



## **“How to strengthen your SME: assessing business performances to improve its competitiveness”**

**22<sup>nd</sup> of November 2017**

During the latest session of the *INSMEAcademy*, Dr. Nadine Levratto, Research Professor at the French National Council for Scientific Research (CNRS) & President of the Observatory on Practices of Entrepreneurs and Enterprises (OPEE), France presented a methodology to assess the performance of micro and small companies and benchmark it to their competitors in order to reach sustainable growth.

SMEs play a key role in national economies all over the world and they generate employment and value added. In the OECD area SMEs are the predominant form of enterprises, accounting approximately for 99% of all firms. They represent the main source of employment, accounting for about 70% of jobs on average and they generate between 50% and 60% of value added. This is also true for emerging economies, where SMEs contribute to 45% of total employment and 33% of GDP.

SMEs also play a fundamental role in opening the economy. This is evident especially by taking startups and young firms into consideration. They permit to diversify the market playing a key role in developing the economic system, thus contributing to economic development and social wellbeing.

Despite their importance, SMEs have to face diverse challenges. Of course the economic crisis tended to create specific difficulties even though in the last years things seem to have slightly improved. Referring to latest surveys and reports, Prof. Levratto identified 5 main bottlenecks to SME innovation:

- lack of finance;
- lack of innovation management capacity;
- poor IP management;
- unfriendly public procurement;
- lack of networking skills.

Furthermore SMEs are not satisfied with the support received, meaning that there is a mismatch between their needs and public policies in favour of SMEs. But according to the

Speaker there are some problems that cannot be solved by the market only. Some intervention is necessary to help these companies following a better growth path. The origin of the problem lays in some structural characteristics of these companies which are:

1. **the information asymmetry:** when signing a contract, it is fundamental that a company and its partner have the same access to the same quantity of information. Nevertheless before the signing, there is no way to get proper information about what the partner wants to achieve with the contract and how it behaves. This fuzzy environment prevents the transaction to be completed. Furthermore banks are usually reluctant to lend money to SMEs if they do not understand their needs while the small company is not able to provide the relevant information to the loan officer;
2. **opacity** of small firms also hampers their growth. The lack of knowledge concerning the firm position; insufficient information about the competitors; deficient flows of information inside the company are the three main causes of lack of adequate information resulting in an inappropriate growth of small firms.

Support to overcome these problems exists and assessment and information are the keys of this support. Each firm can be assessed by:

- **the nature of the product it proposes on the market**, that can be either standard or dedicated;
- **the characteristics of production techniques**, that can follow a standard production or a specific production process.

The combination of these two parameters gives rise to four different business models:

- **the customer relationship business model:** firms that offer specialized products made through specific processes;
- **the economies of scope business model:** companies that sell standard products to specific customers and where activities are designed by the demands of the buyer;
- **the price competitiveness business model:** companies that offer standard and generic products, employ a uniform workforce and aim at maximizing factors productivity;
- **the innovative business model:** firms that conceive new and specialized technologies and products that are created to answer to new or expected needs.

The Observatory on Practices of Entrepreneurs and Enterprises (OPEE) developed **the Small Business Assessment Tool**, using assessment techniques that take the above mentioned issues into consideration to assess small and very small companies. The tool evaluates the activities of a firm and also compares the company with the activities of the main competitors. The tool is developed under the umbrella of THE NEXT SOCIETY, an initiative financed by the European Commission.

SBAT allows a two-level analysis:

- **The 1<sup>st</sup> level** defines the business model to which any firm belongs to;

- **The 2<sup>nd</sup> level** focuses on different aspects: finance, innovation and internationalization, human resources (development in progress), leadership (development in progress), risks (development in progress) and corporate social responsibility (development in progress).

To conclude, Prof. Levratto stated that the tool is useful for:

1. *enterprises* to self-analyze and adapt their strategy;
2. *stakeholders and policy makers* to understand better the characteristics of the entrepreneurial ecosystem and assess *ex-ante* the impact of support measures they provide;
3. *financing system and business support organisations* to allocate subsidies and complete their usual rating models.

For further information, please visit <http://www.opee-sbat.org/en>.