

Cultural requirements for creating small and medium size companies cooperation networks

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Abstract

Inside the greater productive decentralization tendency/movement, *Small and Medium Enterprises* (SME's) find face to face a new economic context, which offers many opportunities for their development. In particular the emergency of the flexible specialization paradigm offers new business opportunities for SME's, specially in terms of *productive cooperation networks*. However, besides the traditional requirements (market structure, financial conditions, characteristics of the participants/partners, such as their qualification degree, their products, and so on), the possibilities of creation and the success factors for setting up a productive cooperation networks structure depends on a lot of cultural requirements (or to surpass "*cultural barriers*"). The purpose of this text is to present and discuss some of this kind of requirements referring to Latin American cases, and specially to Brazilian experience.

1. Introduction

The incitement of the competition conditions resulted from the new international economy rules (reorganization of the central economies, creation of large economy blocks, technological revolution, new ways of social organization of production work, etc.), have been imposing deep and urgent changes to the companies that intend to continue being competitive at the turning of the third millennium.

On the other hand, the new global economic conditions have forced companies to act globally and achieve world class manufacturing. Specifically, industry in developing countries have started to focus their strategies to meet international customer requirements such as achieving high quality products, being a low cost supplier and producing in shorter lead times. Particularly, on the organizational level, significant alterations are being imposed to the companies that look for more advantageous positions in the inter-capitalist competition process.

Under this general conditions, the *Small and Medium Enterprises* (SME's) find face to face a new economic context, which offers many opportunities for their development. In particular the emergency of the *cooperation networks* and the new business opportunities for SME's, created by this new kind of organizational arrangement, depends on a lot of requirements in terms of the market structure, financial conditions, the characteristics of the participants/partners (as his qualification degree, his products, etc.) and so on. However, besides these traditional elements, the possibilities of creation and the success factors for setting up a *cooperation network* structure depends on a lot of cultural requirements (or "*cultural barriers*"). The aim of this text is to present and discuss some of the most important cultural requirements for creating small and medium size companies cooperation networks

2. Global economy context

The global economy crisis and the consequent reorganization in accordance with inter-capitalist patterns, have been imposing an urgent necessity of organizational restructuring on large industrial enterprises (specially on the more dynamic ones in their respective markets). In this sense, many companies have based their competition conduct or behavior on the Japanese industry's paradigm and its production management methods, that - generally speaking - may be resumed in the idea of "lean production" and in the "philosophies" of "total quality" and "just-in-time" production.

Such companies have started to adopt a strategy directed towards a greater productive decentralization. For this, they concentrated themselves on their "core business" and, in parallel, on developing/subcontracting a series of other companies ("third parties"), that are, in general, small and medium enterprises (SME's), specialized in activities/services of support, or suppliers of parts/components/subassemblies of final products.

This tendency/movement of greater productive decentralization involves the phenomenon commonly known as "outsourcing". Besides this a lot of other movements toward major productive decentralization are in course, such as: "focalization", "outsourcing", "horizontalization", "partnership", etc. All of these kind of organizational structures can support a greater managerial decentralization, by fragmenting the big productive structures in "*business units*" or "*small factories*" with greater operational autonomy. These units, belonging to the same corporation, should be inter-linked through an "*evaluation chain*", that should justify this "horizontalization" strategy. The main purpose would be greater efficiency in the productive system as a whole (as a result of the new "net" composed by the business units), and consequently more competitive advantages to the corporation.

Flexibility and agility have been identified as a necessity for maintaining global competitiveness (Goldman et al. 1994), therefore the concept of *cooperation network* has been proposed to be key element in the development of agile organizations. However, in developing countries, such as Brazil and Mexico, these new concepts and methodologies have to be adapted to meet the specific needs of the industry in each country.

3. Latin American Economies and the opportunities for Small and Medium size Enterprises (SME's)

Latin America as a whole has been recognized to be a growing market, especially countries such as Brazil and Mexico, which have shown in the last year an economical boom. In Brazil, for example, between 1995 and 1996 firms have invested nearly \$ 145 Billion USD, for a potential market of 150 Millions of persons. Mexico, with NAFTA and its population of nearly 90 Million has been the target of large USA and Canadian investments in the last year. In these countries opportunities have emerged not only for large multinational corporations, in sectors like automotive, electronics and communication, but to the national suppliers of these companies which has been pushed to fulfill the required standards (e.g. ISO 9000, QS and ISO 14000).

The best example is the automotive industry where companies such as Chrysler, Ford, Mercedes Benz and VW have tried to develop complete supply chains with national manufacturers and there are already cars where all components are manufactured by national firms such as: Stratus from Chrysler in Mexico. Another example is the new concept developed by VW in Brazil where suppliers are allocated within the assembly factory in the concept known as "The Modular Factory".

In these scenarios of economical grow, the concept of *cooperation networks* has an appeal for its development. Opportunities in Latin America will be for all types of companies (large,

small and medium enterprises, and high-tech micro-companies), if adequate conditions are set for the creation of this new business opportunity. The sectors that are more suitable for the formation of cooperation networks are manufacturing and services, especially tourism, software, communication, education and information.

4. Requirements for the development of cooperation networks among SME's

The successful development of cooperation networks among small and medium size companies depends on a lot of specific conditions: First of all it relies on the existence of appropriate infrastructures. The necessary conditions for the rising of cooperation networks in such countries could be resumed in the next points, based on Goranson (1995):

- *Legal Infrastructure*: the needs for reforms in Government Policies in Latin American (LA) Countries
- *Physical Infrastructure*: creation of adequate telecommunication and information highways
- *Information Infrastructure*: development of reliable and accurate industrial databases.
- *Social/Cultural Infrastructure*: development of an Entrepreneur Culture in Latin American Small and Medium Enterprises (SMEs).

Next we are going to focus each of these points:

In terms of *legal infrastructure* one can say that the new economical agreements NAFTA (Canada, USA and Mexico) or Mercosur (South American countries) seems to satisfy the requirements for the development of SME's cooperation networks. However, there are still barriers in countries such as Mexico where until January 1997, it was possible for International Telecommunication companies (AT&T, MCI) to compete for national markets in telecommunication against the government company (Telmex). Nevertheless there are still a lot of regulations in Mexico about international connectivity and government restrictions in the use of telecommunication technologies. Brazil is facing a major problem in the infrastructure of telecommunications due to government policies, example of this is the lack of telephone lines where there are 8 lines for each group of 100 persons, comparing with USA where there are 68 line for each group of 100.

Nevertheless *physical infrastructure* is one of the critical barriers for the implementation of cooperation networks in LA, since it depends on a high investment in communication technologies. In some countries the cost to get a 64Kb line is very high, in others they do not exist. However, the enormous cost of such a line makes it inaccessible for small and medium sized companies.

Regarding the *Information infrastructure*, there is no reliable information about the state of industry in most of the LA countries, some studies have been carried out to identify Industrial Clusters in Mexico and Brazil, but the information is not widespread, and sometimes is kept for government policies (Thole 1997). A first effort in Mexico for the creation of an industrial information site is called SIEM (Acronym in Spanish for Information System for the Mexican Industry) which is a Web site where all the Mexican companies are supposed to subscribe. Nevertheless this effort has failed as there is no trust in Mexican

government programs. On the other hand, standards for exchange of data are not widespread as well. Electronic Data Interchange (EDI) protocols are already used, yet the exchange of product model data using standards like IGES, VDA-FS or STEP is very rare, sometimes unknown.

5. Cultural requirements

Besides all of these kind of barriers discussed above, it is important to point out one of the most important requirement to creating SME's cooperation: It is the sense of trust among partners . This sense of trust is specially important in the business world, since all of the economic transactions involve risks, not only related to possible frauds, as to unpredictable events. These risks, if not under control, could avoid the realization of business, that would benefit all participants.

Based on *HUMPHREY & SCHMITZ(1998)* there are two ways to treat the risks: One is through the sanction that creates incentives, but also penalizes companies that don't act correctly. This is connected to the idea of opportunism (*WILLIAMSON, 1995*). To this author, all the companies have their price, all of them have their opportunism level. So, it is necessary to establish a formal agreement between the partners. The core argument here is the "*transaction costs*":

"Transactions involving uncertainties about their results are frequent and require investments in specific activities; therefore, these risks will tend to be internalized by the company (hierarchy). On the other hand, the simple transactions, not repetitive and those not requiring investments in specific activities will tend to be accomplished through the market (market transactions)." (*WILLIAMSON, 1995*).

So , in this sense, market and hierarchy refer to different forms of economic activity coordination. Meanwhile, there are coordination forms which are not assured by the company (hierarchy) neither by the market. They are exactly the result of cooperation among companies; they are the inter-firm cooperation networks, that are just based on confidence or trust.

Still according to *HUMPHREY & SCHMITZ(1998)*, many economies don't succeed in development, because there isn't the minimum trust among their companies. This is very bad, as it is known how important is to a company become competitive by establishing partner relationship with others.

Trust as key element in the cooperation relationship, is a decisive factor, that allows the partners respect the assumed commitments among the firms in the specific network, and it is also pointed out by other authors: *JOLY & MANGEMATIN (1995)*, *apud LEÓN (1998)* present different aspects in this sense:

- the importance of the pre-existent social relations networks
- the importance of the mutual respect
- the learning of the relationship
- the importance of the reputation of each partner
- the risks involved in cases of opportunistic behavior, mainly in terms of the necessity of shouting out some partner from the network
- the learning of the social "savoir-faire", among others

In brief, one of the most important characteristic of the transition from the mass production paradigm to the flexible one, it is possible to think about a balance between competition and cooperation among companies , in terms of entrepreneuring strategies.

Specifically talking about the social and cultural requirements for creating cooperation networks among SME's in Latin America, a set of problems or barriers can be identified, for instance:

1. lack of real commitment and confidence among the partners of this kind of network:
2. lack of resources in terms of information technology (IT). SME's are not used to deal with IT the same way that the big companies are used to do.
3. SME's don't use to cooperate with each other. Very often the companies owners ("the self-made men") are satisfied with their real situation and they aren't worried about any kind of new business opportunities.
4. The precarious organizational structure and the specific organizational culture of SME's is very often the main factor of a lot of problems involving the relationship with another companies or partners .The forms of cooperation are not always formalized in the sense of an official collaboration.
5. SME's are in general just concentrated in performing everyday operations and there is no vision for the long run.

6. Conclusions

Cooperation networks among SME's can be seen as a promising approach, since SMEs from LA countries have the opportunity to achieve global markets without losing their economic independence. Moreover, SMEs have their own identity and want to remain in such a way. *Cultural infrastructure* related to cooperation among partners has been a common practice in companies where the lack of resources has forced them to project and manufacture products in an outstanding creative and innovative manner, sometimes subcontracting, leasing or borrowing resources from other companies to achieve the desired results. These forms of cooperation are not always formalized in the sense of an official collaboration, instead they have been more seen as support among colleagues. Therefore, a must for cooperation is an already frequent practice of LA companies. However, a major problem for the cooperation among SMEs in LA is the lack of entrepreneur culture, companies owners are usually happy with their current success and they are not looking for new business opportunities, some companies are just concentrated in performing everyday operations and there is no vision for the long run. The fact is that SMEs usually are family business, where one person takes all decisions and there is no strategic plan for business or technology .

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