A study of the employment effects and other benefits of collaboration between multinational enterprises and small-scale enterprises

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Note: Working papers on themes studied within the ILO are intended to stimulate discussion and critical comment.
### CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Introduction</td>
<td>1</td>
</tr>
<tr>
<td>2. Objectives of the study</td>
<td>2</td>
</tr>
<tr>
<td>3. Scope of the study</td>
<td>2</td>
</tr>
<tr>
<td>4. The changing multinationals</td>
<td>3</td>
</tr>
<tr>
<td>5. General findings</td>
<td>5</td>
</tr>
<tr>
<td>6. Areas of collaboration</td>
<td>6</td>
</tr>
<tr>
<td>A. Input requirements</td>
<td>6</td>
</tr>
<tr>
<td>B. Sales</td>
<td>9</td>
</tr>
<tr>
<td>C. Local environment</td>
<td>14</td>
</tr>
<tr>
<td>D. National and international environment</td>
<td>15</td>
</tr>
<tr>
<td>7. Future action</td>
<td>17</td>
</tr>
<tr>
<td>7.1. Government</td>
<td>17</td>
</tr>
<tr>
<td>7.2. Multination</td>
<td>20</td>
</tr>
<tr>
<td>7.3. Small-scale enterprises</td>
<td>22</td>
</tr>
<tr>
<td>7.4. Donors</td>
<td>22</td>
</tr>
<tr>
<td>8. Summary and conclusions</td>
<td>23</td>
</tr>
<tr>
<td>Annex 1: Bibliography</td>
<td>27</td>
</tr>
<tr>
<td>Annex 2: ILO publications on multinationals</td>
<td>29</td>
</tr>
</tbody>
</table>
1. Introduction

To most observers, there is little common ground between multinational corporations (MNEs) and small-scale enterprises (SSEs). Not only in terms of scale, but also in technology, production methods, quality control, markets and above all management, the common perception is that the differences are so substantial as to be unbridgeable. However, the changing nature and attitudes of MNEs, together with increasing recognition of the crucial role of SSEs in employment creation, are combining to offer the potential for a significant expansion in the areas of collaboration between MNEs and SSEs.

No one would dispute the urgent need in developing countries for more off-farm employment and income-generating opportunities. SSEs are increasingly seen as offering one of the solutions to this problem, both in the rural and the urban areas. As many policy papers have stated in recent years - for example, the oft-quoted Kenya Government Sessional Paper of 1986 "Economic Management for Renewed Growth" - large-scale enterprises can make only a very small contribution to solving the problem of the jobless and underemployed. SSEs are recognised as being able, indeed having, to make a major contribution - the key questions are how best to promote them cost effectively, in large numbers and to assist them in such a manner as to be financially self-sustaining.

It is also now widely recognised that promoting SSEs through government institutions has often had a disappointing impact. The myriad of such institutions set up to assist SSEs in every developing country, invariably with external donor support, is recognised as costly and by no means always effective. The whole approach of a government institution and the mental attitude of civil servants is often antipathetic to the entrepreneurial ethos, not to mention that investment decisions are all too vulnerable to political influence. Too often loans are not repaid and the enterprises themselves are not financially self-sustaining.

In recent years attention has increasingly been turning to private non-government (charitable) organisations, to play a larger role. There have been many exciting initiatives, a number of which have undoubtedly been successful. But how cost effective are such initiatives; how sustainable are they going to be when external donors withdraw their support; and can they be replicated to benefit large numbers of small enterprises. Further, given the somewhat ambiguous philosophical stance of many NGOs towards profit-oriented small businesses (as distinct from the positive attitude towards co-operative enterprises and self-employment) will the necessary business and financial disciplines be enforced?

What then of the third option - increasing the in-country linkages between SSEs and medium/large-scale private commercial enterprises? In particular, taking the extreme case, are there untapped areas of possible collaboration between SSEs and the local affiliates/subsidiaries of multinational enterprises - with their unique combination of international experience, professional management, substantial resources, high political profile and growing sense of social responsibility? Subcontracting between large and small companies is well known but what of other possible linkages.

The writer's attention was first drawn to this possibility some ten years ago by a small charcoal-making project in Sri Lanka. Promoted by a private American entrepreneur, the project sought to make charcoal from the waste timber of the Mahawelli project using hundreds of small portable metal kilns and a sizeable labour force. One of the most interesting features of the project was the arrangement for local management. This was contracted out to CTC Services, a wholly-owned subsidiary of Ceylon Tobacco Company, itself part
of British American Tobacco (BAT). The intriguing aspect was that CTC Services was prepared to make available Ceylon Tobacco's management and financial expertise at nominal cost to high-risk rural development ventures.

The criteria for CTC Services involvement were clear. The projects had to be specifically targeted to benefit the lower income groups; commercially viable in the long term; but experimental in nature and therefore too risky for commercial bank support. Senior/middle-level managers were provided to the projects by Ceylon Tobacco on secondment through CTC Services for a limited period. The scheme had the dual advantage to Ceylon Tobacco of offering independent management training opportunities to rising staff to show their mettle, whilst at the same time demonstrating to the Government, and the public at large, that Ceylon Tobacco was a socially responsible organisation willing to make an innovative contribution to development.

2. Objectives of the study

Further investigation showed that this case of a multinational's involvement in SSE development was by no means uncommon, also that MNE collaboration with SSEs was not just confined to subcontracting. A study was therefore launched in order to:

- investigate how widespread are such cases of MNE/SSE collaboration and the motivation behind them.
- What different forms of collaboration have been tried and how successful have they been?
- Is there scope for promoting more such collaboration and, if so, by whom and in what ways?

3. Scope of the study

A few points of initial clarification are necessary. First, the writer holds no brief for the MNEs. Having been involved in SSE development for many years, it is impossible to be unaware of the negative reputation MNEs have had in terms of: their insensitive exploitation of both human and natural resources; their disregard for the environment; and of the negative impact of their commercial, technological and financial muscle on smaller businesses and traditional activities.

Second, the study has concentrated on off-farm or more specifically non-crop income-generating activities, e.g. in agro-processing, manufacturing, mining and, of increasing importance, the service sector in all its many forms. In the agricultural sector, there are numerous well-known examples of large/small collaboration, most notably the many schemes involving smallholders growing produce for a nucleus estate/central-processing facility. These are well known and have already been the subject of many studies.

Third, the study is concerned with the whole spectrum of small-scale enterprises, not just the informal or micro-enterprise sector. The formal modern business at the upper end of the small-scale spectrum, where the investment in plant and machinery may run into the low US$m, has considerable potential for collaboration with MNEs.
Fourth, in geographical terms, the study has concentrated on Africa and Asia rather than Latin America. However, secondary sources reveal many interesting cases in that region. Although it has not been possible to verify these first hand, they have occasionally been used as examples to illustrate a novel or different type of collaboration.

Finally, the study makes no claim that the work done to date is more than a preliminary and qualitative analysis. The initial plan was to identify a "long list" of cases of MNE/SSE collaboration by contacting the headquarters of MNEs in Europe and North America. Thereafter the intention was to make a selection from that long list of three or four countries where there were a number of different types of cases and carry out detailed field investigations.

Initial contacts with MNE headquarters, however, showed that less than half had any interest or experience of collaboration with SSEs. Further, those who were aware that their affiliates or subsidiaries in developing countries had relevant experiences of collaboration with SSEs rarely knew anything but the broadest outlines. In all but a very few cases, such matters were left to local management to develop policies in relation to SSEs and any operational activities. Indeed a number of corporate headquarters were keen to know more about what their subsidiaries in different countries were doing and welcomed the opportunity to find out through an independent investigation.

Direct contact was made with a variety of MNE subsidiaries in Kenya, Malawi, Zimbabwe, India and Sri Lanka. The primary sources were interviews, often with the chief executive or if not available a senior staff member of the company (their information does therefore need independent validation). In addition contacts with a variety of sources in America provided some creative examples of MNE/SSE collaboration, largely in Latin America.

Whilst there is a wealth of literature on MNEs in general, especially in relation to foreign investment, technology and employment, there is very little on MNEs and their relationship with SSEs. The exception is the area of subcontracting on which there is much material, particularly on the subject of ancillarisation, and especially in India. It is significant that in the author's first contact with the UN Centre for Transnational Corporations in New York in 1986, there was not a single reference in the Centre's library or database to any material relating to collaboration with SSEs.

4. The changing multinationals

Before considering the scope for MNE/SSE collaboration, it is important to have a brief look at the MNEs themselves. Over the years there have been major changes both in the nature of MNE activities in developing countries and in the attitudes towards them. As Anthony Sampson has written "The earlier appearance of an MNC [multinational corporation] in the developing world, from the nineteenth century onwards, was very easily recognisable whether as a plantation, mine or an oilfield. By the 1950s and '60s equally visible and concentrated manufacturing plants were becoming more typical. By the '70s and '80s the patterns were more complicated. Many plants were becoming more interlocked with plants and components in other countries, making it harder for the host country to oversee the business or analyse the benefits."

As to the future, Sampson believes "It is services, more than manufacturing or mining which will determine much of the transnational activity. More than half of the business of MNCs is now in service industries covering a wide spectrum of activities from banking and finance to advertising, hotel-keeping and cleaning. The familiar image of the giant manufacturing or mining compound, surrounded by its own ancillary services
will become increasingly out of date in the 1990s. Many future manufacturers will prefer to look outside the company for any service which they can obtain more cheaply - thus providing new opportunities for smaller service MNCs."

The attitude in developing countries towards big business in general and foreign multinationals in particular has also been one of change, certainly ambivalence over the years. In the 1950s and 1960s when large-scale modern industries were seen as the key to rapid economic development, the MNEs were welcomed with open arms. By the 1970s, the mood had completely changed. The MNEs came to be seen as ruthless exploiters of the vulnerability of the Third World, taking much and contributing little. A UN organisation was established in New York - the UN Centre on Transnational Corporations (UNCTC) - to deal with this international problem. Great attention was given to the development of a code of conduct to protect developing countries from the overwhelming power of the MNEs. Other international organisations, such as the ILO and OECD, likewise adopted instruments concerning the activities of MNEs in 1977 and 1976, respectively.

During the 1980s the pendulum has swung again. Developing country governments have once more come to value, albeit with considerable caution, the substantial economic and technological contribution MNEs can make. Regulation has replaced expropriation - from a peak of 83 expropriations in no less than 28 countries in 1975 to only one in 1985. The MNEs in their turn have also recognised that they have wider social, environmental and political responsibilities than just to themselves and their foreign shareholders. Many now appreciate that they must make a more extensive contribution to local development which at the same time is consistent with their long-term business objectives. In consequence, a number of MNEs have begun to show interest in assisting SSEs, especially where they feel they have relevant skills and resources to offer.

Another important change during the last decade has been a significant increase in the number of MNEs from the more industrialised developing countries and areas - Brazil, the area of Hong Kong, India, Republic of Korea, Singapore and Taiwan, China. They have successfully established operations in developing countries, initially usually within the same region, e.g. Tata in Malaysia, and later outside, for example Birla in Africa. These MNEs offer particular advantages to their developing country hosts (in comparison with their First World counterparts): lower capital costs; their use of more appropriate, labour-intensive technologies suitable for smaller markets; often a better understanding of the political environment as well as of local market conditions; and lower management costs.

In addition they often have more experience in setting up linkages with local companies (having done so at home already). This contrasts with the attitude of First World MNEs, for example in Kenya. Their subsidiaries, according to one study, whilst theoretically not opposed to utilising local sources for material inputs, did not seek out local suppliers nor did they contribute to the development of local sourcing. This was either because local managers were ignorant of what might be obtained or generated locally, or because such activity was not considered by them to fall within their normal terms of reference.
5. General findings

Before looking in detail at the areas of collaboration between MNEs and SSEs, it is useful to note some of the general findings.

First, the diversity of ways in which MNEs are collaborating with or supporting SSEs is surprisingly extensive - four major areas with a total of more than 20 categories - as described below. As already mentioned, one of these major areas is of course subcontracting which is generally perceived to be the only significant area of collaboration. In all four areas the variety of inputs an MNE can make to an SSE are extraordinarily comprehensive, far wider - and often more precisely targeted and cost effective - than the many inputs provided by government organisations responsible for small-enterprise development.

Second, there is the question of motivation - why do MNEs work with SSEs at all? Their reasons for collaboration vary widely:

- cheaper raw materials, components or spare parts;
- reduced (or non-unionised) workforce;
- reduced capital investment;
- flexibility in production;
- increased sales and market penetration;
- customer relations;
- employee relations;
- social (local community) responsibility;
- enhancing public awareness;
- improving the company's public image;
- humanitarian reasons;
- government relations;
- government incentives and legislation;
- shareholders' concerns.

Almost invariably the motives behind any collaborative scheme are mixed. The great majority of MNEs, however, take the position that there must be a significant degree of direct financial and/or commercial benefit.

It is also notable that there is a wide divergence of attitudes amongst MNEs towards collaboration with SSEs. Whilst significantly greater in Asia than in Africa, the degree of collaboration appears to be quite independent of the nature of the business, whether in capital goods or consumer goods, whether employing high technology or (relatively) low. There are certain MNEs which take a particularly supportive position towards SSEs, collaborating with them in many different and imaginative ways. A number of such MNEs have a long-standing (founding father related) corporate philosophy of social responsibility - such as Bata, Birla and Tata - but in India in particular such an attitude is not just confined to the "old" companies.
6. Areas of collaboration

The ways in which MNEs can collaborate with SSEs in developing countries to their mutual advantage can broadly be grouped into four areas relating to the company's:

- **Input Requirements**
- **Sales**
- **Local Environment**
- **National Environment**

Each of these areas is discussed below. Examples are given of the different categories of collaboration that have been identified.

A. Input requirements

Any large company has extensive and varied input requirements for its operations. These may be met from a variety of sources but some MNEs take the explicit decision, whether voluntarily, under pressure, or as a result of inducements, to draw on the services of small suppliers or subcontractors. This is the best known area of collaboration between MNEs and SSEs about which much has been written and which in consequence is seen by many as the only form of co-operation. Basically there are six types of goods or services which SSEs can supply to a MNE:

- **Raw Materials**
- **Components**
- **Semi-Processed Goods**
- **Finished Goods**
- **Spares**
- **Services**

Many examples of each of these types can be given. However, the cases given below generally involve more than straightforward subcontracting.

A.1 Raw materials

- Nestlé in Sri Lanka has organised the supply of milk from some 12,000 registered farmers in three districts. They have organised themselves into local co-operatives which are responsible for the operation of 400 collecting points (CPs) donated by Nestlé. The milk - approximately 100-200 litres/day - is brought in by the individual farmers on bicycle, bullock cart, etc. to the CPs which comprise: a small building, basic testing equipment and a number of churns. The co-operatives then organise transport to 12 chilling plants each handling between 2,000-5,000 litres/day: these are owned by a government parastatal but Nestlé is responsible for management and maintenance. From these plants the milk then goes to two factories for processing into various milk products.
In order to ensure the regular supply of quality milk, Nestlé provides extensive technical and financial assistance to the farmers through 18 full-time extension officers. This includes: breeding of improved cows; assistance in the establishment of fodder plots; the construction of wells and feed pits; the development and introduction of a biogas plant suitable for 4-6 cows producing sufficient methane to save a minimum of Rs.200/month in kerosene; and cattle feed concentrate. In exchange for this assistance, according to Nestlé, there is a gentlemen's agreement that the farmer will sell his milk to Nestlé through the collection points and chilling plants.

A.2 Semi-processed goods

- Also in Sri Lanka, the Ceylon Tobacco Company (CTC - part of British American Tobacco) obtains its tobacco leaf from a national network of independent smallholder farmers. The bulk of the leaf bought by CTC is flue cured in some 2,500 small barns owned and operated by the smallholders. To promote forest conservation and reduce soil erosion, CTC has introduced an improved design of a barn with a multi-flue system which is estimated to save 50 per cent of the wood fuel required by the traditional barns.

The design of the barn itself is such that its construction and maintenance also provide work for rural artisans. The details of the improved design are supplied to local tinkers (metalworkers). They make and install the metal components under the supervision of a CTC field officer, the costs being met by the smallholder, usually from credit made available by CTC.

- In Guatemala, Nestlé has provided technical assistance to a village co-operative processing and marketing fresh and dehydrated vegetables both for export and local consumption. Nestlé assistance included: advice on the purchase of equipment; three months' in-house technical training for the co-operative manager; help in setting up a micro-biology laboratory including staff training; and the supply of plastic bags at bulk discount prices.

A.3 Components

- In India the local affiliate of Philips has been operating a "Partners in Progress" programme for almost as many years as the company has been operating in India. Currently there are 1,600 small-scale suppliers with an aggregate turnover of Rs.900 million, in total employing some 60,000 people. Philips philosophy of "co-makership" includes the following objectives:
  - improvement of product quality;
  - greater flexibility to react to market demand;
  - shorter delivery times;
  - faster product adaptation;
  - decrease of stocks;
  - lower integral cost price.
These units receive a wide range of assistance including financial planning, accounting, personnel administration, negotiation for bank loans, research and development of new product lines, training for new production techniques and the purchase of raw materials in lots to take advantage of price breaks.

- In Sri Lanka, Bata makes extensive use of local small firms. For example, wooden heels and shoe-uppers are made by external subcontractors, the hand trimming of the mass-produced thongs (12,000/day) for sandals is done by outworkers (at 500/day) as is the silk-screening of pictures on some models of shoes.

- Siemens in India has a systematic "vendor development programme" designed to improve the capacity of ancillary units and suppliers to meet specifications and quality standards. The company has over 1,000 suppliers, mostly small enterprises, and employs engineers specifically for the purpose of vendor development. Assistance provided includes development of product design and production techniques, technical training, production supervision, tool room assistance and quality testing. Training of suppliers has included visits to the Federal Republic of Germany for advanced training.

A.4 Finished goods

- In Brazil, Colombia, Mexico, Peru and Venezuela, Sears Roebuck has assisted hundreds of SSEs to expand and improve their production. In order to assure sufficient supplies of quality merchandise for its stores, Sears has provided assistance in production planning, product development and various types of technical financial and management skills. As a result most if not all of the goods sold today in Sears stores in Latin America are locally made or have a high local content.

- Glindia, formerly Glaxo Laboratories (India), has in recent years begun marketing several new products manufactured by independent small/medium-size companies. Most of these products are based on the group's original research and are manufactured with Glindia's know-how. The design of the manufacturer's building, plant, equipment and facilities are upgraded to meet Glindia's standards. Glindia's technical personnel supervise manufacture through regular visits and a quality controller is stationed at the plants. In 1985-87 purchase of finished products from such manufacturers totalled Rs.180 million.

- International Computers Indian Manufacture (ICIM) - 40 per cent equity owned by ICL of the UK - has recently entered the personal computer market in India. These are being produced by a small enterprise to ICIM quality specifications and under the supervision of two of the company's production engineers. The reason behind the decision to contract out production of PCs is because of the highly competitive nature of the market. The excise concession of 10 percentage points to small enterprises whose annual production is less than Rs.75 lakhs constitutes virtually the entire margin on the sales of ICIM's PC. However, changes in the excise rules in the 1988-89 budget have resulted in withdrawal of this concession and are likely to lead to larger computer companies establishing their own production lines.
A.5 Spares

- Some years ago, initially as an exercise in public relations and social responsibility, Exxon in Argentina decided to obtain a proportion of its spares requirements from SSEs. After initial difficulties in meeting the quality specifications - solved by judicious inputs of technical assistance - the small enterprises proved to be able not only to meet many of Exxon's needs for spares but at a lower overall cost than the company had previously incurred. The contracts for the supply of such spares now go out to tender regularly every three years.

- In Sri Lanka, the Ceylon Tobacco Company came to recognize that importing all its spare parts requirements (some 4,000 items in total) made little commercial sense. Not only were substantial funds tied up in stocks but access to the necessary foreign exchange could become a problem. Initially production of selected items was undertaken by CTC itself but this was found to be too expensive. In 1984, therefore, the company started to contract spares production out to small/medium-size local engineering companies (with technical assistance being provided by CTC). The target is to have 50 per cent of spares made in Sri Lanka by 1990.

A.6 Services

- There are innumerable opportunities for small enterprises engaged in medium/low technology service activities to meet the requirements of the MNE. Printing and packaging are two of the most common areas but there are many others such as cleaning, catering, laundry, refuse disposal, construction, etc.

- ITC Ltd. in India (formerly the Indian Tobacco Company, 32 per cent of the equity of which is held by BAT Industries, UK) has grown into a highly diversified company involved in tourism, paper production, edible oils, handknotted carpets, etc. Arising out of its corporate philosophy of industry as "an organ of society specifically charged with the responsibility of organised economic advance through making resources productive", ITC has sought to draw on the services of local SSEs for many of its operations. For example, the hotels division has promoted the growth of small firms offering taxi services and small shops for the sales of handicrafts and other tourist items. Similarly, ITC's paper-making subsidiary in Andhra Pradesh has deliberately sought to trigger multiplier effects by the establishment of small-scale transport and engineering workshops as well as lime kilns and sawmills.

B. Sales

The second major area of collaboration is where an MNE seeks to increase its total sales by one of two different routes:

- utilising the services of small-scale entrepreneurs to market their products or services and to undertake a variety of after-sales functions such as repair, maintenance and systems upgrading ("SSEs as agents");

- selling their existing products (or services) more extensively to SSEs as consumers, or, in rare cases, by specially developing and then marketing new products aimed at SSEs ("SSEs as consumers").
The different categories include:

### SSEs as agents

<table>
<thead>
<tr>
<th>Licensing</th>
<th>Distributing</th>
<th>Retailing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Franchising</td>
<td>Dealing</td>
<td>Servicing</td>
</tr>
</tbody>
</table>

#### B.1 Licensing

- In Venezuela, a small company, Quimicos de Seguridad, producer of consumer automotive chemicals, negotiated mutually beneficial licence agreements with two United States multinationals - Dow Chemicals and the Hollingshead Corporation. For example, when Quimicos decided to make brake fluid for distribution under the Mobil brand name, Dow Chemical, its potential source of raw materials, agreed to provide product formulations, extended credit terms and engineering advice in purchasing equipment.

Quimicos large transnational local customers permitted entry into a highly competitive market with assured sales and their short payment terms provided needed cash flow. As a result, Quimicos benefited from a more rapid growth and profitability than would have been the case without the MNEs. They in their turn also benefited: Hollingshead maintained a lucrative market as Venezuelan import substitution policies made exporting from the United States difficult; Dow Chemicals saw Quimicos become one of their largest customers in Latin America.

- In India, Siemens has licensed a number of Indian entrepreneurs to produce telephones based on Siemens' technology. Eight of the original 14 licensees are currently in operation and four of these are reported to be small enterprises. Though the licensing agreement is with the German parent company, Siemens AG, Siemens India provides training and technical assistance and monitors quality on behalf of the former. Significantly, the motivation behind Siemens' policy of granting licences was the refusal of the Government of India to grant an industrial licence for the manufacture of telephones by a company with more than 40 per cent foreign equity.

#### B.2 Franchising

- Franchising is a type of contractual arrangement, up until now widely used by United States enterprises to distribute brand-name products or business services under licence. Originally limited to North America, 156 United States franchisors with 3,365 outlets abroad in 1971 had increased to 342 franchising companies with over 30,000 franchises in foreign countries by 1985. However, more than four-fifths of these foreign franchising outlets were located in industrialised countries.
Little data are available on franchising operations headquartered in other industrialised countries or on the operation of franchises in developing countries - although the potential is certainly there since almost every aspect of personal or business services lends itself to franchising (e.g. restaurants, car rentals, service stations, soft-drink bottlers, hotels, etc.). A recent UN report observes that "although large companies in virtually all industries have franchising relations abroad, franchising is a particularly convenient way for small and medium-size enterprises to enter foreign markets. Many (if not most) of the new entries are, in fact, undertaken by latter group of companies".

B.3 Distributing

In many developing countries Unilever has sought to provide comprehensive support to its local distributors. In Malawi, for example, adopting a system well tried and tested in Nigeria and India, Lever Bros. has established the Lever Nuclear Distributor network. Each carefully selected distributor is appointed to serve one of a number of zones in the country. He must provide his own two tonne van of a suitable size for negotiating the roads leading to some of the more remote shops in each zone.

The distributor acts as an agent of the company, running his own business under the supervision of Lever Bros. The company's salesmen visit the distributors regularly. Lever Bros. also ensures that the distributors keep proper accounts and run the business in an efficient manner. According to Lever Bros. chairman "a knock-on effect of the scheme has been to assist in the creation of a cadre of Malawian small businessmen".

International Computers Indian Manufacture (ICIM) entry into the market for personal computers has necessitated the appointment in the major towns of distributors who, by and large, are computer buffs rather than commercially experienced entrepreneurs. ICIM is therefore providing commercial training and informal counselling to these new distributors to develop the necessary business skills. The company believes this route is better, in terms of sustaining the company's reputation as well as promoting sales, than trying to provide know-how about computers to established distributors.

B.4 Dealing

Goodyear in India provides systematic training to their tyre dealers in better inventory control, purchasing, record-keeping and product promotion. Goodyear sales staff are also trained to be business counsellors to tyre dealers.

B.5 Retailing

Starting in the Dominican Republic, American Express financed the development of a training programme for personnel from small firms engaged in the tourist sector, e.g. local hotels, restaurants, car rental companies, tourist shops, etc. The American NGO, Partners of the Americas, developed the programme including seminars on planning strategies, promotion, marketing, leadership skills, staff motivation and processing credit cards and travellers cheques. So successful was the programme, and the resultant increase in tourist revenues, that the Government agreed to a more favourable exchange rate for credit card
purchases. The programme has now been extended to many other countries in the region including Brazil, Mexico and Venezuela.

- MNEs involved in the manufacture and marketing of consumer products have sought to assist retailers and promote retail sales in many creative ways. For example, in Sri Lanka during the early 1980s, the Ceylon Tobacco Company introduced a scheme to assist street vendors selling cigarettes. Youths were selected and trained; stationery street stalls, handcarts and tricycles were designed and produced; and loans for their purchase by the trained salesmen negotiated through the Peoples Bank. Under the pilot scheme over 300 youths were trained in collaboration with the National Youth Services Council.

- In India, whilst Bata is best known for its chain of retail shops, more than 50 per cent of sales are now accounted for by sales through the agency system. In this system, entrepreneurs provide premises and sales staff while Bata provides the stocks and trains the sales staff. The motivation behind this change is that the company's unionised retail staff are highly paid and also have been found by marketing surveys to be lacking in motivation.

- In India, ITCs marketing chain reaches deep into the rural areas through a network of some 30,000 wholesalers and 100,000 retailers. In the southern region, the company has augmented the business of the retailers as well as serving a social interest by undertaking the marketing of condoms.

B.6 Servicing

- In the high level technologies, many new opportunities are now developing. In India, the process electronics division of ASEA in Bangalore has a substantial software function in designing new and innovative user applications for industries such as sugar, cement, paper, packaging and petrochemicals. ASEA trains engineers from small maintenance firms established by people with experience in these industries. In a few cases ASEA's own employees have left to form small specialised service firms.

- International Computers Indian Manufacture (ICIM) uses the services of SSEs in many ways, not least in support services to customers. The company has a system of direct contracts with small consultancies for the supply of product development services to the company and for the provision of software services to ICIM's customers on behalf of the company. Many of these contractors are ex-ICIM employees.

SSEs as consumers

| Capital Goods | Intermediate Goods | Services |

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B.7 Capital goods

- Alfa Laval, the Swedish multinational, is selling food processing equipment specially designed for the small-scale producer. Starting in the early 1980s, with modest financial assistance from SIDA, the company developed a mini-dairy with a daily capacity of some 2,000 litres. Up to 1987, Alfa Laval had sold some 450 of these units, of which 135 were to developing countries. Other equipment now being developed and marketed includes a small-scale jam processing plant and a solar powered refrigerator for small-scale producers.

- In Mexico, Brazil, Egypt and Jamaica, the Singer Company has assisted cottage industry development. Sales representative identified the opportunity to expand their sales in rural communities where existing hand-crafted, embroidered and knitted goods were produced. The company helped to establish new cottage industries by adapting Singer machines to local embroidery and knitting skills, training village women in the use of the machines and providing generous credit terms.

- Ingersoll-Rand (India) has devoted considerable effort designing drills for a variety of rural conditions and applications together with UNICEF engineers. These drills are purchased not only by UNICEF for use in water programmes in India and Africa, but also now by local entrepreneurs providing a drilling service in rural areas.

B.8 Intermediate goods

- In Bangladesh, the local affiliate of British Oxygen, manufacturer and distributor of welding equipment and industrial gases, set up a training centre to conduct courses on gas and electric welding for local metalworkers. According to the company, "the response from aspiring welders was overwhelming. This training facility has filled in a gap in practical training in the country and will enable the company to develop welding skills for the benefit of local industries".

- In Sri Lanka, government controls over the price of bread made it unprofitable for small bakers to make standard loaves. Consequently they were buying less of the bakery fats supplied by Lever Bros. (Ceylon). The company launched a programme to assist the small bakers (over 2,100) by: inviting three bakery specialists to visit Sri Lanka; helping the bakers to widen their product range into items such as buns and cakes on which they could make higher margins; assisting the bakers with improved merchandising material and more aggressive marketing techniques; and setting up a bakery training school and model bakery - complete with more efficient ovens of both the traditional type and a new design.

- ICI of India has undertaken intensive efforts in educating and training users of its products. For example the fertiliser division, has trained farmers in the use and application of urea; the plastics division had a manufacturing unit where SSEs were demonstrated and taught the application of consumer products; and the fibre division now has a small textile mill where customers are given demonstrations on proper blending of fibres and finishing of textiles.
B.9 Services

- In Botswana Barclays Bank initiated a programme to assist SSEs and thereby in the long term gain additional customers. Local branch managers were induced to overcome their traditional reluctance to make loans to SSEs by the provision of a partial guarantee of such loans from Barclays Development Fund. The managers were able to use their local knowledge to assess the viability of new projects put forward by local entrepreneurs but were also able to be more relaxed in their usual stringent requirements for collateral with the partial guarantee available from the Development Fund. More recently, both in Zimbabwe and Kenya, Barclays Bank has set up a Small Enterprise Department to deliver the bank's services more effectively to SSEs.

C. Local environment

MNEs are increasingly conscious that they have a wider responsibility for those working and living within their local environment than strict commercial interests might suggest. Those initiatives which have been identified may be grouped into the following categories:

Employees    Community    District

C.1 Employees

- Zambia Consolidated Copper Mines (ZCCM) has set up a separate entity, Copper Mining Enterprises Trust (COMET), to develop a programme for redundant and retired employees who have to leave the company because of the depletion of ore reserves. The intention is to identify and develop business opportunities in the manufacturing, small-scale mining and agro-related industries. For example, within the manufacturing sector, the considerable requirement of spares, machined parts and consumables by the mines offers a substantial captive market.

The business opportunities identified are being developed into small business packages including setting up the businesses and continuing to support them by giving business advice, counselling, assistance with administration and book-keeping, etc. According to ZCCM "the most crucial factor in the entire scheme will be the selection of people who can develop the ability to succeed in (small) business".

- Ingersoll-Rand (India) assists employees to establish independent units for the manufacture of components and sub-assemblies for the company's products. Machine tools, regarded by the company as obsolete, are provided at book value along with firm orders and buy-back arrangements, as well as technical assistance in establishing production. This is a mutually beneficial way of reducing the workforce without risking industrial or legal action.
C.2 Community

A number of India's indigenous multinationals demonstrate a unique sense of responsibility to the communities in which they operate. Tata Steel, for example, launched its Community Development Programme in 1958 which now affects the lives of over 200,000 people in Jamshedpur, the unique "Steel City" in Bihar. According to J R D Tata, the original inspiration behind Jamshedpur, "Every company has a special continuing responsibility towards the people of the area in which it is located and in which its employees and their families live".

Amongst the many activities promoted by the Tata Steel Rural Development Society are self-employment training schemes for boys and girls. These include courses in masonry, motor mechanics, scooter repair, welding, electronics, typing, sewing and embroidery. Rural industries are also encouraged so that traditional skills and craftsmanship may be deployed to augment the family income of landless people. Ongoing schemes include cane furniture making, cocoon rearing and tussar silk weaving.

- Bata in India has established four training-cum-production centres in West Bengal for rural unemployed youth in collaboration with local NGOs. Bata provides the trainees with: skills in the production of footwear; raw materials; designs; simple equipment; and marketing facilities through the company's discount stores. The objective is that the successful trainees will continue in shoe production as entrepreneurs who in turn will employ others.

C.3 District

- In Malawi, textile producer David Whitehead of the MNE Lonrho, has provided the services of its engineers (at cost) to small local firms in Blantyre. The first time was to a Malawian who had bought a container load of machinery from Taiwan, China to make shoe laces for the local market but without the technical know-how to set it up and commission the mini-plant. The second was a similar case where machinery to make bandages had been acquired but the local investors could not agree on how to establish production. Both units are now in commercial operation.

- Birla in India have played a leading role in establishing the Small Industries Research and Development Organisations at four field centres at Ranchi, Allahabad, Pilani and Bhimtal. Probably the best known is that at Ranchi in Bihar which operates closely with the local university, the Birla Institute of Technology (BIT). Engineering graduates are encouraged to set up new small-scale enterprises in the electrical and mechanical fields to meet demand from local medium- and large-scale companies. BIT/SIRTDO provide assistance to alumni not only in the technical fields but also in securing orders, obtaining finance and business management.

D. National and international environment

In a similar manner to the above, certain MNEs seek to make a wider contribution to SSEs on a national or even international level. They provide technical or financial assistance to SSEs, directly or indirectly, usually
with no immediate benefits to their own business activities. The main categories of assistance are:

- **Technical**
- **Financial**
- **Institutional**

### D.1 Technical

- At the national level in Sri Lanka, Ceylon Tobacco Company has sought to make its expertise in agricultural development and cultivation available to quite different target groups than just the tobacco farmers. One scheme that the company started up was the cultivation of orchids by individual growers. Initially 500 growers were selected, assisted with making applications for bank loans, supplied with orchid plants and trained in their cultivation. CTC then organised the sales of the grown orchids on the export market.

The pilot scheme was so successful that it was decided to extend it to 2,000 growers. Unfortunately, the growers failed to maintain the necessary regular care to their plants, and make the constant improvements required. As a result, the quality of the orchids offered for sale became very variable, the foreign buyers lost interest and the banks were faced with a number of bad debts.

- At the international level, BP Seltrust, a part of British Petroleum, agreed to provide a total of 24 work-months' free consultancy time to a United Kingdom-based NGO, Intermediate Technology Development Group. On the first assignment under this arrangement, a senior staff member of BP Seltrust completed a detailed feasibility study for a small-scale talc mining and processing operation in Kenya.

### D.2 Financial

Financial donations are made by all MNEs to a wide variety of worthy causes, national and international. There are numerous ways in which such donations have benefited SSEs, in particular instances because of constraints on the conversion of local currency into foreign exchange. Examples include:

- An American bank, Chase Manhattan, turned over blocked funds in Guyana to a United States NGO, the Pan American Development Foundation, to support a local institute for small business.

- The Urban Foundation in South Africa receives financial contributions from a variety of large corporations operating in South Africa, including MNEs such as Mobil and BP (which had until recently explicitly rejected pressures to disinvest from South Africa). One of the activities of the Foundation since 1978 is small-enterprise development.

- From Switzerland, a group of large companies headed by Eternit, have set up Fundes, a not-for-profit financial institution which is active in Central America. In Panama, for example, Fundes has assisted SSEs through a credit guarantee scheme.
D.3 Institutional

There are an increasing number of instances where MNEs and large companies operating in particular developing countries have joined together to form umbrella institutions with the specific objective, amongst other goals, of helping SSEs on a national basis:

- The Kenya Management Assistance Programme (K-MAP) is a voluntary non-profit organisation set up by members of the Kenya business community - approximately 90 large and medium-scale companies including Unilever, Beecham, B.A.T. Kenya, Ciba Geigy, Nestlé, ICI, etc. The objective of K-MAP is to enable those members of the business community who have achieved a reasonable degree of success to pass on some of their knowledge and experience to struggling small-scale formal businesses.

- In Zimbabwe, the International Enterprise Foundation of Zimbabwe has recently been formed by some 35 major companies. The intention is that members will provide technical, marketing, administrative and financial know-how to local business people.

- Philippine Business for Social Progress (PBSP) is a similar organisation supported by large business interests - some 120 companies, among them MNEs such as Dow Chemicals, Morgan Guaranty, Shell, IBM, Citibank, Phelps Dodge and Thomas Cook. PBSP has been established for many years and runs an extensive programme providing assistance to SSEs all over the Philippines. In 1987, PBSP estimated that its assistance generated approximately 18,000 jobs among the target beneficiary groups, and generated or expanded over 7,000 enterprises.

7. Future action

Out of the experiences of collaboration between MNEs and SSEs, there are a number of lessons for future action to promote more extensive linkages. Such action can best be undertaken, individually or in collaboration, by: government; MNEs; SSEs; and donors.

7.1 Government

National governments are, with reason, wary about the employment effects of MNEs. In most instances, the primary direct effect, i.e. employment by the MNE itself, should be positive. In addition, one would normally expect the primary indirect effect, e.g. additional employment created as a result of subcontractors supplying goods or services to the MNE, also to be positive. However, this may not necessarily be so.

As Watanabe illustrates "the entry of a multinational plastic shoe manufacturer may destroy considerable job opportunities not only in the leather footwear industry but also in the industries related to it through backward linkages (tannery and cattle raising)". He further goes on to make the point that "even the direct employment effect can be negative if the MNE's entry takes the form of a take-over of existing local firms, and leads to the dismissal of employees as a result of rationalisation".

In order to ensure that the primary, and secondary, indirect employment effects of an MNE are positive, government has a major potential role to play in stimulating MNE/SSE collaboration. One of the first requirements is that those responsible for creating the policy environment for SSEs should take a completely different attitude to MNEs. Rather than looking at them as implacably hostile to the interests of SSEs, as is the view in many countries.
especially in Africa, they might adopt a more positive perspective, considering MNE as potentially significant and beneficial partners in SSE development. This is not suggest that the actions of MNEs are always beneficial to SSEs - far from it - but by taking the conventional position of hostility, a number of opportunities for fruitful collaboration will be missed.

As a start, the government institution responsible for promoting SSEs could mount a workshop at which the following topics would be discussed:

- in-country cases of MNE/SSE collaboration which have taken place or are currently in operation;
- potential areas of collaboration as well as barriers to such collaboration;
- measures necessary to induce greater collaboration and safeguards against exploitation.

Such a workshop would not only indicate the government's interest in a more constructive relationship between MNEs and SSEs, it should also help to identify practical ways of promoting more extensive and effective collaboration.

In practical terms, there are two different types of measures a government can take to stimulate MNE/SSE collaboration - the "carrot" and the "stick". In respect of the former, there are various fiscal inducements which might be considered such as:

(a) Excise, Sales Tax or VAT - India has a policy of encouraging large companies in general to buy from SSEs by allowing small companies with a turnover of less than 15 lakhs 100 per cent exemption on the excise tax payable (ranging from 10-30 per cent depending on the product) and those with a turnover of less than 75 lakhs 50 per cent exemption. Not only does this make the products of such companies significantly lower cost on the open market but in addition the government provides a further inducement to the larger companies to buy from the small by allowing them to claim the full non-exempt cost, i.e. as though the small companies had charged the full tax, as an allowable expense against profits.

(b) Training Levy - In a number of countries, e.g. in Kenya, the Government charges firms a training levy according to the number of employees in the company. The company is then allowed to offset the agreed costs of approved in-house training for its own staff against this levy. If this provision was extended to training the employees of independent SSEs with whom the company might have (or thereby be encouraged to have) some commercial relationship, this could be a useful mechanism to encourage skills development and technology transfer to SSEs.

(c) Allowable Donations (Cash) - In some countries, there is provision to allow companies to make financial donations (up to a stipulated maximum of the annual gross profit) to charities as an allowable expense against profits tax. Mechanisms could be devised whereby companies are allowed to make such donations to approved NGOs engaged in bona fide income-generating programmes, especially targeted perhaps at microenterprises in the urban and rural areas where the MNEs themselves can offer little direct assistance.
(d) Allowable Donations (Kind) - Another variant of this might be a mechanism to encourage larger companies to make available their professional staff to SSEs for specific assignments, e.g. in establishing a proper stock control or inventory system, quality control, marketing, etc. This might best be handled through an approved charitable intermediary such as the Kenya Management Assistance Programme (K-MAP) cited above. The mechanism might be similar to that described for the concession on excise tax in that the company could charge an additional percentage of the professional's total costs as an allowable expense against profits, i.e. rather than 100 per cent it might be allowed 150 per cent.

Such inducements as these may in themselves be minor to the MNEs although not to the SSEs. They may also have the disadvantage of being difficult, as well as involving some costs, to administer and police. (There is also the possible problem that any sort of tax concession to MNEs might be viewed as politically unacceptable, given the general attitude to multinationals.) However, they could achieve the primary objective of making large companies in general, and MNEs as the corporate leaders in particular, aware of the importance attached by government to working with SSEs. They could also induce MNEs to make that additional effort to work with SSEs and find, possibly to their surprise, that there are real cost advantages.

The other type of measure available to government is of course the "stick" of licensing and registration procedures, laws and regulations. Again, India has deployed such measures extensively. For example, hundreds of specific products are earmarked for sole production by SSEs. Similarly extensive use is made of licensing procedures in order to promote linkages between large and small companies (licences are needed not only for initial investment but also for expansion, changes of product lines, mechanisation and diversification). However, the long-term effects of such measures are hard to predict. For example, Sanjaya Lall argues that "attempts to hold back the progress of market-determined economic transformation may, over the long term, lead to a diminution of employment opportunities rather than the preservation of employment".

In a similar, potentially more drastic vein, Kenya has recently introduced legislation the major overt concern of which is to protect the consumer against monopolies and constraints on trade. Amongst other provisions in the new law, however, the Monopolies Commissioner has the power to constrain the downstream, e.g. distribution and retail, activities carried out by large manufacturing companies outside the factory gate. The intention would appear to be require the larger companies to pass over more of such functions to African small- and medium-sized businesses. Needless to say the MNEs are far from enthusiastic about this provision and it is again difficult to foresee what the long-term economic and social impact might be.

One specific case where a national government has imposed an overall constraint with important implications for SSEs is that relating to Bata in Sri Lanka. The Government, through the Ministry of Industry, has specified that Bata cannot manufacture in-country more than 35 per cent of the total footwear produced in Sri Lanka. The apparent objective behind this piece of legislation is to allow other medium-scale local manufacturers to survive. However, since this constraint applies only to manufacture rather than sales (possibly because in Sri Lanka the Ministry of Commerce is quite separate from the Ministry of Industry) Bata has developed other ways of supplying more shoes than the company itself manufactures in order to capture a larger share (than 35 per cent) of the market demand through its retail outlets.
One of these ways is to engage SSE "contract footwear suppliers" to produce small batches of shoes of different designs, including quality products having high margins which it is uneconomic for Bata itself to produce. In total, 28 suppliers, each employing between 5-35 workers, produce 7,000 pairs of shoes a week compared to the Bata factory's 120,000 per week. These SSEs have a lower degree of mechanisation than the Bata factory but some of the craftsmen employed have higher skills than Bata's directly employed skilled workers and in some cases, according to Bata management, receiving higher pay than the best rates in the factory.

The above example is a reminder that one of the roles of government in encouraging greater MNE/SSE collaboration must also be to safeguard SSE workers against exploitation. This is an issue which has aroused considerable concern in many countries. The increasing power of the unions in large factories, notably in India, has inevitably triggered a reaction from the MNEs. It has led directly to companies seeking to contract out to SSEs and outworkers for products and services previously provided by company employees (who usually happen also to be union members). But the competitive rates offered for such contract work, and the almost total lack of "job" security, may not be beneficial to those SSE/outworkers in the long term, not to mention those employees who have lost their jobs in the company.

There is also another role for government, namely that of an intermediary, facilitating collaboration between MNEs and SSEs. For example, in the Philippines, government-controlled vocational training centres offer plating and other services to SSEs, thus enabling them to work as subcontractors for MNEs involved in automobile assembly. Co-operation by government organisations and other local institutions, such as the University of the Philippines Institute for Small-Scale Industries, actively to support SSE collaboration with MNEs is likely to be more conducive to success in the long run than mere regulations demanding such efforts.

7.2 Multinationals

The MNEs are unquestionably the key actors. Without their active willing participation, there can be little collaboration between MNEs and SSEs. From the experiences outlined above, there are four key lessons.

First, MNEs by their very nature enjoy a peculiar combination of power and vulnerability in developing countries. It is this combination, or contradiction, which makes them different from large local companies whilst at the same time enhancing their importance as "role models" for other companies. As discussed above, the general attitude towards MNEs is more positive than it has been for some time. They are still viewed with wary suspicion but the positive contribution they can and do make to economic, and technological, development is generally recognised.

One of the reasons for this change in attitude is because in recent years MNEs have shown a sense of wider responsibility to society as a whole. But they remain vulnerable. The pendulum could well swing again and the political environment could change. One of the ways of avoiding such a swing is by showing that they can make a significant contribution to job creation as well as to economic and technological development. Since SSEs are seen by many governments as one of the prime routes to creating further employment, any MNE making such a contribution is likely to reap political benefits.

Second, MNEs must be informed and motivated to be much more imaginative in identifying ways in which they can support or collaborate with SSEs. As the framework above indicates, there are many more opportunities than the great majority of MNEs realise. Such linkages should not be viewed purely as an act
of social conscience. A company can really benefit, perhaps financially in terms of lower costs, perhaps in terms of increased sales, as well in terms of political credit, by working with SSEs. Indeed the great majority of cases of successful, sustained, MNE/SSE collaboration show that one of the primary reasons must be financial gain.

Third, if any initiative in SSE collaboration is to be successful, experience shows that it must be an explicit and corporate decision. Specifically an MNE must: (a) clearly define the hierarchy of reasons why such an initiative is being undertaken; (b) which department has the primary responsibility for its execution — e.g. corporate planning, public affairs, purchasing, marketing, administration and training; and (c) what obligations other departments have to support the initiative.

There have been instances where an MNE decides to employ its in-house technical or commercial skills to assist SSEs, but perhaps not in its main line of business. The motivation is usually to improve its public image and/or government relations. However, when the inevitable problems start to appear, the sustained inter-departmental co-ordination and motivation may not be there to identify and apply the necessary solutions. The scheme collapses and the impact is the reverse of what was originally intended.

In some of the most successful cases, a specialist department is set up to handle collaboration with SSEs. This recognises a key factor — that they have special problems requiring special handling. For example, one major company in India, Tata, has a separate "Ancillary Development Department" with the function of locating new suppliers and developing them until they become regular suppliers. This department is responsible for screening of applicants, providing technical, managerial and sometimes financial assistance and bringing products up to the rigorous standards demanded. It can take many months if not years to bring suppliers to requisite standards and only then will the department hand over the supplier to the regular procurement department.

In a totally different environment, this is exactly what Barclays in Zimbabwe is seeking to do with their new Small Business Department established in late 1988. Barclays recognises that SSEs have different requirements compared with their traditional, larger, commercial clients and therefore need additional inputs (with the additional costs involved). The primary motivation in the short term may therefore be social responsibility and public image; the long-term rationale is new clients and more business.

Fourth, there is the problem of management competence and familiarity. Whilst MNEs may in principle be willing to work with SSEs, they find it difficult to translate that interest into reality. Staff brought up in the environment of a large corporation are not familiar with SSEs, do not appreciate the constraints under which such businesses have to operate, especially in the informal sector and in the rural areas, and in any event do not have the professional motivation to learn. Conversely, SSEs feel they have little in common with MNEs and are constantly fearful of being exploited in some way they may not initially perceive.

As a number of cases illustrate, one solution is to work through an intermediary which can bridge the divide between the two parties. NGOs, especially NGOs from industrialised countries, are in a good position to play this role as is shown by the case of Partners of the Americas and American Express assisting SSEs in the tourist industry in the Dominican Republic. An alternative model is the case of the Kenya Management Assistance Programme (K-MAP) which explicitly seeks to act as a bridge between SSEs in the formal
sector and large companies willing to provide a small proportion of the time of certain professional staff as advisers to individual SSEs.

7.3 Small-scale enterprises

There is little that a single SSE can do on its own to establish ongoing collaboration with an MNE. This is where a sectoral or geographic business association, e.g. of bakers or carpenters or professional women, can play a major role.

Most small business associations, however, are woefully short of funds, because their members invariably seem to find it difficult to pay subscriptions of any substance or with any regularity. Given the increasing attention being paid to the private sector by donors and NGOs, however, it may be possible to secure a financial contribution from such sources, or MNEs, for specific activities - such as establishing long-term collaborative relationships with local MNEs.

An association might then think in terms of seeking to:

- identify and investigate ways in which the members of the association might be able to set up a collaborative relationship with MNEs either upstream, i.e. as a supplier of goods or services, or downstream, as sales agents in any capacity or as end users;

- negotiate with MNEs on behalf of their members to secure long-term contracts for goods or services, including the provision by MNEs of the necessary technical and material inputs;

- lobby government to take appropriate measures to stimulate MNE/SSE collaboration, specifically in relation to fiscal incentives to encourage MNEs to do business with and/or to support SSEs;

- set up, in collaboration with the national federation of industries or manufacturers' association, a professionally staffed unit with the specific full-time responsibility of setting up a mechanism to organise and supervise subcontracts between MNEs and SSEs.

7.4 Donors

Donors can play an important role in promoting collaboration between MNEs and SSEs. For example, within the context of a specific country, a donor could support the appropriate government department, e.g. the Small Business Division in the Ministry of Planning, in developing the optimum policy framework to stimulate greater MNE/SSE collaboration. This could involve a thorough study, perhaps by a local academic institution, of the nature and extent of current collaborative schemes, consideration of possible fiscal incentives and legislative measures to stimulate MNEs to undertake new schemes, as well as investigation of specific cases in other countries (such as those cited above) as to their potential for transfer to the country in question.

Another route is to support NGOs, either local or foreign, to be active intermediaries between MNEs and SSEs. For example, there may be a role such as that played by Partners of the Americas in the American Express case described above where the NGO can provide a specific skill or input such as training. Alternatively, there is always a problem for MNEs and SSEs simply in communicating their requirements and also negotiating terms for any sort of collaborative scheme. An articulate business-oriented NGO could play an
invaluable and possibly ongoing role in providing the necessary bridge between the two parties.

A further option is to support initiatives such as the Kenya Management Assistance Programme, a body such as Philippine Business for Social Progress or the Urban Foundation in South Africa. These have shown that they can do useful work with SSEs and with additional financial assistance could do even more.

Alternatively, there are bodies such as the local Association of Manufacturers or Industry Federation which usually represent the interests of large-scale companies. They may have an interest in stimulating collaboration between large and small companies but, as in the case of the Kenya Association of Manufacturers, do not quite know how to go about it and do not have the resources in manpower or funds for any significant initiative. Such private-sector commercial intermediaries may be more effective than NGOs.

8. Summary and conclusions

There is growing recognition of the crucial role of SSEs in employment creation in developing countries. With the mixed results of the efforts of government and (charitable) non-government organisations in promoting SSEs, this study examines the scope for more extensive collaboration between SSEs and medium/large-scale private commercial enterprises, specifically between SSEs and MNEs as role models for larger companies. This possibility arises because in recent years MNEs have shown a wider sense of responsibility to society as a whole, not least to the countries in which they operate overseas.

Investigation has shown that there are more than 20 forms of collaboration between MNEs and SSEs (see figure). Six of these involve subcontracting - when an MNE obtains goods or services from an SSE to meet its input requirements - this being the most widely known form of MNE/SSE collaboration. The second major area of collaboration is where an MNE seeks to increase its sales, either using the services of SSEs as agents in various capacities or as consumers in their own right. The other forms of collaboration involve MNEs in activities outside their immediate commercial activities which benefit SSEs in their local environment, and at national and even international level.

In all the different forms of collaboration, the variety of inputs an MNE may make to an SSE are extraordinarily comprehensive, far wider - and often more precisely targeted and cost effective - than the many inputs provided by government organisations responsible for SSE development. The motives for collaboration also vary widely but the great majority of MNEs take the position that there must be a significant degree of direct financial or commercial benefit.

It is notable that there is a wide divergence of attitudes amongst MNEs towards collaboration with SSEs. Whilst significantly greater, and more widespread, in Asia than Africa, the degree of collaboration appears to be independent of the nature of the business, whether in capital goods or consumer goods, whether the technology employed is high or low. Amongst the MNEs identified during the study most notable for the variety and extent of their collaboration with SSEs were the Bata Shoe Organisation and the subsidiaries and affiliates of British American Tobacco (BAT). However, in the very great majority of cases, the corporate headquarters of an MNE knew little about the nature or extent of their company's collaboration with SSEs in any one country. It was left to local management to determine policy and develop operational linkages.
AREAS OF COLLABORATION BETWEEN MNEs AND SSEs

INPUTS

RAW MATERIALS
COMPONENTS
SPARES

SEMI-PROCESSED GOODS
FINISHED GOODS
SERVICES

LOCAL ENVIRONMENT

EMPLOYEES
COMMUNITY
DISTRICT

NATIONAL/INTERNATIONAL ENVIRONMENT

TECHNICAL
FINANCIAL
INSTITUTIONAL

LICENSING
DISTRIBUTING
RETAILING

MNE

SALES

FRANCHISING
DEALING
SERVICING

CAPITAL GOODS
INTERMEDIATE GOODS
SERVICES
There would appear to be considerable potential for greater MNE/SSE collaboration. This is especially true in Africa where there is less experience of collaboration, less confidence in the capacity of SSEs to be effective partners, and unawareness on the part of government about both the potential forms of MNE/SSE collaboration and also the mechanisms to induce mutually advantageous linkages. Various suggestions are put forward. Possibly the most important is that those in government responsible for creating the policy environment for SSEs should generally adopt a more positive perspective in regard to MNEs, considering them as potentially significant partners in SSE development rather than irrelevant or hostile to the interests of SSEs.

As regards the MNEs, by their very nature they enjoy a peculiar combination of power and vulnerability in developing countries. Whilst the general attitude towards them is currently more positive than for some time, the political pendulum could easily swing again. One of the ways of avoiding such a swing is by showing that they can make a more significant contribution to job creation through SSE development. At the same time, most MNEs are themselves unaware of the many opportunities for mutually beneficial collaboration with SSEs and, even if they are, do not know how to go about realising such opportunities.

Experience shows that one of the most effective ways whereby MNEs can collaborate with SSEs is through intermediary organisations. These may take many forms including: existing industry associations such as the national association of manufacturers or a small business association; specially created bodies such as the Kenya Management Assistance Programme or Philippine Business for Social Progress; and (charitable) non-government organisations. External donor agencies can also play an important role in providing the financial resources and technical expertise to launch successful MNE/SSE intermediaries.
ANNEX 1

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ANNEX 2

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