the procedures preferred by the big corporation before they can even think about entering into business transactions. Experience has shown that establishing viable, sustainable business linkages with small businesses requires a willingness to question its routines and a strong effort to find innovative solutions on the side of the big corporation (e.g. Ashley, Poultney and Haysom 2005).

In the following sections, we will look at different approaches to promoting business linkages. The table below tries to allocate the approaches to the typology introduced above; it is acknowledged that not all items fit squarely into one quadrant only.

Table 4: A variety of approaches to promote business linkages

	Bilateral	*Multilateral*
Local	Promoting sourcing and subcontracting between transnational corporations and local companies Pro-poor linkages from tourism	Cluster promotion Local economic development
External	Strengthening business development services (BDS) that facilitate transactions between local company and external customers	Promotion of value chains

4.1 Outsourcing and subcontracting

4.1.1 Transnational corporations and local suppliers

UNCTAD has repeatedly emphasised the opportunities offered by the creation of business linkages between foreign affiliates of transnational corporations and local companies in the host country (e.g. UNCTAD 2001). A more recent document summarises the main lessons learnt (UNCTAD 2004). It highlights the following points:

- Linkages between transnational corporations and local companies, especially SMEs, will only to some extent evolve spontaneously, driven by market forces. In order to realise the potential offered by business linkages, an explicit policy needs to be put into place – not only by the host country government, but also and in particular by transnational corporations themselves. There needs to be a clear commitment by top management to foster business linkages, and the incentives and rewards for staff on the ground need to be structured accordingly.

- Creating business linkages is a process, not an event. It involves

  - the creation of a dedicated unit inside the corporation to further business linkages, including organising dedicated support structures to upgrade local suppliers (e.g. by providing technical support) as well as provision of skills (e.g. through dedicated courses or by opening corporate training courses to supplier staff),

  - the establishment and management of a good working relationship with business development service providers and SME support organisations, as well as business membership organisations,

  - an ongoing effort to identify, invite and engage with potential suppliers; this includes organising events such as open days, but also running tenders in a transparent and consistent way.

- Technology transfer not only includes the technical support and training activities mentioned before, but also means informing and educating suppliers regarding product and process standards, and possibly assisting them in obtaining certification.

- Corporate customers can play a pivotal role for SMEs' access to finance. Contracts can serve as collateral. Advance payments can alleviate the chronic shortage of working capital. Prompt payment after delivery reduces the cash flow problem. Corporates can also educate SMEs on appropriate ways of interacting with financial institutions.

- One of the relevant mechanisms of developing local suppliers is through spin-off, i.e. skilled, experienced and credible employees of a transnational affiliate starting their own business, initially primarily supplying their former employer. Since the transnational corporation benefits from this through lower cost and increased flexibility, it is in its best interest to encourage and support spin-off businesses, for instance by providing business management training to employees who are spin-off candidates whose skills are mostly in the technical field.

What is the role of government in promoting business linkages between transnational corporations and local companies? In the past, developing country governments used to force foreign affiliates to engage with local suppliers by establishing local content rules and similar regulations, which have been mostly eliminated with the TRIMs agreements under the WTO. These days, governments should focus at the following points:

- Create an enabling environment for private business. All the obstacles that generally stand in the way of the private sector are also affecting business linkages. The World Bank found that "businesses in poor countries face much larger regulatory burdens than those in rich countries. They face 3 times the administrative costs, and nearly twice as many bureaucratic procedures and delays associated with them. And they have fewer than half the protections of property rights of rich countries" (World Bank 2005, p 3). Removing unnecessary obstacles to business activities also improves the framework conditions for business linkages. This is particularly so when thanks to streamlined regulations and procedures it does not pay for a small business to remain informal. Informality establishes an important obstacle to business linkages since informal businesses prefer to be almost invisible, as this reduces their vulnerability (for instance vis-à-vis local competitors who might point them out to tax or other authorities).

- Make sure that SME support organisations engage with transnational corporations, and that they assess the potential of programmes to upgrade potential local suppliers. This approach in some cases may clash with the culture of SME support organisations, who may be more comfortable in interacting with local small businesses only. It is thus essential to have staff at SME support organisations with a professional background in the corporate world, i.e. individuals who are not scared by managers in transnational corporations.

- Reduce the barriers to entry to and the transaction cost of business linkages, for instance by providing an effective metrology and certification infrastructure, by encouraging and supporting effective and customer-focused skills providers, and by increasing the transparency in markets (e.g. through the provision of effective information services).

Business linkage programmes need to be implemented by agencies that think and act like entrepreneurial businesses (as opposed to, for instances, banks which are inherently risk averse and thus not entrepreneurial). Business promotion agencies that display a bureaucratic corporate culture tend to design initiatives in a manner that is not appropriate: top-down, with pre-determined target groups, based on a pre-selection of beneficiaries, and based on a pre-defined sequence of activities and outcomes (e.g. using a logical framework). An agency needs to follow a business logic, e.g. look for opportunities and respond swiftly and flexibly. Agencies with a good track record in promoting business linkages between foreign affiliates and local companies, such as Scottish Enterprise, often recruit staff directly at foreign affiliates.

4.1.2 Pro-poor linkages from tourism

Another arena where a strong potential for business linkages between big corporations, including transnational corporations, and small local businesses exists is tourism. Many locations, regions and national governments in developing and transformation countries are pursuing tourism promotion strategies. An approach that looks at the potential linkages between big tourism companies and local suppliers and subcontractors is being pursued by the UK's Department for International Development under the header of "pro-poor tourism" (see http://www.propoortourism.org.uk/).

Promoting linkages in tourism, especially when a direct pro-poor impact is intended, is probably more challenging than promoting linkages between transnationals and reasonably efficient industrial companies. A recent document summarises the lessons learnt as follows:

“Building linkages between tourism corporates and the local economy is not easy, but it can be done!

A variety of local linkages are possible: with local suppliers, staff, emerging tourism businesses, local equity partners, or neighbours. Which type of linkage is appropriate will vary enormously according to the local situation, and the commercial drivers of the company. Linkages that compete with the core product or undermine viability will not work.

For tourism companies, implementing local linkages is challenging, because it takes time, commitment, and a willingness to innovate. There is a risk of initiatives stalling or failing, while others will multiply and evolve faster than expected.

The business benefits from local linkages are also considerable and often greater than expected. In the long term, linkages can enhance the product quality, brand competitiveness, staff morale, local standing of the company and make an operation distinctive.

Linkages are about doing business differently – finding ways to adapt normal business operations and apply business competencies in a way that meets commercial objectives and simultaneously delivers greater local impact.” (Ashley, Poultney and Haysom 2005, p 1)

Thus, pro-poor business linkage programmes in tourism need to be approached in a slightly different way from activities in other sectors which do not have an explicit pro-poor focus:

- They need to be designed in a way that addresses the specific disadvantages of small businesses, including fundamental issues such as illiteracy.

- They require either a very high level of developmental competency on the side of the tourism corporation or, more likely, the involvement of specialised consultancies or agencies.

One should not conclude, though, that promoting pro-poor business linkages involves mostly problems and challenges. It also has a potential to develop a specific competitive advantage (which should not be yet another “cultural village”, though). For instance, there may be a potential to make specific know-how of local communities accessible to tourists, for instance in terms of wildlife, birdlife or herbs, other natural phenomena, or local historical events.

4.2 Local development

4.2.1 Cluster promotion

Cluster promotion has turned into one of the most widely used approaches to business promotion since the early 1990s. As studies like those by Piore and Sabel (1984), Becattini (1990) and Porter (1990) highlighted the competitiveness of SME-based industrial districts in Italy, and as it became obvious that similar agglomerations of companies in the same sector exist in many places, stimulating multilateral collaboration inside clusters appeared as a promising approach to create "collective efficiency", i.e. a competitive advantage that is based in a collective effort in locational upgrading.

The popularity of the approach is not based on its success, though. Cluster promotion initiatives are often difficult to launch, especially in terms of getting the buy-in from local businesses, and it usually takes years before tangible results materialise (Sölvell, Lindqvist and Ketels 2003). To some extent, this is due to the way in which many cluster initiatives are structured. Based on successful and not so successful cluster initiatives, a number of key lessons can be highlighted:

1) Not all clusters are promising candidates for cluster initiatives. It is very difficult to run a successful initiative

- in declining clusters, i.e. in locations where mature industries are battling to counter the competitive challenge created by other clusters with more favourable locational conditions; a declining cluster is often a dog-eat-dog world, and moreover local companies are so busy reorganising themselves, and organising a value chain that includes companies in the more competitive locations, that they see little point in running a strictly local initiative,
- in survival clusters, for the reasons mentioned in Section 3.3,
- in wishful thinking clusters, where government support institutions believe that a handful of companies in a given subsector are already enough to form a world-class cluster.

2) A cluster initiative can only work with a strong buy-in from the private sector. Thus, there is no point in government institutions pre-selecting clusters that are to be promoted. A top-down approach to cluster development, run by some institution at the national level, will only work under very specific conditions. The most promising approach is to run a contest, i.e. invite clusters to apply for funding on a competitive basis, so that the local initiative is based on self-selection and the commitment of local stakeholders. In fact, successful cluster initiatives are often run by the private sector itself.

3) A cluster initiative is more likely to work if it creates quick wins, i.e. tangible benefits that are visible within a few months. In order to realise quick wins, two features are critical. First, the cluster initiative needs to immediately engage with businesses in a direct, pragmatic, action-oriented way (rather than spending a lot of time with the preparation of a comprehensive cluster study, which promises to reduce the risks and uncertainties for public servants involved in business support but is often perceived as a waste of time and money by the private sector). It needs to be based on a participatory process where businesses may or may not decide to get involved, and where initial activities will only involve a limited number of local companies.

Second, when it comes to prioritising practical activities, asking the following four questions helps identifying activities that involve only a low risk of failure:

1. Does this activity address the immediate problems of firms?

2. Does this activity avoid what firms perceive as their core activities and core competencies?

3. Does this activity offer little or no latitude for predatory behaviour?

4. Does this activity present the potential of savings through economies of scale?

Typical proposals for activities that do not meet them usually fail, especially in clusters with little experience in successful collective action. First, there is technological cooperation, such as the joint development of a new production process. In such a case, participating firms fear that other firms learn pieces of information they perceive as essential to their competitiveness. Accordingly, they put pressure on their technicians not to unveil any possibly critical information, thus crippling the cooperation project from the start. Firms also may choose their less competent technicians to take part in the project, thus further decreasing the probability of success. Second, when one mentions the option of cooperation, business people in a non-cooperative cluster typically come up with ideas that are anti-competitive, such as forming a purchasing cooperative. However, if firms do not trust one another, a supplier that is the target of the cooperative will easily kill it by temporarily offering preferential purchasing conditions to one or several of the participating firms.

What then are activities that meet the four criteria? Looking beyond short-term activities for quick wins, such as informal get-togethers or local business directories, three types of activities typically do:

- *Training*. The economies of scale are obvious, as are the benefits. Training can be limited to areas that do not touch upon core activities, and there is little opportunity for predatory behavior.

- *Environment-related activities.* As environmental legislation starts to get enforced, firms initially usually sticking to end-of-pipe solutions, perceiving environmental protection literally as a peripheral activity. Moreover, a government environmental agency generally serves as an external enemy and creates an incentive for firms to stick together, for instance by creating technically focused working groups.

- *Testing and certification activities.* This creates a cost for companies, and the economic benefit of a shared facility is obvious. The logic of collective action becomes even more persuasive when customers force producers to certify the products or processes.

4) There are few, if any, cluster initiatives that have ever become self-sustainable in terms of funding. In a best case, the cluster members will sustain the initiative over time, for instance by creating a cluster association or club and/or by employing a "cluster manager". This process can be encouraged by a consistent management of expectations that clearly communicates the external financier's exit strategy from day one. Ideally, the external funding should therefore be declining in amount over time as the cluster leaders take on more and more of the responsibility, either from internal funds or external credit and investment funds.

However, there often is a problem with appropriability in cluster initiatives, similar to the well-known problem of underinvestment in R&D. Firms may underinvest in cluster initiatives and networking. It may therefore be justifiable to continuously allocate a small annual subsidy to cover part of the opportunity cost of a cluster initiative, based on the argument that from a macro-perspective a stronger effort in business cooperation may be desirable than appears justifiable from a micro-perspective.

5) What about the role of government in cluster initiatives? The first rule is that the government, especially local government, has to take an active interest in the fate of the private sector. This interest should not be taken for granted. Many private businesses – in particular, small and medium-scale firms – have been growing for decades without support from local government. Moreover, because central and state governments used to set promotion policies, local government has developed a disposition to wait for action rather than acting on its own.

The second rule is akin to the Hippocratic oath – do no harm. Government at all levels tends to erect obstacles for private business and for the collective pursuit of competitiveness. Some of these obstacles are essential and may be necessary to stimulate competitiveness, such as environmental regulation and consumer protection, but many are inefficient or unenlightened. Before becoming actively involved in cluster initiatives, government therefore ought to get its own house in order. Reviewing regulations, removing those obstacles that are not essential, and reorganising what remains are the most important tasks for government. In practical terms, this means different things at different levels, such as moving from command and control to economic instruments for environmental policy at the national level, streamlining regulations at all levels, and creating one-stop or first-stop agencies at the local level. In fact, in his evaluation of cluster initiatives in Europe, Raines (2000) found that one of the most important effects of the initiatives was to overcome fragmentation. That is, fragmentation between government institutions.

Only after addressing the obstacles it has created for the private sector will government have the credibility to get involved in meaningful private sector promotion activities, such as cluster initiatives. Government agencies at the local or the regional level can play two important roles. First, they can act as moderators, mediators, and facilitators and play a crucial role in overcoming mistrust among firms. Second, they may cover part of the transaction costs any cooperative venture incurs. In this respect, the justification is much the same as in terms of government support for activities where the returns on investment are difficult to appropriate, especially in environments with a less than adequate protection of property rights.

For a higher-level agency (e.g. a national-level development authority) that runs a cluster program, it is of key importance to set up a proper knowledge management system. This should involve three lines of activities.

1. Install a meta-monitoring of cluster initiatives early on: Whether a cluster program is launched with a contest or a top-down selection process, it is important to lay the groundwork for a cluster initiative observatory at this stage. As proposals from clusters come in or consultants submit their fact-finding reports, the information contained in those documents must be documented properly. It is useful to set up a data base at this stage, and to outsource this activity to a research institute, a university or another pertinent organisation. As cluster initiatives actually start, it is important to encourage local actors to define their performance indicators as early as possible, and to take the collection of sets of performance indicators from various cluster initiatives as the starting point for the setup of a benchmarking system.

2. Codify successful methodological approaches to cluster development: The key challenge in cluster initiatives is to overcome uncooperative local business cultures. Addressing this challenge is by no means trivial, but rather involves sophisticated communication and change management methodologies. Experienced change management practitioners are not always good at making their tacit knowledge explicit (and may hesitate to do so if they fear that they undermine their competitive advantage as a consultant). For an agency that runs a cluster program, it is essential to strike a fair balance between cluster facili-

tators' interest in protecting their proprietary know-how and the necessity to make successful change management methodologies explicit so that they can be applied elsewhere.

3. Develop a roll-out strategy for successful cluster development methodologies: Experience from various countries indicates that specialised consultancy firms emerge that develop specialised and sophisticated know-how for cluster development. It is in the best interest of an agency that is tasked with a cluster program to stimulate the emergence of a competitive market of competent consultancy firms specialised in cluster development. The agency should consider to maintain a permanent "cluster initiative facilitation fund" that provides seed money for local or regional actors who want to launch a cluster initiative and would like to contract a specialised consultancy firm to assist in starting and professionally facilitating the initiative. Such a fund would offer matching grants to cover the facilitation cost in the start-up phase of a cluster initiative (e.g. during the first year).

4.2.2 Local economic development

Cluster promotion is one of the usual approaches to local economic development (LED). However, LED encompasses much more than cluster promotion. Traditional core instruments in LED include development of business estates, investment promotion and skills development. In recent decades, the scope of LED has constantly grown (Meyer-Stamer 2003). Promoting business linkages has traditionally been a task of local business membership organisations (BMOs). However, as in many locations it became obvious that they only partially fulfil this role, LED agencies and similar entities have moved into this field of activity. This has been particularly so in places with an emerging private sector, where BMOs are weak, but also in old, mature locations, where BMOs are dominated by old industries and traditional companies and do not necessarily address the needs of new companies and subsectors.

The purpose of business linkage promotion as part of LED is to increase the visibility of local SMEs in order to break through the vicious circle of little money for advertising > little visibility > few customers > no growth. Practical instruments to increase visibility range from formal business fairs and information systems to informal get-togethers. Moreover, stimulating business linkages is one of the subfunctions of local business incubators, where the incubator management will usually try to organise business linkage events as an embedded service for its tenants.

4.3 Business linkage BDS

Promoting business linkages is usually mentioned in lists that describe the meaning of "business development services". There is, however, only limited evidence that business linkage BDS actually exist.[1] In some cases, donor-funded projects have filled that niche (e.g. Grierson and Mead 1999). Otherwise, the available evidence seems to indicate the predominant type of really existing, commercially viable business linkage BDS are export agents.

Connecting local businesses to external markets, be they national or export markets, is usually a viable business development service. Export agents appear to evolve as a distinct service provider in locations where some established, usually big company has been active in exports for some time. It has created an export department that is involved in a variety of activities from research on potential export markets to identifying potential importers and sellers in those countries to assessing and addressing the logistics challenges involved in putting its products into those markets. At some stage, some individual in the export department may decide that there is a business opportunity in setting herself up as an independent service provider, possibly still working for the former employer but also and in particular raising the interest of other local producers in developing export markets.

Export agents face two main challenges. First, there is the challenge of combining the know-how on generic issues, i.e. the various procedures involved in exporting, with sector-specific know-how. An individual with a background in, say, garment exports will take some time to develop an understanding of the potential export market for, say, fruit. Self-employed export agents and small businesses, with little staff and thus limited potential for specialisation among employees, will do best if they specialise on one or very few subsectors. Second, since they cater primarily for SMEs as customers, there is the visibility issue. The service provider is small, the customers are also small (or perhaps medium-sized), so that it takes a lot of effort for the provider to locate and convince potential customers. Both issues will exist to a lesser extent inside clusters, where the barriers to entry for export agents are thus much lower than in locations without a clear specialisation profile.

Apart from commercial business linkage BDS providers, facilitating business linkages is also a standard task, and in fact a raison d'ètre, for business member-

1 In December 2005, a Google search for "business linkage broker" drew zero results. A search for "market linkage broker" found only a reference to the USAID-funded JOBS project in Bangla Desh (see Knopp 2002).

ship organisations (BMOs). However, in locations where commercial BDS are underdeveloped, BMOs will often not be particularly strong, either.

The BDS issue is particularly relevant when it comes to designing interventions to promote business linkages. In the course of the 1990s, the BDS discussion grew from the insight that traditional, government-centered approaches to business development had not worked particularly well, and that government-run business promotion services had frequently, and usually inadvertently, damaged or crowded out for-profit business services. The conclusion was a strong recommendation for donor organisations, and indirectly for business promotion entities in developing and transformation countries, to create structures to strengthen BDS rather than organisations that work directly with companies (Donor Committee 2001). This important insight must be kept in mind when it comes to designing interventions to promote business linkages. For instance, government-run export promotion services can be designed in a way that strengthens export service providers, but they can also operate in a way that crowds out private providers.

4.4 Promotion of value chains

Commercial agricultural producers and industrial manufacturers usually do not produce for their local market only. In the case of an industrial cluster, many individual companies may interact predominantly with other local companies, but the cluster at large is serving the regional, national or global market. In many if not most subsectors of agriculture and industry, production is usually distributed across various locations on different continents, according to comparative advantage and locational advantages, i.e. man-made competitive advantages. This has given rise to the phenomenon of “global value chains”, which have been documented for industries as diverse as garments (Gereffi 1996), footwear (Schmitz and Knorringa 1999), horticulture (Dolan, Humphrey and Harris-Pascal 1999), coffee (Fitter and Kaplinsky 2001), furniture (Kaplinsky and Morris, undated), electronics (Sturgeon 2001), and cars (Humphrey and Memedovic 2003).

Global value chains are often “governed” by a small number of corporations, which may be suppliers (e.g. Nike), retailers (e.g. Ikea, H+M or Tesco) or specialised intermediaries (e.g. Li and Fung). Global value chains mark a departure from the transnational corporation, which is basically Chandlerian in nature, i.e. ultimately centrally controlled entities with a certain degree of vertical integration. Vertical integration in lead companies in global value chains tends to be very low. With global value chains, the pattern of industrial organisation moves from hierarchies to networks (though, it must be noted, networks a with highly unequal distribution of power).

For producers in developing and transformation countries, “the world market” more often than not actually means “a very small number of buyers in North America and Europe”. Any effort to connect local producers with larger markets (not only export markets, but increasingly also domestic markets, see http://www.regoverningmarkets.org/) needs to take this into account.

What does this mean practically? Before the start of an upgrading initiative with any type of producers anywhere, it is crucial to understand which value chain they feed into, which other value chains they might feed into, and how these value chains are structured. The result of this investigation is the basis of the design of an upgrading initiative. In those cases where a subsector is organised around global value chains, i.e. is dominated by a small number of powerful players, it is useful to engage with lead firms at the very beginning of the initiative. Sometimes there is a chance to involve lead firms in an upgrading effort with producers. In such a case, traditional approaches in export promotion, for instance having a stand at an important international fair, may be a complete waste of time and money.

Experience has shown that a value chain initiative in a given country needs to rest on two pillars:

1. The national level pillar: National ministries, national-level BMOs, other NGOs, lead companies, export agents, and possibly other players need to interact in order to identify subsectors in the domestic economy which offer a potential of improved integration into global value chains. They need to identify the existing barriers to entry (e.g. lack of certification, and of adequate certification structures, or inefficient export procedures, or inadequate export infrastructure) and ways of overcoming them.

2. The territorial pillar: The chosen subsectors are usually concentrated in a limited number of locations, where an effort to upgrade producers needs to be mounted. This may lead to a cluster initiative, a local economic development approach, the promotion of BDS providers in the respective region, or something similar.

5 Final remarks

The concept of business linkages encompasses a variety of real-world phenomena, from the interaction between a small business owner and her tax advisor to the management of Ikea’s global network of thousands of suppliers, and from routine skills development activities organised by local business chambers to worldwide multi-stakeholder efforts to establish efficient certification mechanisms for acceptable working conditions. Thus, there is a wide scope of possible approaches to promote business linkages.

Nevertheless, economic development professionals in developing and transformation countries are consistently facing a straightforward challenge, namely how to address producers who know how to produce something, but who have no idea how and where to sell it. Apart from the approaches mentioned in this paper, it is crucial to understand that establishing and maintaining business linkages is a key quality of entrepreneurial individuals. Approaches that promote entrepreneurship, such as Empretec, SIYB and CEFE, thus play a crucial role in promoting business linkages – not by directly promoting them, but rather by shaping the thinking and acting of individuals for whom looking for new and improved business linkages needs to become a way of life.

The guiding principle in the promotion of business linkages must be to make markets work better. Promoting business linkages is not about distorting markets, or relieving individual entrepreneurs of the need to constantly scan for suppliers and customers. Promotion of business linkages needs to unburden entrepreneurs of wasteful activities which are due to market failure. Real world markets will never be perfect, but they can be much less imperfect than they often are. Promoting business linkages is at the very heart of any effort to address market failure. In this perspective, promoting business linkages is a core activity in any effort to promote pro-poor growth (DAC 2004, DFID 2005).

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Annex:
Report on the Expert Meeting on Business Linkages
UNCTAD, Geneva, 22 February 2006

The objective of the meeting was to gather and discuss insights from business linkages experts, and to complement UNCTAD's work, initiated at UNCTAD X, in order to identify best practices in the promotion of business linkages. Invited experts were expected to shed light on the key elements of a linkages promotion programme, and in particular on the following questions: Who are the key players and institutions of a successful linkages promotion programme? What policies could support development of business linkages? Which are the key activities and steps to be undertaken? The discussions were informed by the findings of two international surveys on international best practices in the promotion of business linkages from a policy and a company perspective, carried out by UNCTAD as part of the GTZ-UNCTAD Project "Promoting Inter-firm Cooperation in the North-East of Brazil". Participants in the Expert Meeting were the authors of business linkage case studies, practitioners involved in business linkage programs, and UNCTAD staff members.

The meeting was organized around six questions:

1. What was the biggest surprise in linkages promotion?
2. Why are large companies interested in linkage promotion?
3. Why are large companies interested in collaborating with development agencies in linkage promotion?
4. What are the characteristics of TNCs that are open to developmental business linkage promotion?
5. What type of local company has the potential for business linkages with TNCs?
6. How should a business linkage initiative be sequenced?

What was the biggest surprise in linkages promotion?

Participants highlighted both negative and positive surprises. Negative surprises included

- the lack of response on the side of local SMEs,

- the problems encountered in explaining the business linkage concept to TNCs, especially the difference between business linkage promotion and the supplier development programmes that TNCs are running anyway, and the value added of business linkage promotion,

- the gap between good intentions, as symbolized by TNC's support for the Global Compact and other declarations, and the problems of making it happen on the ground.

Positive surprises included

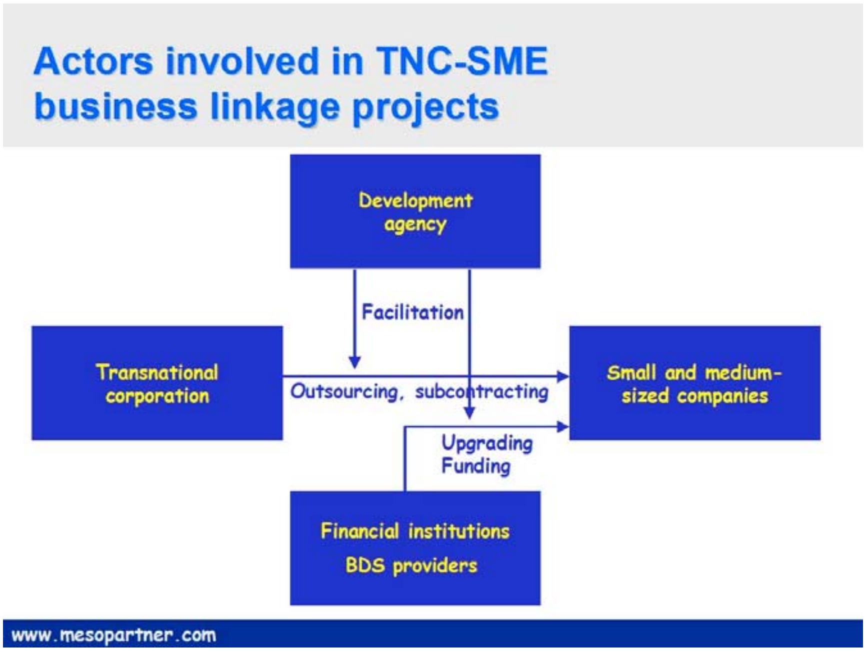
- the unexpected dynamic created by communication between TNCs who were involved in a business linkage project in one country,

- the interest generated among financial institutions to fund SMEs that were involved in business linkage projects,

- the interest TNCs indicated in having somebody else address "soft issues", such as management weaknesses among local suppliers, something that can lead to the involvement of local BDS providers.

One of the observations that started to emerge in this discussion related to the basic structure of business linkage projects. One would expect a triangular structure: the TNC, the local suppliers, and the development agency as the facilitator of linkage building. Practical experience shows that there are four actors involved, as indicated in the following figure.

Figure 1



Why are large companies interested in linkage promotion?

TNCs are interested in the promotion of business linkages to the extent that this makes business sense. Having a local supplier for a given input or service, rather than having to import the good or service, reduces the risk created through long lead times, long distance transport and obstacles encountered at harbours and customs. If the factory gate price of the local supplier matches that of suppliers outside the country, the lower transport cost implies cost savings for the TNC. At an early stage of a relationship with a new local supplier, its higher price will be compensated by lower transport cost and improved timeliness and responsiveness of input delivery. Over time, the local supplier will move down the learning curve, and reduced production cost will translate into lower prices.

Two other motives may also play a role, though only to the extent that business linkages make business sense. First, there is the interest in keeping the host government happy by contributing directly to the upgrading of the local economy. Second, there is the interest to be seen as a good corporate citizen, i.e. a corporate social responsibility (CSR) perspective that goes beyond the sponsoring of social and cultural activities.

Why are large companies interested in collaborating with development agencies in linkage promotion?

There are three main reasons why TNCs are interested in collaborating with development agencies in linkage promotion.

1. Economic and business logic: Collaboration allows cost sharing, thus saving money. Experience shows that any TNC will happily go for any opportunity to benefit from some explicit or implicit subsidy. There is also the opportunity cost involved in identifying and working with local BDS providers who upgrade suppliers. TNCs are keen on externalizing this opportunity cost.

   Moreover, TNCs perceive development agencies as a neutral broker. This refers not only to mediation in the interaction between TNCs and suppliers, and TNCs and BDS providers. It also refers to the possibility that the development agency facilitates information sharing between TNCs. Especially in less advanced developing countries, each TNC is involved in some supplier development in areas like packaging or services like advertising. However, there often is no information exchange, and even well performing suppliers and service providers may remain invisible to other TNCs. Sharing information on reliable suppliers can be a strong benefit of improved communication among TNCs, especially when they are not operating in the same sector and thus competing against each other.

2. CSR effect: Interaction with development agencies, especially UN agencies, improves the public image of a TNC. It can also boost employee morale.

3. Access to government: Donor agencies have a direct communication channel to the host government. Interaction with and intermediation by a donor agency can make it easier for a TNC to raise concerns with the host government.

What are the characteristics of TNCs that are open to developmental business linkage promotion?

The main criteria to guide the identification process of TNCs that are promising partners for business linkage promotion are the following:

- TNCs that are pressed by audits to upgrade suppliers. Given the increasing importance of quality, environmental and social standards, and given the fact that many of these standards include the performance of suppliers, there is a constant pressure to upgrade even those local suppliers who have a satisfactory performance.

- TNCs looking for new, better or lower cost suppliers. Some companies have fairly rigid purchasing patterns, especially in those industries where supply chains are systematically organized at the global level. Other companies are more flexible in their purchasing policy.

- Companies that produce primarily for the local market. Efficiency-seeking foreign investors will tend to have a consistent pattern of globally preferred suppliers, and will often import most inputs from their home base. Market-seeking investors, on the other hand, will have an interest to reduce their dependence on imports.

- Corporations that operate in regions that suffer from serious market failure. This would apply, for instance, to TNCs involved in agricultural products, since rural markets in developing countries are particularly shallow and thus subject to a variety of market failures.

- Companies with a strong CSR / corporate citizenship profile, especially member of the World Business Council for Sustainable Development and similar bodies. It is important to note, though, that inside a TNC the responsibilities for CSR and for supply chain management and supplier development rest in different departments. For a successful business linkage project, it is crucial not to interact primarily with the CSR department. The CSR department may be the entry point, but subsequently the interaction must focus on the supply management and supplier development departments.

It is also important to note that business linkage promotion should not look exclusively at large, highly visible TNCs. There is a huge number of not-so-large, less visible TNCs who have so far not really been addressed, yet who may be strongly interested in supplier development since their in-house supplier development capacity is less well developed. Moreover, large domestic corporations can also be a promising addressee for agencies that seek lead firms for business linkage promotion projects.

What type of local company has the potential for business linkages with TNCs?

Defining a set of criteria that can help in locating local companies that hold a promise to evolve into suppliers to large corporations is not a straightforward exercise. In the view of practitioners, the most important factor is the personality of the business owner, who should meet criteria like ambition, hunger for growth, reliability, and strong leadership. The business owner also must have a clear understanding of the crucial importance of consistent quality and timely delivery.

How should a business linkage initiative be sequenced?

In order to respond to this question, the participants in the meeting split into three working groups, i.e. practitioners, donor agency representatives (UNCTAD, GTZ), and academics. The result of this exercise reveals some degree of divergence in approaches and thus highlights the challenges involved in the interaction between donors and TNCs.

Practitioner group	Donor group	Academic group
1. Scoping study – proven demand 2. Concept note – general consensus on the idea by key stake-holders 3. Project proposal – resource mobilization – methodology of operati-onalization – budget established – outputs established 4. Memorandum of Understan-ding, Launch – participation criteria – funding secured – overall modus operandi agreed 5. Company-specific linkage agreements – individual firm deals 6. Implementation – against specific targets – mentoring & coaching – stakeholder manage-ment – monitoring & evaluation 7. Exit / end or project or Review and new compact	1. Fact finding mission (TNC needs assessment, SME lands-cape, political interest, part-ners), support structures avai-lable; existing other programs 2. Define concept and project do-cument 3. Planning and sensitization workshop 4. Decisional phase based on fea-sibility 5. Fund-raising, internationally and locally 6. Project operational structure 7. Linkage sensitization efforts (on-going) 8. Identification of a “champion” in private sector 9. Identification of committed in-terfaces within TNCs 10. Identification of linkages poten-tial with development impact which would not happen other-wise 11. Identify suitable service pro-ducts and providers, and main stakeholders 12. BDS financial mechanisms and arrangement 13. Identification of SME suppliers 14. Implementation	1. Define targets 2. Identify stakeholders 3. Secure resources 4. Identify supplier candi-dates 5. Short list suppliers 6. Comprehensive assess-ment of supplier capabili-ties and weaknesses 7. Define firm-specific and collective interventions needed 8. Agree on performance targets with SMEs 9. Implementation 10. Review and adjustment

Based on this exercise, a number of questions were raised:

- Should a business linkage project try to achieve not competitiveness related objectives (poverty alleviation, social objectives, regional development objectives)?
- How about knowledge management in a business linkage project?
- How about the relationship between quick win activities and long planning exercises?
- How about the pros and cons of a direct donor intervention versus an effort to create incentives for companies?

Recommendations included the following:

- Business linkage projects should address market failure in order to improve competitiveness.

- For UNCTAD, there is an opportunity with respect to documentation of its experiences leading to product packaging.

Conclusions

The practitioners emphasized that a business linkage project needs to be based, first and foremost, on a clear business logic. Issues like CSR may be leveraged, but a business linkage project will only be successful if it complies with the business interests and logic of large corporations. Their patience is limited. A project needs to move quickly. It must not involve endless meetings and planning sessions. Local SMEs that are targeted as potential suppliers need to have a strong potential and a steep learning curve. If they cannot meet the requirements of the corporate customer within a number of months and definitely less than one year, they will not be in business.

Main insights that emerged in the meeting were the following:

1. The linkage approach is primarily looking at

   – big multinationals, not the variety of medium-sized, less visible, but also less internationalisation-competent TNCs, also not at large domestic companies,

   – manufacturing supplies and outsourcing, not services, especially knowledge-intensive services.

2. The linkage approach does not address core suppliers, i.e. those firms that provide the key inputs to a TNC. But it is also not necessarily about CSR. The main focus in linkage projects is on technologically less complex products, for instance packaging.

3. The linkage approach is part of the bigger global value chain topic (as opposed to overlapping with it).

Business linkage promotion can in principle employ quite different approaches. A first difference refers to the issue of sector-focus vs functional focus. In this respect, the recommendation is very straightforward: a sector-focus is unlikely to work.

Sector-specific approach	Sector-unspecific functional approach
• difficult to get companies from the same sector to share experiences • introduces implicit bias on manufacturing outsourcing	• encourages horizontal learning and exchange of information • similar to BDS: makes markets work better

A second difference would be around the type of intervention. One option is around facilitation and addressing market failure, the other one around direct interaction with individual companies on a one-by-one basis, as indicated in the following table.

Facilitation	Upgrading
• share information on suppliers, make them more visible • involve meso institutions • strengthen BDS market	• work with individual TNC to develop local suppliers • funding upgrading effort in suppliers • facilitate upgrading, e.g. match spun-off small enterprise with additional customers

The facilitation approach would be in line with the recent donor thinking on promoting market-based solutions.